ASSEMBLY THIRD READING
AB 2039 (Zbur)
As Amended March 25, 2026
Majority vote

SUMMARY

Enhances ethical standards for attorneys to prevent unlawful loans to clients, further deter ″capping,″ and ensure that specified retaliation provisions of the Labor Code apply to law firms.

Major Provisions

1) Prohibits an attorney from entering into a loan or financial assistance arrangement with a client unless all the agreement is in a separate written contract distinct from the retainer agreement and it contains all of the following:

    a) The total amount financed;

    b) Repayment terms and contingencies;

    c) All fees, costs, and charges; and

    d) Potential conflicts of interest arising from the arrangement.

2) Prohibits an attorney from charging the client interest on any loan or any funds that are advanced for any purpose, whether for case expenses or any other purpose, and prohibits all loan terms that materially impair a client′s autonomy or litigation decisions.

3) Requires an attorney loaning a client funds, before the execution of such agreement, to advise the client in writing that the client may seek independent legal or financial advice, and to provide the client with a cooling-off period of not less than five business days unless waived in writing after disclosure, as specified.

4) Prohibits an attorney from doing any of the following:

    a) Conditioning legal strategy, settlement decisions, or continued representation on acceptance or repayment of a loan.

    b) Using a loan to acquire ownership, control, or leverage over the client′s cause of action beyond lawful attorney liens; and

    c) Structuring financial assistance in a manner that interferes with independent professional judgment.

5) Provides that a violation of 1) through 4) may result in an attorney being liable for any of the following:

    a) Restitution, rescission or reformation of the agreement.

    b) Civil penalties in the amount of fifteen thousand dollars ($15,000) per offense.

    c) Injunctive relief; and

d) Disciplinary action by the State Bar of California, as specified.

6) Provides that any contractual term that violates 1) through 4) is void as contrary to public policy.

7) Provides that the provisions of 1) through 4) supplement and do not supersede existing ethical obligations governing business transactions with clients and shall be interpreted consistently with guidance from the American Bar Association and the California Rules of Professional Conduct.

8) Requires the State Bar of California to utilize summary disbarment procedures for any licensee upon the occurrence of either of the following:

   a) A felony conviction for violating the existing law′s provision prohibiting capping or running; or

   b) A misdemeanor conviction for capping or running where the court finds, or the record establishes, that the licensee acted knowingly and for financial gain.

9) Prohibits, in any action commenced pursuant to 8), the State Bar of California from negotiating, recommending, or imposing an alternative form of discipline, including but not limited to reproval, suspension, diversion, or probation, in lieu of revocation.

10) Provides that the pendency of an appeal of a conviction of an offense specified in 8) does not prevent interim suspension pursuant to existing Rules of Procedure of the State Bar of California.

11) Provides that, notwithstanding existing civil and criminal sanctions for capping, a person, firm, partnership, association, or corporation violating the state′s anti-capping statute is liable for a civil penalty of twenty-five thousand dollars ($25,000) per violation.

12) Provides that, for the purpose of assessing penalties pursuant to 11), every client retained and claim filed while engaging in the conduct of unlawful capping constitutes an individual violation.

13) Authorizes the Attorney General, a city attorney, or a county counsel to file an action seeking the penalties specified in 11), and if the public prosecutor prevails the awarding of reasonable attorney′s fees and costs.

14) Prohibits an employer, law firm, attorney, or any person acting on their behalf from retaliating against an individual for disclosing information in good faith, or because the employer law firm or attorney believes the individual disclosed or may disclose information in good faith, where the individual has reasonable cause to believe that the information reveals a violation of the State Bar Act, the California Rules of Professional Conduct, or any state or federal statute, rule, or regulation governing the conduct of attorneys.

15) Specifies, for the purpose of 14), a protected disclosure includes reports made to the State Bar of California, a court, a public prosecutor, or a person with authority to investigate or correct the violation, but that nothing in 14) relieves any attorney of their duty to maintain attorney-client privilege, as specified.

16) Clarifies that the attorney-client privilege does not prohibit any disclosure made pursuant to 14) if made by the client.

17) Provides that the protections of 14) applies to employees, former employees, applicants, independent contractors, vendors, clients, and any person with a professional relationship to an attorney or law firm provided that the information is disclosed in good faith.

18) Provides that for the purpose of 14) retaliation includes termination, demotion, discipline, threats, harassment, blacklisting, adverse contract actions, or any conduct that would deter a reasonable person from reporting misconduct, consistent with standards applied under the Labor Code, and that retaliation committed by an attorney or any person acting on their behalf shall constitute grounds for discipline by the State Bar of California.

19) Requires, when feasible, reporting mechanisms administered by the State Bar of California or authorized agencies to permit confidential or anonymous submissions consistent with existing whistleblower statutes.

20) Makes various findings and declarations.

COMMENTS

Due to the competitive nature of the personal injury legal market, attorney advertising can be quite quicky in order to break through to potential clients. In fact, some attorneys are even famous, not because of their legal acumen, but because of their iconic advertising. As amusing as some advertisements for legal services may be, they are highly regulated to protect consumers from being misled into obtaining legal services through unethical or fraudulent solicitation tactics and to preserve the integrity of the attorney-client relationship. Attorneys cannot promise results, pay clients to sign up with their firm, or explicitly offer loans for retaining clients.

Unfortunately, troubling allegations are emerging in Los Angeles Couty that, in order to obtain part of a massive $4 billion dollar settlement regarding rampant childhood sexual assault that went on unchecked for decades in the County′s juvenile detention facilities, some attorneys are resorting to illegal and unethical tactics to obtain clients. This bill builds on several legislative efforts in 2025 to further regulate the attorneys and stop the growing prevalence of fraud in certain sectors of the legal profession.

Existing law seeks to protect consumers from high-pressure tactics utilized by attorneys seeking business. The existing law regulating attorney′s ability to solicit business stems from the unfortunate reality that some attorneys have resorted to highly unethical practices to obtain business. One of the most notorious practices historically used by some attorneys and law firms involves the practice of ″capping″ or using non-attorneys to retain clients when they are at their most vulnerable. Many people are familiar with the term ″ambulance chasing,″ which refers to soliciting legal business from persons recently detained, injured in an accident, or involved in other mishaps that may require future legal representation. Recognizing that people are highly vulnerable to solicitations in these circumstances, the existing law prohibits soliciting would-be clients at hospitals, law enforcement detention facilities, and other public places in which vulnerable parties may not be able to resist the high-pressure tactics of cappers seeking to sign up clients. In recognition of how unethical capping is, the existing law provides severe sanctions for the practice. In addition to the long-standing criminal penalties seeking to further deter capping,

last year′s SB 37 (Umberg) Chapter. 345, Statutes. 2025, adopted private civil enforcement provisions.

Because of the truly unethical nature of capping it is one of the first topics taught in virtually every law school ethics class. Coupled with the extensive training for attorneys and severe legal sanctions imposed on those committing capping, it seemed as if the practice was left to a bygone era of history. Unfortunately, troubling recent allegations demonstrate the practice may be reemerging.

This bill seeks to address potential fraud in the civil justice system in three critical ways. This bill seeks to reduce the occurrence of fraud in the civil justice system in three ways. First, the bill adopts new civil penalties of $25,000 per violation for those found to be capping. Recognizing that the current practice is specifically targeting local governments, this bill would vest the authority to seek these penalties in the very city attorneys and county counsels that are defending municipalities against sexual assault claims. The bill also prohibits the State Bar from offering settlements to an attorney accused of capping and mandates that the Bar seek disbarment when a capping conviction is reached. These provisions should both deter fraudulent filings and serve as a means of permitting local agencies to fight back against fraud. The second critical aspect of this bill adopts standards for attorneys to follow when loaning money to clients. While last year′s AB 931 (Kalra) Chapter. 565, Statutes. 2025, established rules for loans from outside entities, the existing law is silent on loans to clients from attorneys. Unlike private loans, loans from an attorney to a client typically help the client receive medical tests and other services necessary to bolster their legal claims. However, there are few limitations on these loans and few consumer protections or disclosures to clients. This bill would require significant loan disclosures to clients, provide clients a ″cooling off″ to revoke a loan agreement, and ensure that the loan′s existence cannot drive legal strategy and that the attorney must always put the client′s wishes and interests before financial considerations. Finally, seeking to ensure that these vital protections cannot be undermined by an overly broad claim of attorney-client privilege the bill establishes whistleblower and anti-retaliation protections for law firm employees and clients that disclose unlawful conduct by attorneys. The bill makes specific provisions for handling privileged communications to ensure the protection of the client, the employees of a law firm, and the public.

According to the Author

Attorneys are expected to meet the highest standards of ethics and professional conduct. Their role is to advocate for their clients and ensure they receive due process, but unfortunately some attorneys have chosen to instead use their position for personal gain. Recent reporting has highlighted a wave of inappropriate attorney conduct including allegations that attorneys paid recruiters to find them clients, paid individuals to be their clients, and then instructed clients not to speak with members of the press about their representation. Unethical conduct results in claims being brought that are false or fraudulent which not only undermines our justice system, it also denies real victims their day in court by wasting the time and resources that should go to real cases.

AB 2039 will increase accountability within the legal profession and ensure consistent enforcement of existing laws governing attorney misconduct. The bill does three key things: strengthens mandatory disbarment proceedings for attorneys who are guilty of paying or receiving compensation for client referrals, creates whistleblower protections for those who report attorney misconduct, and regulates attorney-client loans and financial advances.

Together, these reforms will make sure attorneys are held accountable for misconduct and will reduce the number of fraudulent cases that take up time and resources in California courts.

Arguments in Support
This bill is supported by the Consumer Attorneys of California, the California Employment Lawyers Association and several regional attorney associations. A coalition letter in support of the bill states:

AB 2039 establishes clear and consistent disciplinary consequences for attorneys convicted of illegal client solicitation practices, commonly known as ″capping.″ While California law already prohibits the payment or receipt of compensation in exchange for soliciting legal clients, such arrangements compromise the integrity of the attorney-client relationship and stronger consequences are needed. AB 2039 corrects this problem by establishing mandatory disbarment for attorneys convicted of felony illegal capping and for misdemeanor capping violations involving knowledge and done for financial gain. The bill also prohibits alternative discipline—such as probation, suspension, or diversion—in place of disbarment.

Second, AB 2039 provides meaningful protections for individuals who report attorney misconduct. Employees, colleagues, and others who expose unethical practices often face retaliation, including termination, harassment, or professional blacklisting. The bill prohibits these retaliatory actions and provides legal protections for individuals who report misconduct in good faith. These safeguards are essential to encouraging transparency and ensuring that unethical conduct can be identified and addressed.

Third, the bill protects consumers by regulating attorney-client loans and financial advances. Clients seeking legal representation are frequently in financially vulnerable situations, particularly in cases involving injuries, lost income, or other hardships. While financial advances can provide short-term support, allowing attorneys to charge interest or fees on those advances creates the potential for exploitation and conflicts of interest. AB 2039 addresses this concern by prohibiting attorneys from charging interest or fees on loans or advances made to their clients. The measure also establishes a cooling-off period, prohibits conditioning legal strategy on repayment of a loan, and authorizes restitution, civil penalties of up to $15,000 per violation, and State Bar discipline for violations.

Arguments in Opposition
None on file

FISCAL COMMENTS

According to the Assembly Appropriations Committee:

1) Unknown, but likely minor costs to the Department of Justice (General Fund) for enforcement of the new $25,000 per-violation civil penalty against attorneys engaged in capping. The AG is authorized but not required to bring these actions. To the extent DOJ pursues enforcement, costs would be partially offset by penalty recoveries and attorney′s fees awards.

2) Cost pressures (Trial Court Trust Fund, General Fund) of an unknown but potentially significant amount to the courts to adjudicate civil actions authorized by this bill, possibly in

the hundreds of thousands of dollars annually. Actual costs will depend on the number of cases filed and the amount of court time needed to resolve each case. It generally costs approximately $1,000 to operate a courtroom for one hour. Although courts are not funded on the basis of workload, increased pressure on the Trial Court Trust Fund may create a demand for increased funding for courts from the General Fund. The state budget provides annual General Fund backfills to the Trial Court Trust Fund to offset revenue reductions, totaling approximately $117.3 million in 2025-26. The Legislative Analyst′s Office recently warned of General Fund structural deficits of around $35 billion per year beginning in the 2027-28 fiscal year.

3) Unknown, minor costs to the State Bar of California for processing mandatory disbarment proceedings and administering confidential or anonymous reporting mechanisms for attorney misconduct. The State Bar is funded by attorney licensing fees, not the General Fund.

4) No significant state costs from the whistleblower and anti-retaliation provisions, which extend existing Labor Code 1102.5 protections to the law firm context and do not create new state enforcement obligations.

VOTES

ASM JUDICIARY: 12-0-0
YES: Kalra, Macedo, Bauer-Kahan, Bryan, Connolly, Dixon, Harabedian, Pacheco, Papan, Sanchez, Stefani, Zbur

ASM APPROPRIATIONS: 15-0-0
YES: Wicks, Hoover, Aguiar-Curry, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

UPDATED

VERSION: March 25, 2026

CONSULTANT: Nicholas Liedtke / JUD. / (916) 319-2334 FN: 0002658