

STATE OF NEW YORK

2594--A

2023-2024 Regular Sessions

IN SENATE

January 23, 2023

Introduced by Sens. COMRIE, RAMOS -- 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:

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

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

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

ARTICLE 39-H

CONSUMER LITIGATION FINANCING

Section 899-aaaa. Definitions.

899-bbbb. Contract requirements; right of rescission.

899-cccc. Prohibitions.

899-dddd. Contracted amounts.

899-eeee. Disclosures.

899-ffff. Violations.

899-gggg. Assignability; liens.

899-hhhh. Effect of communication on privileges.

899-iiii. Registration.

899-jjjj. Disclosure of financing agreements; discovery.

899-kkkk. Disclosure of consumer legal funding transactions.

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

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899-llll. Discovery and admission of consumer legal funding contracts.

899-mmmm. Severability.

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

1. "Advertise" means publishing or disseminating any written, aural, electronic or printed communication or any communication by means of recorded telephone messages or transmitted or broadcast on radio, television, the internet or similar communications media, including audio recordings, film strips, motion pictures and videos, published, disseminated, circulated or placed before the public, directly or indirectly, for the purpose of inducing a consumer to enter into a consumer litigation funding.

1-a. "Affiliate" means a person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, a specified person.

2. "Charges" means the amount of money to be paid to the consumer litigation funding company by or on behalf of the consumer, above the funded amount provided by or on behalf of the company to a New York consumer pursuant to this article. Charges include all administrative, origination, underwriting or other fees no matter how denominated.

3. "Consumer litigation funding" means a non-recourse transaction in which a consumer litigation funding company purchases and a consumer assigns to the company an unvested, contingent right to receive an amount of the potential proceeds of a settlement, judgment, award, or verdict obtained in the consumer's legal claim, so long as the following apply:

(a) the consumer is required to use the funds to address personal needs or household expenses;

(b) the consumer is prohibited from using the funds to pay for attorney's fees legal filings, legal marketing, legal document preparation or drafting, appeals, expert testimony, or other litigation-related expenses; and

(c) the consumer is not required to use the funds in a particular manner, including to make specific payments or secure specific services.

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

(a) an immediate family member of the consumer;

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

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

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

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

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

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

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

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

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

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

7 § 899-bbbb. Contract requirements; right of rescission. 1. All consum-
8 er litigation funding contracts shall meet the following requirements:

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

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

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

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

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

28 (d) the contract shall contain the initials of the consumer on each
29 page;

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

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

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

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

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

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

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

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

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

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

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

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

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

17 § 899-cccc. Prohibitions. 1. Consumer litigation funding companies
18 shall be prohibited from:

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

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

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

28 (d) referring, in furtherance of an initial legal funding, a customer
29 or potential customer to a specific attorney, law firm, medical provid-
30 er, chiropractor or physical therapist or any of their employees;
31 provided, however, if a customer needs legal representation, the company
32 may refer the customer to a local or state bar association referral
33 service;

34 (e) knowingly providing funding to a consumer who has previously
35 assigned and/or sold a portion of the consumer's right to proceeds from
36 his or her legal claim without first making payment to and/or purchasing
37 a prior unsatisfied consumer litigation funding company's entire funded
38 amount and contracted charges, unless a lesser amount is otherwise
39 agreed to in writing by the consumer litigation funding companies,
40 except that multiple companies may agree to contemporaneously provide
41 funding to a consumer provided that the consumer and the consumer's
42 attorney consent to the arrangement in writing;

43 (f) receiving any right to, nor make, any decisions with respect to
44 the conduct of the underlying legal claim or any settlement or resol-
45 ution thereof. The right to make such decisions shall remain solely with
46 the consumer and the attorney in the legal claim;

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

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

53 3. Any attorney who has referred the consumer to his retained attorney
54 shall not have a financial interest in the consumer litigation funding
55 company offering consumer litigation funding to that consumer.

1 § 899-dddd. Contracted amounts. The contracted amount to be paid to
2 the consumer litigation company shall be a predetermined amount based
3 upon intervals of time from the funding date through the resolution
4 date, and shall not be determined as a percentage of the recovery from
5 the legal claim.

6 § 899-eeee. Disclosures. All consumer litigation funding contracts
7 shall contain the disclosures specified in this section, which shall
8 constitute material terms of the contract. Unless otherwise specified,
9 the disclosures shall be typed in at least twelve-point bold type font
10 and be placed clearly and conspicuously within the contract, as follows:

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

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

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

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

17 (d) a payment schedule to include the funded amount and charges, list-
18 ing all dates and the amount due at the end of each one hundred eighty
19 day period from the funding date, until the date the maximum amount due
20 to the company by the consumer to satisfy the amount due pursuant to the
21 contract;

22 (e) the total amount due from the consumer, in six month intervals for
23 thirty-six months, including all charges;

24 (f) a statement that no additional charges may accrue thirty-six
25 months after execution of the consumer legal funding contract; and

26 (g) a statement that there are no payments owed by the consumer other
27 than what is disclosed on the disclosure form.

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

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

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

40 3. The consumer litigation funding company shall have no role in
41 deciding whether, when and how much the legal claim is settled for,
42 however, the consumer and consumer's attorney must notify the company of
43 the outcome of the legal claim by settlement or adjudication prior to
44 the resolution date. The company may seek updated information about the
45 status of the legal claim but in no event shall the company interfere
46 with the independent professional judgment of the attorney in the handl-
47 ing of the legal claim or any settlement thereof.

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

1 5. Located immediately above the place on the contract where the
2 consumer's signature is required, in twelve-point bold type font: "Do
3 not sign this contract before you read it completely. Do not sign this
4 contract if it contains any blank spaces. You are entitled to a
5 completely filled-in copy of the contract before you sign this contract.
6 You should obtain the advice of any attorney. Depending on the circum-
7 stances, you may want to consult a tax, public or private benefits plan-
8 ning, or financial professional. You acknowledge that your attorney in
9 the legal claim has provided no tax, public or private benefit planning,
10 or financial advice regarding this transaction. You further acknowledge
11 that your attorney has explained the terms and conditions of the consum-
12 er litigation funding contract."

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

15 § 899-ffff. Violations. 1. If a court of competent jurisdiction deter-
16 mines that a consumer litigation funding company has willfully commit-
17 ted a deceptive and abusive violation of this article with regard to a
18 specific consumer litigation funding, the contract shall be null and
19 void.

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

24 § 899-gggg. Assignability; liens. 1. The contingent right to receive
25 an amount of the potential proceeds of a legal claim is assignable by a
26 consumer.

27 2. Nothing contained in this article shall be construed to cause any
28 consumer litigation funding transaction conforming to this article to be
29 deemed a loan or to be subject to any of the provisions governing loans.
30 A consumer litigation funding transaction that complies with this arti-
31 cle is not subject to any other statutory or regulatory provisions
32 governing loans or investment contracts. To the extent that this article
33 conflicts with any other law, this article supersedes any other law for
34 the purposes of regulating consumer litigation funding in the state of
35 New York.

36 3. Only attorney's liens related to the legal claim which is the
37 subject of the consumer litigation funding or medicare or other statuto-
38 ry liens related to the legal claim shall take priority over any lien of
39 the consumer litigation funding company. All other liens shall take
40 priority by normal operation of law.

41 § 899-hhhh. Effect of communication on privileges. All communication
42 between the consumer's attorney in the legal claim and the consumer
43 legal funding company necessary to ascertain the status of a legal claim
44 or a legal claim's expected value shall not be discoverable by a party
45 with whom the claim is filed or against whom the claim is asserted. This
46 section does not limit, waive, or abrogate the scope or nature of any
47 statutory or common law privilege, including the work-product doctrine
48 and the attorney-client privilege.

49 § 899-iiii. Registration. 1. Unless a consumer litigation funding
50 company has first registered with the state of New York pursuant to this
51 article, the company may not engage in the business of consumer liti-
52 gation funding in this state.

53 2. An applicant's registration must be filed in the manner prescribed
54 by the secretary of state and must contain all the information required
55 by the department of state to make an evaluation of the character and
56 fitness of the applicant company. The initial application must be accom-

1 panied by a five hundred dollar fee. A renewal registration must include
2 a two hundred dollar fee. A registration must be renewed every two years
3 and expires on the thirtieth of September.

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

9 4. Every registrant shall also, at the time of filing such applica-
10 tion, file with the department of state, if the department of state so
11 requires, a bond satisfactory to the department of state in an amount
12 not to exceed fifty thousand dollars. In lieu of the bond at the option
13 of the registrant, the registrant may post an irrevocable letter of
14 credit. The terms of the bond must run concurrent with the period of
15 time during which the registration will be in effect. The bond must
16 provide that the registrant will faithfully conform to and abide by the
17 provisions of this article and to all rules lawfully made by the admin-
18 istrator under this act and to any such person or persons any and all
19 amounts of money that may become due or owing to the state or to such
20 person or persons from the registrant under and by virtue of this arti-
21 cle during the period for which the bond is given.

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

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

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

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

32 7. Notwithstanding the prior approval requirement of subdivision one
33 of this section, a consumer litigation funding company that registered
34 with the department of state between the effective date of this article
35 or when the department of state has made applications available to the
36 public, whichever is later, and one hundred eighty days thereafter may
37 engage in consumer litigation funding while the company's registration
38 is pending approval with the department of state. All funding agreements
39 entered into prior to the effective date of this article are not subject
40 to the terms of this article.

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

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

47 § 899-jjjj. Disclosure of financing agreements; discovery. Except as
48 otherwise stipulated or ordered by the court, a consumer or their legal
49 representative shall, without awaiting a discovery request, provide to
50 all parties to the litigation, including their insurer if prior to liti-
51 gation, any consumer litigation funding contract or agreement under
52 which anyone, other than a legal representative permitted to charge a
53 contingent fee representing a party, has a right to receive compensation
54 or proceeds from the consumer that are contingent on and sourced from
55 any proceeds of the civil action, by settlement, judgment, or otherwise.

1 § 899-kkkk. Disclosure of consumer legal funding transactions. 1.
2 Within thirty calendar days of receipt of a written request, a consumer
3 shall disclose to any party to a legal claim whether the consumer has
4 entered into a consumer legal funding transaction.

5 2. If a consumer enters into a consumer legal funding transaction
6 after responding to a request pursuant to subdivision one of this
7 section, the consumer shall disclose this fact to the requesting person
8 within thirty calendar days after the consumer entered into the trans-
9 action.

10 § 899-llll. Discovery and admission of consumer legal funding
11 contracts.

12 1. Consumer legal funding contracts are presumed to be discoverable in
13 a civil action, notwithstanding any agreement or provision with respect
14 to confidentiality. A consumer may seek to rebut this presumption.

15 2. Consumer legal funding transactions disclosed pursuant to section
16 eight hundred ninety-nine-kkkk of this article and consumer legal fund-
17 ing contracts discovered pursuant to subdivision one of this section are
18 presumed to be inadmissible as evidence. A party may seek to rebut this
19 presumption.

20 § 899-mmmmm. Severability. If any provision of this article is, for any
21 reason, declared unconstitutional or invalid, in whole or in part, by
22 any court of competent jurisdiction, such portion shall be deemed sever-
23 able, and such unconstitutionality or invalidity shall not affect the
24 validity of the remaining portions of this article, which remaining
25 portions shall continue in full force and effect.

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