

# STATE OF NEW YORK

6764

2019-2020 Regular Sessions

## IN ASSEMBLY

March 19, 2019

Introduced by M. of A. MAGNARELLI -- read once and referred to the  
Committee on Consumer Affairs and Protection

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

13 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(b). Any contract which  
17 exceeds such rate shall be considered usurious as defined by section  
18 5-501 of the general obligations law.

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

24 4. "Consumer litigation funding company" or "company" means a person  
25 or entity that enters into a consumer litigation funding contract of no  
26 more than five hundred thousand dollars with a consumer. This term shall  
27 not include:

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

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

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

31 or

32 (ii) to which a consumer litigation funding company grants a security  
33 interest or transfers any rights or interest in a consumer litigation  
34 funding; or

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

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

38 6. "Funded amount" means the amount of monies provided to, or on  
39 behalf of, the consumer in the consumer litigation funding. "Funded  
40 amount" excludes charges.

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

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

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

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

51 § 899-ddd. Contract requirements; right of rescission. 1. All consumer  
52 litigation funding contracts shall meet the following requirements:

53 (a) a contract shall be written in a clear and coherent manner using  
54 words with common, everyday meanings to enable the average consumer who  
55 makes a reasonable effort under ordinary circumstances to read and

1 understand the terms of the contract without having to obtain the  
2 assistance of a professional;

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

5 (c) the contract shall contain, in twelve point bold type font, a  
6 right of rescission, allowing the consumer to cancel the contract with-  
7 out penalty or further obligation if, within ten business days after the  
8 funding date, the consumer returns to the consumer litigation funding  
9 company the full amount of the disbursed funds;

10 (d) the contract shall contain the initials of the consumer on each  
11 page;

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

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

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

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

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

27 (a) the attorney has reviewed the mandatory disclosures in section  
28 eight hundred ninety-nine-ggg of this article with the consumer;

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

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

34 (d) the attorney is obligated to disburse funds from the legal claim  
35 and take any other steps to ensure that the terms of the litigation  
36 funding contract are fulfilled;

37 (e) the attorney has not received a referral fee or other consider-  
38 ation from the consumer litigation funding company in connection with  
39 the consumer litigation funding, nor will the attorney receive such fee  
40 or other consideration in the future; and

41 (f) the attorney in the legal claim has provided no tax, public or  
42 private benefit planning, or financial advice regarding this trans-  
43 action.

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

50 4. Notwithstanding paragraph b of subdivision three of section 5-501  
51 of the general obligations law, no prepayment penalties or fees shall be  
52 charged or collected on consumer litigation funding. A prepayment  
53 penalty on consumer litigation funding shall be unenforceable.

54 § 899-eee. Prohibitions and charge limitations. 1. Consumer liti-  
55 gation funding companies shall be prohibited from:

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

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

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

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

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

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

29 (g) attempting to obtain a waiver of any remedy or right by the  
30 consumer, including but not limited to the right to trial by jury; and

31 (h) 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 4. The attorney may only disclose privileged information to the  
41 consumer litigation funding company with the written consent of the  
42 consumer.

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

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

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

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

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

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

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

7 2. Pursuant to the provisions set forth in this section, within the  
8 body of the contract: "Consumer's right to cancellation: you may cancel  
9 this contract without penalty or further obligation within ten business  
10 days after the funding date if you return to the consumer litigation  
11 funding company the full amount of the disbursed funds."

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

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

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

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

43 § 899-hhh. Violations. 1. Any company found in willful violation of  
44 any provision of this article in a specific funding case: (a) waives its  
45 right to recover both the funded amount and any and all charges, as  
46 defined in subdivision two of section eight hundred ninety-nine-ccc of  
47 this article, in that particular case; and (b) shall be liable for a  
48 civil penalty of not more than five thousand dollars for each violation,  
49 which shall accrue to the state of New York and may be recovered in a  
50 civil action brought by the attorney general.

51 2. Nothing in this article shall be construed to restrict the exercise  
52 of powers or the performance of the duties of the New York state attor-  
53 ney general, which he or she is authorized to exercise or perform by  
54 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. Only attorney's liens related to the legal claim which is the  
5 subject of the consumer litigation funding or medicare or other statuto-  
6 ry liens related to the legal claim shall take priority over any lien of  
7 the consumer litigation funding company. All other liens shall take  
8 priority by normal operation of law.

9 § 899-jjj. Effect of communication on privileges. All communication  
10 between the consumer's attorney in the legal claim and the consumer  
11 legal funding company as it pertains to the consumer legal funding shall  
12 fall within the scope of the attorney client privilege, including, with-  
13 out limitation, the work-product doctrine.

14 § 899-kkk. Registration. 1. Unless a consumer litigation funding  
15 company has first registered with the state of New York pursuant to this  
16 article, the company may not engage in the business of consumer liti-  
17 gation funding in this state.

18 2. An applicant's registration must be filed in the manner prescribed  
19 by the secretary of state and must contain all the information required  
20 by the department of state to make an evaluation of the character and  
21 fitness of the applicant company. The initial application must be accom-  
22 panied by a five hundred dollar fee. A renewal registration must include  
23 a two hundred dollar fee. A registration must be renewed every two years  
24 and expires on the thirtieth of September.

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

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

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

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

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

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

53 7. Notwithstanding the prior approval requirement of subdivision one  
54 of this section, a consumer litigation funding company that registered  
55 with the department of state between the effective date of this article  
56 or when the department of state has made applications available to the

1 public, whichever is later, and one hundred eighty days thereafter may  
2 engage in consumer litigation funding while the company's registration  
3 is pending approval with the department of state. All funding agreements  
4 entered into prior to the effective date of this article are not subject  
5 to the terms of this article.

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

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

12 § 899-lll. Reporting. 1. Each consumer litigation funding company that  
13 engages in business in the state shall submit a report to the department  
14 of financial services no later than the thirty-first of January of each  
15 year specifying:

- 16 (a) number of consumer litigation fundings by the company;
- 17 (b) summation of funded amounts in dollar figure; and
- 18 (c) annual percentage charged to each consumer where repayment was  
19 made.

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

24 § 899-mmm. Severability. If any provision of this article is, for any  
25 reason, declared unconstitutional or invalid, in whole or in part, by  
26 any court of competent jurisdiction, such portion shall be deemed sever-  
27 able, and such unconstitutionality or invalidity shall not affect the  
28 validity of the remaining portions of this article, which remaining  
29 portions shall continue in full force and effect.

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