SENATE, No. 4807

STATE OF NEW JERSEY

222nd LEGISLATURE

INTRODUCED OCTOBER 15, 2026

Sponsored by:
Senator JOHN F. MCKEON
District 27 (Essex and Passaic)

SYNOPSIS

Regulates consumer legal funding providers.

CURRENT VERSION OF TEXT

As introduced.

AN ACT concerning consumer legal funding and supplementing Title 56 of the Revised Statutes.

BE IT ENACTED *by the Senate and General Assembly of the State of New Jersey:*

1. As used in this act:

"Advertise" means publishing or disseminating any written, electronic or printed communication or any communication by means of recorded telephone messages or transmitted on radio, television, the Internet or similar communications media, including 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 legal funding.

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

"Commissioner" means the Commissioner of Banking and Insurance.

"Consumer" means a natural person who has a legal claim and who resides in New Jersey. "Consumer" also means the estate of a decedent who resided or was domiciled in New Jersey at the time of their death and has a legal claim for wrongful death or survival.

"Consumer legal funding" or "funding" means a non-recourse transaction in which a consumer legal funding company purchases and a consumer transfers to the company an unvested, contingent future interest in the potential net proceeds of the settlement or judgment obtained from the consumer's legal claim; if no proceeds are obtained from the consumer's legal claim, the consumer is not required to repay the company the consumer legal funding amount or charges.

"Consumer legal funding company" or "company" means a person or entity that enters into a consumer legal funding contract with a consumer. This term shall not include: an immediate family member of the consumer; an attorney or accountant who provides services to a consumer; or a bank, lender, financing entity, or other special purpose entity:

(1) that provides financing to a consumer legal funding company; or

(2) to which a consumer legal funding company grants a security interest or transfers any rights or interest in a consumer legal funding.

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

"Funding date" means the date on which the funded amount is transferred to the consumer by the consumer legal funding company by personal delivery, wire, electronic means, or insured, certified, or registered United States mail.

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

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

"Resolution date" means the date the amount funded to the consumer, plus the agreed upon charges, are delivered to the consumer legal funding company.

2. a. A consumer legal funding contract shall meet the following requirements:

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

(2) the contract shall contain, in bold and boxed type, a right of rescission, allowing the consumer to cancel the contract without penalty or further obligation if, within five business days after the funding date, the consumer either:

(a) returns to the consumer legal funding company the full amount of the disbursed funds by delivering the company's uncashed check to the company's office in person; or

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

(3) the contract shall contain the initials of the consumer on each page; and

(4) if applicable, the terms and conditions of the contract shall be written in the consumer's native language.

b. The contract shall contain a written acknowledgment by the attorney retained by the consumer in the legal claim that attests to the following:

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

(2) all proceeds of the legal claim owed to the company will be disbursed via either the trust account of the attorney or a settlement fund established to receive the proceeds of the legal claim on behalf of the consumer;

(3) the attorney is following the written instructions of the consumer with regard to the consumer legal funding; and

(4) the attorney has not received a referral fee or other consideration from the consumer legal funding company in

connection with the consumer legal funding, nor will the attorney receive that fee or other consideration in the future.

c. If the acknowledgment required in subsection b. of this section is not completed by the attorney retained by the consumer in the legal claim, the contract shall be void. If the acknowledgement is completed, the contract shall remain valid if the consumer terminates the initial attorney or retains a new attorney with respect to the legal claim.

d. A consumer legal funding company shall require the contracted amount to be paid to the company to be set as a predetermined amount based upon intervals of time from the funding date through the resolution date, and shall ensure that the resolution amount shall not be determined as a percentage of the recovery from the legal claim.

e. A consumer legal funding contract shall contain the disclosures specified in this subsection, which shall constitute material terms of the contract. Unless otherwise specified, the disclosures shall be typed in at least 12-point bold-type font and be placed clearly and conspicuously within the contract, as follows:

(1) on the front page under appropriate headings, language specifying:

(a) the funded amount to be paid to the consumer by the consumer legal funding company;

(b) an itemization of one time charges;

(c) the total amount to be sold by the consumer to the company, including the funded amount and all charges;

(d) a payment schedule to include the funded amount and charges, listing all dates and the amount due at all times until the date the maximum amount due to the company by the consumer to satisfy the amount due pursuant to the contract; and

(e) that upon written request by the consumer or consumer's attorney, the consumer legal funding company shall reduce charges to a maximum of 25 percent of the gross proceeds from the legal claim. A written request made pursuant to this paragraph shall include an attestation as to the final amount of the gross proceeds from the legal claim;

(2) pursuant to the provisions set forth in paragraph 2 of subsection a. of section 2 of this act, within the body of the contract:

"Consumer's Right to Cancellation: You may cancel this contract without penalty or further obligation within five business days after the funding date if you either:

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

(b) mail, by insured, certified, or registered United States mail, to the company at the address specified in the contract, a notice of cancellation and include in the mailing a return of the full amount

of disbursed funds in the form of the company's uncashed check or a registered or certified check or money order;"

(3) within the body of the contract, a notification providing that the consumer legal funding company shall have no role in deciding whether, when and how much the legal claim is settled for; however, the consumer and consumer's attorney shall notify the company of the outcome of the legal claim by settlement or adjudication prior to the resolution date. The company may seek updated information about the status of the legal claim but in no event shall the company interfere with the independent professional judgment of the attorney in the handling of the legal claim or any settlement thereof;

(4) within the body of the contract, in all capital letters in at least 12-point bold-type font contained within a box: "YOU ARE ONLY REQUIRED TO PAY THE FUNDED AMOUNT AND AGREED UPON CHARGES FROM THE PROCEEDS OF YOUR LEGAL CLAIM, AND ONLY TO THE EXTENT THAT THERE ARE AVAILABLE PROCEEDS FROM YOUR LEGAL CLAIM. YOU WILL NOT OWE [INSERT NAME OF THE CONSUMER LEGAL FUNDING COMPANY] ANYTHING IF THERE ARE NO PROCEEDS FROM YOUR LEGAL CLAIM, UNLESS YOU OR YOUR ATTORNEY HAVE VIOLATED ANY MATERIAL TERM OF THIS CONTRACT OR YOU HAVE COMMITTED FRAUD AGAINST THE CONSUMER LEGAL FUNDING COMPANY;" and

(5) located immediately above the place on the contract where the consumer's signature is required, in 12-point font:
"Do not sign this contract before you read it completely or if it contains any blank spaces. You are entitled to a completely filled-in copy of the contract. Before you sign this contract, you should obtain the advice of an attorney. Depending on the circumstances, you may want to consult a tax, public or private benefits planning, or financial professional. You acknowledge that your attorney in the legal claim has provided no tax, public or private benefit planning, or financial advice regarding this transaction."

3. A consumer legal funding company shall not:

a. pay or offer to pay commissions, referral fees, or other forms of consideration to any attorney, law firm, medical provider, chiropractor, or physical therapist or any of their employees for referring a consumer to the company;

b. accept any commissions, referral fees, rebates, or other forms of consideration from an attorney, law firm, medical provider, chiropractor, or physical therapist or any of their employees;

c. intentionally advertise materially false or misleading information regarding its products or services;

d. refer, in furtherance of an initial legal funding, a customer or potential customer to a specific attorney, law firm, medical provider, chiropractor, or physical therapist or any of their employees; provided, however, if a customer needs legal representation, the company may refer the customer to a local or State bar association referral service;

e. fail to promptly supply a copy of the executed contract to the attorney for the consumer upon request;

f. knowingly provide funding to a consumer who has previously assigned or sold a portion of the consumer's right to proceeds from his or her legal claim without first making payment to or purchasing a prior unsatisfied consumer legal funding company's entire funded amount and contracted charges, unless a lesser amount is otherwise agreed to in writing by the consumer legal funding companies, except that multiple companies may agree to contemporaneously provide funding to a consumer provided that the consumer and the consumer's attorney consent to the arrangement in writing;

g. receive any right to or make any decisions with respect to the conduct of the underlying legal claim or any settlement or resolution thereof. The right to make those decisions shall remain solely with the consumer and the attorney in the legal claim; or

h. knowingly pay or offer to pay for court costs, filing fees or attorney's fees either during or after the resolution of the legal claim, using funds from the consumer legal funding transaction. The consumer legal funding contract shall include a provision informing the consumer that funding shall not be used to pay for court costs, filing fees, or attorney's fees during or after the resolution of the legal claim.

4. a. Nothing in this act shall restrict the exercise of powers or the performance of the duties of the Attorney General, which the Attorney General is authorized to exercise or perform by law.

b. If a court of competent jurisdiction determines that a consumer legal funding company has intentionally violated the provisions of this act with regard to a specific consumer legal funding, the consumer legal funding company shall only be entitled to recover the funded amount provided to the consumer in that specific consumer legal funding and shall not be entitled to any additional charges.

5. a. The contingent right to receive an amount of the potential proceeds of a legal claim shall be assignable by a consumer.

b. Nothing contained in this act shall be construed to cause any consumer legal funding transaction conforming to this act to be deemed a loan or to be subject to any of the provisions governing loans contained in any New Jersey statute or regulation. A consumer legal funding transaction that complies with this act shall

not be subject to any other statutory or regulatory provisions governing loans or investment contracts. To the extent that this act conflicts with any other law, this act supersedes the other law for the purposes of regulating consumer legal funding in New Jersey.

c. Attorney's liens, Medicare, or other statutory liens related to the legal claim shall take priority over any lien of the consumer legal funding company. All other liens shall take priority by normal operation of law.

d. No consumer legal funding company shall report a consumer to a credit reporting agency if insufficient funds remain from the net proceeds to repay the company.

6. An attorney or law firm retained by the consumer in the legal claim shall not have a financial interest in the consumer legal funding company offering consumer legal funding to that consumer. Additionally, any attorney who has referred the consumer to his retained attorney shall not have a financial interest in the consumer legal funding company offering consumer legal funding to that consumer.

7. a. No communication between the consumer's attorney in the legal claim and the consumer legal funding company as it pertains to the consumer legal funding shall limit, waive, or abrogate the scope or nature of any statutory or common-law privilege, including the work-product doctrine and the attorney-client privilege.

b. (1) The existence of a consumer legal funding contract is presumed to be discoverable in a civil action, notwithstanding any agreement or provision with respect to confidentiality. A consumer may seek to rebut this presumption.

(2) Upon receipt of a written discovery request, a consumer's attorney shall disclose to the requesting party, within 30 calendar days of receipt of the written request, that a consumer has entered into a consumer legal funding transaction and include the name of the consumer legal funding company.

(3) Consumer legal funding transactions disclosed pursuant to this act are presumed to be inadmissible as evidence or at trial.

8. a. Unless a consumer legal funding company has first registered with the Department of Banking and Insurance pursuant to this act, the company shall not engage in the business of consumer legal funding in this State.

b. An applicant's registration shall be filed in the manner prescribed by the commissioner and shall contain the information the commissioner requires to make an evaluation of the character and fitness of the applicant company. The initial application shall be accompanied by a $500 fee. A renewal registration shall include

a $200 fee. A registration shall be renewed every two years and expire on September 30th.

c. A certificate of registration shall not be issued unless the commissioner, upon investigation, finds that the character and fitness of the applicant company, and of the officers and directors thereof, warrant belief that the business will be operated honestly and fairly within the purposes of this act.

d. Every applicant shall, at the time of filing an application, file with the commissioner, if the commissioner requires, a bond satisfactory to the commissioner in an amount not to exceed $50,000. In lieu of the bond, at the option of the applicant, the applicant may post an irrevocable letter of credit. The terms of the bond shall run concurrent with the period of time during which the registration will be in effect. The bond shall provide that the applicant will faithfully conform to and abide by the provisions of this act and to all rules lawfully made by the administrator under this act and to any person or persons any and all amounts of money that may become due or owing to the State or to any person or persons from the applicant under and by virtue of this act during the period for which the bond is given.

e. Upon written request, the applicant is entitled to a hearing on the question of the applicant's qualifications for a registration if:

(1) The commissioner has notified the applicant in writing that the application has been denied; or

(2) The commissioner has not issued a registration within 60 days after the application for the registration was filed.

A request for a hearing shall not be made more than 15 days after the commissioner has mailed a written notice to the applicant that the application has been denied and stating in substance the commissioner's findings supporting denial of the application.

f. Notwithstanding the prior approval requirement of subsection a. of this section, a consumer legal funding company that registered with the commissioner between the effective date of this act and six months thereafter may engage in consumer legal funding while the company's registration is awaiting approval by commissioner. All funding agreements prior to the effective date of this act shall not be subject to the terms of this act.

g. A consumer legal funding company shall not use any form of consumer legal funding contract in this State unless it has been filed with the commissioner in accordance with the filing procedures set forth by the commissioner, except for a consumer legal funding company operating pursuant to subsection f. of this section.

h. A consumer legal funding company that has operated in this State within the 12 months prior to the effective date of this act shall be allowed to operate in the State, provided they have applied for a registration under subsection a. of this section and are

complying with all requirements of this act while the application for the company is pending.

9. This act shall take effect on the 90th day next following enactment. Nothing in this act shall in any way affect or invalidate any consumer legal funding effectuated prior to the effective date of this act.

STATEMENT

This bill regulates consumer legal funding providers. Consumer legal funding is a transaction in which a company purchases and a consumer sells 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 for the consumers household needs. Under current law, consumer legal funding providers are largely unregulated in New Jersey.

The bill requires consumer legal funding contracts to: be completely filled in when presented to the consumer for signature; contain, in bold and boxed type, a right of rescission, allowing the consumer to cancel the contract without penalty or further obligation within five business days after the funding date under certain circumstances; contain the initials of the consumer on each page; and if applicable, require that the consumer legal funding contract be written in the consumer's native language.

The bill requires consumer legal funding contracts to contain a written acknowledgment by the attorney retained by the consumer in the legal claim that attests to the following:

(1) all proceeds of the legal claim will be disbursed via either the trust account or a settlement fund;

(2) the attorney is following the written instructions of the consumer with regard to the consumer legal funding; and

(3) the attorney has not and will not receive a referral fee or other consideration from the consumer legal funding company.

The bill provides that if the written acknowledgment by the attorney is not complete, the contract is void. If the acknowledgement is completed, the contract will remain valid if the consumer terminates the initial attorney or retains a new attorney with respect to the legal claim.

Under the bill, a consumer legal funding company cannot:

(1) pay or offer to pay commissions, referral fees, or other forms of consideration for referring a consumer to the company;

(2) accept any commissions, referral fees, rebates, or other forms of consideration for the referral of consumers;

(3) intentionally advertise materially false or misleading information;

(4) refer, in furtherance of an initial legal funding, a customer or potential customer to a specific attorney, law firm, medical provider, chiropractor, or physical therapist or any of their employees; provided, however, if a customer needs legal representation, the company may refer the customer to a local or State bar association referral service;

(5) fail to promptly supply a copy of the executed contract to the attorney for the consumer;

(6) provide funding to a consumer who has previously assigned or sold a portion of the consumer's right to proceeds under certain circumstances;

(7) receive any right to or make any decisions with respect to the conduct of the underlying legal claim or any settlement or resolution thereof; or

(8) knowingly pay or offer to pay for court costs, filing fees, or attorney's fees either during or after the resolution of the legal claim, using funds from the consumer legal funding transaction. The consumer legal funding contract is required to include a provision informing the consumer that funding is not to be used to pay for court costs, filing fees, or attorney's fees during or after the resolution of the legal claim;

The bill requires a consumer legal funding company to require the contracted amount to be paid to the company to be set as a predetermined amount based upon intervals of time from the funding date through the resolution date, and not to be determined as a percentage of the recovery from the legal claim.

The bill requires all consumer legal funding contracts to contain certain disclosures. The bill requires the front page of the contract to contain language specifying: (1) the funded amount to be paid to the consumer by the consumer legal funding company; (2) an itemization of one time charges; (3) the total amount to be assigned by the consumer to the company, including the funded amount and all charges; (4) a payment schedule; and (5) language specifying that upon written request by the consumer or consumer's attorney, the consumer legal funding company must reduce charges to a maximum of 25 percent of the gross proceeds from the legal claim. The contract must also contain disclosures on: (1) the consumer's right to cancellation; (2) how the company will be notified of a settlement; and (3) the consumer only being required to pay in the event that there are proceeds from the legal claim.

The bill provides that nothing in it is to restrict the exercise of powers or the performance of the duties of the Attorney General, which the Attorney General is authorized to exercise or perform by law. Under the bill, if a court of competent jurisdiction determines that a consumer legal funding company has intentionally violated the provisions of the bill with regard to a specific consumer legal funding, the consumer legal funding company is to only be entitled to recover the funded amount provided to the consumer in that

specific consumer legal funding and is not entitled to any additional charges.

The bill provides that the contingent right to receive an amount of the potential proceeds of a legal claim is assignable by a consumer.

Under the bill, an attorney or law firm retained by the consumer in the legal claim may not have a financial interest in the consumer legal funding company offering consumer legal funding to that consumer. Additionally, no communication between the consumer's attorney in the legal claim and the consumer legal funding company as it pertains to the consumer legal funding is to limit, waive, or abrogate the scope or nature of any statutory or common-law privilege, including the work-product doctrine and the attorney-client privilege. The bill provides the existence of a consumer legal funding contract to be presumed to be discoverable in a civil action and allows an attorney, upon receipt of a written discovery request, 30 calendar days to disclose to the requesting party that a consumer has entered into a consumer legal funding transaction.

The bill provides that unless a consumer legal funding company has first registered with the Department of Banking and Insurance, the company is not to engage in the business of consumer legal funding, and provides for certain criteria for registration, such as the payment of fees, maintenance of a bond, and investigation of the character and fitness of the applicant.