

STATE OF NEW YORK

8813--A

IN SENATE

May 22, 2018

Introduced by Sen. DeFRANCISCO -- read twice and ordered printed, and when printed to be committed to the Committee on Consumer Protection -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee

AN ACT to amend the general business law, in relation to consumer litigation funding

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. Short title. This act shall be known and may be cited as
2 the "consumer litigation funding act".

3 § 2. Legislative intent. In an effort to promote consumer protections
4 related to consumer litigation funding transactions, this act estab-
5 lishes that such transactions should be subject to state regulation and
6 sets forth requirements regarding disclosure, licensing, funding company
7 and attorney responsibilities and limitations, violations and other
8 items.

9 § 3. The general business law is amended by adding a new article 39-H
10 to read as follows:

ARTICLE 39-H

THIRD PARTY LITIGATION FINANCING

Section 899-ccc. Definitions.

14 899-ddd. Contract requirements; right of rescission.

15 899-eee. Prohibitions and charge limitations.

16 899-fff. Contracted amounts.

17 899-ggg. Disclosures.

18 899-hhh. Violations.

19 899-iii. Assignability; liens.

20 899-jjj. Effect of communication on privileges.

21 899-kkk. Registration.

22 899-lll. Reporting.

23 899-mmm. Severability.

24 § 899-ccc. Definitions. As used in this article, the following terms
25 shall have the following meanings:

EXPLANATION--Matter in italics (underscored) is new; matter in brackets
[-] is old law to be omitted.

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1 1. "Advertise" means publishing or disseminating any written, aural,
2 electronic or printed communication or any communication by means of
3 recorded telephone messages or transmitted or broadcast on radio, tele-
4 vision, the internet or similar communications media, including audio
5 recordings, film strips, motion pictures and videos, published, dissem-
6 inated, circulated or placed before the public, directly or indirectly,
7 for the purpose of inducing a consumer to enter into a consumer liti-
8 gation funding.

9 2. "Charges" means the amount of money to be paid to the consumer
10 litigation funding company by or on behalf of the consumer, above the
11 funded amount provided by or on behalf of the company to a New York
12 consumer pursuant to this article. Charges include all administrative,
13 origination, underwriting or other fees no matter how denominated. Such
14 charges shall not exceed the maximum annual percentage rate applicable
15 to consumer credit extended to a member of the military as provided for
16 in Title 10, United States Code, section 987.

17 3. "Consumer litigation funding" means a non-recourse transaction in
18 which a consumer litigation funding company purchases and a consumer
19 assigns to the company a contingent right to receive an amount of the
20 potential proceeds of a settlement, judgment, award, or verdict obtained
21 in the consumer's legal claim.

22 4. "Consumer litigation funding company" or "company" means a person
23 or entity that enters into a consumer litigation funding contract with a
24 consumer. This term shall not include:

25 (a) an immediate family member of the consumer;

26 (b) a bank, lender, financing entity, or other special purpose entity;

27 (i) that provides financing to a consumer litigation funding company;

28 or

29 (ii) to which a consumer litigation funding company grants a security
30 interest or transfers any rights or interest in a consumer litigation
31 funding; or

32 (c) an attorney or accountant who provides services to a consumer.

33 5. "Consumer" means a natural person who has a pending legal claim and
34 who resides or is domiciled in New York.

35 6. "Funded amount" means the amount of monies provided to, or on
36 behalf of, the consumer in the consumer litigation funding. "Funded
37 amount" excludes charges.

38 7. "Funding date" means the date on which the funded amount is trans-
39 ferred to the consumer by the consumer litigation funding company either
40 by personal delivery or via wire, ACH or other electronic means or
41 mailed by insured, certified or registered United States mail.

42 8. "Immediate family member" means a parent; sibling; child by blood,
43 adoption, or marriage; spouse; grandparent or grandchild.

44 9. "Legal claim" means a bona fide civil claim or cause of action.

45 10. "Resolution date" means the date the funded amount, plus the
46 agreed upon charges, are delivered to the consumer litigation funding
47 company by the consumer, the consumer's attorney or otherwise.

48 § 899-ddd. Contract requirements; right of rescission. 1. All consumer
49 litigation funding contracts shall meet the following requirements:

50 (a) a contract shall be written in a clear and coherent manner using
51 words with common, everyday meanings to enable the average consumer who
52 makes a reasonable effort under ordinary circumstances to read and
53 understand the terms of the contract without having to obtain the
54 assistance of a professional;

55 (b) the contract shall be completely filled in when presented to the
56 consumer for signature;

1 (c) the contract shall contain, in twelve point bold type font, a
2 right of rescission, allowing the consumer to cancel the contract with-
3 out penalty or further obligation if, within five business days after
4 the funding date, the consumer either:

5 (i) returns to the consumer litigation funding company the full amount
6 of the disbursed funds by delivering the company's uncashed check to the
7 company's office in person; or

8 (ii) mails, by insured, certified, or registered United States mail,
9 to the address specified in the contract, a notice of cancellation and
10 includes in such mailing a return of the full amount of disbursed funds
11 in the form of the company's uncashed check or a registered or certified
12 check or money order;

13 (d) the contract shall contain the initials of the consumer on each
14 page;

15 (e) a statement that there are no fees or charges to be paid by the
16 consumer other than what is disclosed on the disclosure form;

17 (f) in the event the consumer seeks more than one litigation funding
18 contract from the same company, a disclosure providing the cumulative
19 amount due from the consumer for all transactions, including charges
20 under all contracts, if repayment is made any time after the contracts
21 are executed;

22 (g) a statement of the maximum amount the consumer may be obligated to
23 pay under the contract other than in a case of material breach, fraud or
24 misrepresentation by or on behalf of the consumer; and

25 (h) clear and conspicuous detail of how charges, including any appli-
26 cable fees, are incurred or accrued.

27 2. The contract shall contain a written acknowledgement by the attor-
28 ney retained by the consumer in the legal claim that attests to the
29 following:

30 (a) to the best of the attorney's knowledge, the funded amounts and
31 any charges relating to the consumer litigation funding have been
32 disclosed to the consumer;

33 (b) the attorney is being paid on a contingency basis pursuant to a
34 written fee agreement;

35 (c) all proceeds of the legal claim will be disbursed via either the
36 trust account of the attorney or a settlement fund established to
37 receive the proceeds of the legal claim on behalf of the consumer;

38 (d) the attorney is following the written irrevocable instructions of
39 the consumer with regard to the consumer litigation funding;

40 (e) the attorney is obligated to disburse funds from the legal claim
41 and take any other steps to ensure that the terms of the litigation
42 funding contract are fulfilled;

43 (f) the attorney has not received a referral fee or other consider-
44 ation from the consumer litigation funding company in connection with
45 the consumer litigation funding, nor will the attorney receive such fee
46 or other consideration in the future; and

47 (g) the attorney in the legal claim has provided no tax, public or
48 private benefit planning, or financial advice regarding this trans-
49 action.

50 3. Should the acknowledgement required in paragraph (c) of subdivision
51 two of this section not be completed by the attorney or firm retained by
52 the consumer in the legal claim, the contract shall be null and void.
53 The contract will remain valid and enforceable in the event the consumer
54 terminates the initial attorney and/or retains a new attorney with
55 respect to the legal claim.

1 § 899-eee. Prohibitions and charge limitations. 1. Consumer liti-
2 gation funding companies shall be prohibited from:

3 (a) paying or offering to pay commissions, referral fees, or other
4 forms of consideration to any attorney, law firm, medical provider,
5 chiropractor or physical therapist or any of their employees for refer-
6 ring a consumer to the company;

7 (b) accepting any commissions, referral fees, rebates or other forms
8 of consideration from an attorney, law firm, medical provider, chiro-
9 practor or physical therapist or any of their employees;

10 (c) intentionally advertising materially false or misleading informa-
11 tion regarding its products or services;

12 (d) referring, in furtherance of an initial legal funding, a customer
13 or potential customer to a specific attorney, law firm, medical provid-
14 er, chiropractor or physical therapist or any of their employees;
15 provided, however, if a customer needs legal representation, the company
16 may refer the customer to a local or state bar association referral
17 service;

18 (e) knowingly providing funding to a consumer who has previously
19 assigned and/or sold a portion of the consumer's right to proceeds from
20 his or her legal claim without first making payment to and/or purchasing
21 a prior unsatisfied consumer litigation funding company's entire funded
22 amount and contracted charges, unless a lesser amount is otherwise
23 agreed to in writing by the consumer litigation funding companies,
24 except that multiple companies may agree to contemporaneously provide
25 funding to a consumer provided that the consumer and the consumer's
26 attorney consent to the arrangement in writing;

27 (f) receiving any right to, or making, any decisions with respect to
28 the conduct of the underlying legal claim or any settlement or resol-
29 ution thereof. The right to make such decisions shall remain solely with
30 the consumer and the attorney in the legal claim;

31 (g) knowingly paying or offering to pay for court costs, filing fees
32 or attorney's fees either during or after the resolution of the legal
33 claim, using funds from the consumer litigation funding transaction.

34 2. An attorney or law firm retained by the consumer in the legal claim
35 shall not have a financial interest in the consumer litigation funding
36 company offering consumer litigation funding to that consumer.

37 3. Any attorney who has referred the consumer to his or her retained
38 attorney shall not have a financial interest in the consumer litigation
39 funding company offering consumer litigation funding to that consumer.

40 § 899-fff. Contracted amounts. The contracted amount to be paid to the
41 consumer litigation company shall be a predetermined amount based upon
42 intervals of time from the funding date through the resolution date, and
43 shall not be determined as a percentage of the recovery from the legal
44 claim.

45 § 899-ggg. Disclosures. All consumer litigation funding contracts
46 shall contain the disclosures specified in this section, which shall
47 constitute material terms of the contract. Unless otherwise specified,
48 the disclosures shall be typed in at least twelve point bold type font
49 and be placed clearly and conspicuously within the contract, as follows:

50 1. On the front page under appropriate headings, language specifying:

51 (a) the funded amount to be paid to the consumer by the consumer liti-
52 gation funding company;

53 (b) an itemization of one-time charges;

54 (c) the maximum total amount to be assigned by the consumer to the
55 company, including the funded amount and all charges; and

1 (d) a payment schedule to include the funded amount and charges, list-
2 ing all dates and the amount due at the end of each one hundred eighty
3 day period from the funding date, until the date the maximum amount due
4 to the company pursuant to the contract is paid.

5 2. Pursuant to the provisions set forth in this section, within the
6 body of the contract: "Consumer's right to cancellation: you may cancel
7 this contract without penalty or further obligation within five (5)
8 business days after the funding date if you either:

9 (a) return to the consumer litigation funding company the full amount
10 of the disbursed funds by delivering the company's uncashed check to the
11 company's office in person; or

12 (b) mail, by insured, certified or registered United States mail, to
13 the company at the address specified in the contract, a notice of
14 cancellation and include in such mailing a return of the full amount of
15 disbursed funds in the form of the company's uncashed check or a regis-
16 tered or certified check or money order."

17 3. The consumer litigation funding company shall have no role in
18 deciding whether, when and how much the legal claim is settled for,
19 however, the consumer and consumer's attorney must notify the company of
20 the outcome of the legal claim by settlement or adjudication prior to
21 the resolution date. The company may seek updated information about the
22 status of the legal claim but in no event shall the company interfere
23 with the independent professional judgement of the attorney in the
24 handling of the legal claim or any settlement thereof.

25 4. Within the body of the contract, in all capital letters in at least
26 twelve point bold type font contained within a box: "THE FUNDED AMOUNT
27 AND AGREED UPON CHARGES SHALL BE PAID ONLY FROM THE PROCEEDS OF YOUR
28 LEGAL CLAIM, AND SHALL BE PAID ONLY TO THE EXTENT THAT THERE ARE AVAIL-
29 ABLE PROCEEDS FROM YOUR LEGAL CLAIM. YOU WILL NOT OWE (INSERT NAME OF
30 THE CONSUMER LITIGATION FUNDING COMPANY) ANYTHING IF THERE ARE NO
31 PROCEEDS FROM YOUR LEGAL CLAIM, UNLESS YOU HAVE VIOLATED ANY MATERIAL
32 TERM OF THIS CONTRACT OR YOU HAVE COMMITTED FRAUD AGAINST (INSERT NAME
33 OF CONSUMER LITIGATION FUNDING COMPANY)."

34 5. Located immediately above the place on the contract where the
35 consumer's signature is required, in twelve point bold type font: "Do
36 not sign this contract before you read it completely. Do not sign this
37 contract if it contains any blank spaces. You are entitled to a
38 completely filled-in copy of the contract before you sign this contract.
39 You should obtain the advice of any attorney. Depending on the circum-
40 stances, you may want to consult a tax, public or private benefits plan-
41 ning, or financial professional. You acknowledge that your attorney in
42 the legal claim has provided no tax, public or private benefit planning,
43 or financial advice regarding this transaction. You further acknowledge
44 that your attorney has explained the terms and conditions of the consum-
45 er litigation funding contract."

46 6. A copy of the executed contract shall promptly be delivered to the
47 attorney for the consumer.

48 § 899-hhh. Violations. 1. Any company found in willful violation of
49 any provision of this article in a specific funding case, waives its
50 right to recover both the funded amount and any and all charges, as
51 defined in subdivision two of section eight hundred ninety-nine-ccc of
52 this article, in that particular case.

53 2. Nothing in this article shall be construed to restrict the exercise
54 of powers or the performance of the duties of the New York state attor-
55 ney general, which he or she is authorized to exercise or perform by
56 law.

1 § 899-iii. Assignability; liens. 1. The contingent right to receive an
2 amount of the potential proceeds of a legal claim is assignable by a
3 consumer.

4 2. Nothing contained in this article shall be construed to cause any
5 consumer litigation funding transaction conforming to this article to be
6 deemed a loan or to be subject to any of the provisions governing loans.
7 A consumer litigation funding transaction that complies with this arti-
8 cle is not subject to any other statutory or regulatory provisions
9 governing loans or investment contracts. To the extent that this article
10 conflicts with any other law, this article supersedes any other law for
11 the purposes of regulating consumer litigation funding in the state of
12 New York.

13 3. Only attorney's liens related to the legal claim which is the
14 subject of the consumer litigation funding or medicare or other statuto-
15 ry liens related to the legal claim shall take priority over any lien of
16 the consumer litigation funding company. All other liens shall take
17 priority by normal operation of law.

18 § 899-jjj. Effect of communication on privileges. All communication
19 between the consumer's attorney in the legal claim and the consumer
20 legal funding company as it pertains to the consumer legal funding shall
21 fall within the scope of the attorney client privilege, including, with-
22 out limitation, the work-product doctrine.

23 § 899-kkk. Registration. 1. Unless a consumer litigation funding
24 company has first registered with the state of New York pursuant to this
25 article, the company may not engage in the business of consumer liti-
26 gation funding in this state.

27 2. An applicant's registration must be filed in the manner prescribed
28 by the secretary of state and must contain all the information required
29 by the department of state to make an evaluation of the character and
30 fitness of the applicant company. The initial application must be accom-
31 panied by a five hundred dollar fee. A renewal registration must include
32 a two hundred dollar fee. A registration must be renewed every two years
33 and expires on the thirtieth of September.

34 3. A certificate of registration may not be issued unless the depart-
35 ment of state, upon investigation, finds that the character and fitness
36 of the applicant company, and of the officers and directors thereof, are
37 such as to warrant belief that the business will be operated honestly
38 and fairly within the purposes of this article.

39 4. Every registrant shall also, at the time of filing such applica-
40 tion, file with the department of state, if the department of state so
41 requires, a bond satisfactory to the department of state in an amount
42 not to exceed fifty thousand dollars. In lieu of the bond at the option
43 of the registrant, the registrant may post an irrevocable letter of
44 credit. The terms of the bond must run concurrent with the period of
45 time during which the registration will be in effect. The bond must
46 provide that the registrant will faithfully conform to and abide by the
47 provisions of this article and to all rules lawfully made by the admin-
48 istrator under this act and to any such person or persons any and all
49 amounts of money that may become due or owing to the state or to such
50 person or persons from the registrant under and by virtue of this arti-
51 cle during the period for which the bond is given.

52 5. Upon written request, the applicant shall be entitled to a hearing
53 on the question of the applicant's qualifications for registration if:

54 (a) the department of state has notified the applicant in writing that
55 the application has been denied, or

1 (b) the department of state has not issued a registration within sixty
2 days after the application for the registration was filed.

3 6. A request for a hearing may not be made more than fifteen days
4 after the department has mailed a written notice to the applicant that
5 the application has been denied and stating in substance the department
6 of state's findings supporting denial of the application.

7 7. Notwithstanding the prior approval requirement of subdivision one
8 of this section, a consumer litigation funding company that registered
9 with the department of state between the effective date of this article
10 or when the department of state has made applications available to the
11 public, whichever is later, and one hundred eighty days thereafter may
12 engage in consumer litigation funding while the company's registration
13 is pending approval with the department of state. All funding agreements
14 entered into prior to the effective date of this article are not subject
15 to the terms of this article.

16 8. No consumer litigation funding company may use any form of consumer
17 litigation funding contract in this state unless it has been filed with
18 the department of state in accordance with the filing procedures set
19 forth by the secretary of state.

20 9. The secretary of state is hereby authorized to adopt rules and
21 regulations to implement the provisions of this section as needed.

22 § 899-lll. Reporting. 1. Each consumer litigation funding company that
23 engages in business in the state shall submit a report to the department
24 of financial services no later than the thirty-first of January of each
25 year specifying:

26 (a) number of consumer litigation fundings by the company;
27 (b) summation of funded amounts in dollar figure; and
28 (c) annual percentage charged to each consumer where repayment was
29 made.

30 2. The department of state shall make these figures available to the
31 public, in a manner which maintains the confidentiality of the name of
32 each company and consumer, no later than one year after the reports are
33 delivered.

34 § 899-mmm. Severability. If any provision of this article is, for any
35 reason, declared unconstitutional or invalid, in whole or in part, by
36 any court of competent jurisdiction, such portion shall be deemed sever-
37 able, and such unconstitutionality or invalidity shall not affect the
38 validity of the remaining portions of this article, which remaining
39 portions shall continue in full force and effect.

40 § 4. This act shall take effect on the one hundred eightieth day after
41 it shall have become a law; provided, however, it shall not apply or in
42 any way affect or invalidate any consumer litigation funding previously
43 effectuated prior to the effective date of this act.