

STATE OF NEW YORK

804--B

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IN ASSEMBLY

(Prefiled)

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Introduced by M. of A. MAGNARELLI, SIMON, SAYEGH, BUTTENSCHON, COOK, WILLIAMS, DINOWITZ, STIRPE, JACKSON, GONZALEZ-ROJAS, HEVESI, TAYLOR, SEPTIMO -- read once and referred to the Committee on Consumer Affairs and Protection -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee -- again reported from said committee with amendments, 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

THIRD PARTY LITIGATION FINANCING

Section 899-ccc. Definitions.

899-ddd. Contract requirements; right of rescission.

899-eee. Prohibitions and charge limitations.

899-fff. Contracted amounts.

899-ggg. Disclosures.

899-hhh. Violations.

899-iii. Assignability; liens.

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

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899-jjj. Effect of communication on privileges.

899-kkk. Registration.

899-lll. Reporting.

899-mmm. Severability.

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

1. "Advertise" means publishing or disseminating any written, oral, 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.

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, including interest, 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 a contingent right to receive an amount of the potential proceeds of a settlement, judgment, award, or verdict obtained in the consumer's legal claim.

4. "Consumer litigation funding company" or "company" means a person or entity that enters into a consumer litigation funding contract of no more than five hundred thousand dollars 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.

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

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

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

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

(a) a contract shall be written in a clear and coherent manner using words with common, everyday meanings to enable the average consumer who

1 makes a reasonable effort under ordinary circumstances to read and
2 understand the terms of the contract without having to obtain the
3 assistance of a professional;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

55 § 899-eee. Prohibitions and charge limitations. 1. Consumer liti-
56 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 their legal claim without first making payment to and/or purchasing a
19 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 resol-
27 ution 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 their retained attor-
38 ney shall not have a financial interest in the consumer litigation fund-
39 ing 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 5. Upon written request by the consumer and/or consumer's attorney,
44 the consumer litigation funding company shall reduce charges to be a
45 maximum of twenty-five percent of the gross proceeds from the legal
46 claim. Such written request must include an attestation as to the final
47 amount of the gross proceeds from the legal claim.

48 § 899-fff. Contracted amounts. The contracted amount to be paid to the
49 consumer litigation funding company shall be a predetermined amount
50 based upon intervals of time from the funding date through the resol-
51 ution date, and shall not be determined as a percentage of the recovery
52 from the legal claim.

53 § 899-ggg. Disclosures. All consumer litigation funding contracts
54 shall contain the disclosures specified in this section, which shall
55 constitute material terms of the contract. Unless otherwise specified,

1 such disclosures shall be typed in at least twelve point bold type font
2 and be placed clearly and conspicuously within the contract, as follows:

3 1. On the front page under appropriate headings, language specifying:
4 (a) the funded amount to be paid to the consumer by the consumer liti-
5 gation funding company;

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

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

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

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

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

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

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

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

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

1 2. Nothing in this article shall be construed to restrict the exercise
2 of powers or the performance of the duties of the New York state attor-
3 ney general, which such attorney general is authorized to exercise or
4 perform by law.

5 § 899-iii. Assignability; liens. 1. The contingent right to receive an
6 amount of the potential proceeds of a legal claim is assignable by a
7 consumer.

8 2. Only attorney's liens related to the legal claim which is the
9 subject of the consumer litigation funding or medicare or other statuto-
10 ry liens related to the legal claim shall take priority over any lien of
11 the consumer litigation funding company. All other liens shall take
12 priority by normal operation of law.

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

18 § 899-kkk. Registration. 1. Unless a consumer litigation funding
19 company has first registered with the state of New York pursuant to this
20 article, the company may not engage in the business of consumer liti-
21 gation funding in this state.

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

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

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

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

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

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

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

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

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

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

16 § 899-lll. Reporting. 1. Each consumer litigation funding company that
17 engages in business in the state shall submit a report to the department
18 of state no later than the thirty-first of January of each year specify-
19 ing:

20 (a) number of consumer litigation fundings by the company;
21 (b) summation of funded amounts in dollar figure; and
22 (c) annual percentage charged to each consumer where repayment was
23 made.

24 2. The department of state shall make such information available to
25 the public, in a manner which maintains the confidentiality of the name
26 of each company and consumer, no later than ninety days after the
27 reports are submitted.

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

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