
THIRD READING

Bill No: AB 931
Author: Kalra (D)
Amended: 6/19/25 in Senate
Vote: 21

SENATE JUDICIARY COMMITTEE: 11-2, 7/1/25

AYES: Umberg, Allen, Arreguín, Ashby, Caballero, Durazo, Laird, Stern, Wahab,
Weber Pierson, Wiener

NOES: Niello, Valladares

ASSEMBLY FLOOR: 59-0, 4/21/25 - See last page for vote

SUBJECT: State Bar Act: consumer legal funding

SOURCE: Consumer Attorneys of California

DIGEST: This bill creates a regulatory framework for the litigation financing industry. This bill prohibits attorneys from directly or indirectly sharing legal fees with an out-of-state alternative business structure, except as specified.

ANALYSIS:

Existing law:

- 1) Establishes the State Bar Act and provides for the licensure and regulations of attorneys practicing in California. (Business (Bus.) & Professions (Prof.) Code § 6000 et seq.)
- 2) Requires all attorneys who practice law in California to be licensed by the State Bar. (California Constitution (Cal. Const.), art. VI, § 9; Bus. & Prof. Code § 6000 et seq.)
- 3) Requires an attorney who contracts to represent a client on a contingency fee basis to, at the time the contract is entered into, provide a duplicate copy of the

signed contract to the plaintiff, as specified, which must include specified information. (Bus. & Prof. Code § 6147(a).)

- 4) Provides that a written fee agreement is subject to the attorney-client privilege. (Bus. & Prof. Code § 6149.)
- 5) Prohibits an individual, partnership, corporation, association, or any other nongovernmental entity from operating for the direct or indirect purpose, in whole or in part, of referring potential clients to attorneys, and no attorney can accept a referral of such potential clients, unless specified requirements are met. (Bus. & Prof. Code § 6155.)

This bill:

- 1) Establishes the California Consumer Legal Funding Act.
- 2) Defines the relevant terms, including:
 - a) “Consumer legal funding” means a nonrecourse transaction in which a consumer legal 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.
 - b) “Consumer legal funding company” means a person or entity that enters into a consumer legal funding contract with a consumer, except as provided.
- 3) Requires all consumer legal funding transactions to be codified in a written contract that meets specified requirements.
- 4) Requires the contract, to be valid, to contain a written acknowledgement by an attorney retained by the consumer attesting to specified conditions, including that the attorney has reviewed the disclosures with the consumer.
- 5) Provides that a contract for a consumer legal funding transaction shall remain valid and enforceable in the event the consumer terminates the attorney who made the required attestation.
- 6) Prohibits these contracts from imposing a prepayment penalty on a consumer.

- 7) Requires all contracts for a consumer legal funding transaction to disclose material terms to the consumer, as specified.
- 8) Provides that all contracts shall require the consumer or the consumer's attorney to notify the consumer legal funding company of the outcome of the legal claim, including, but not limited to, all settlements, verdicts, or other means of dispute resolution.
- 9) Requires the contracted amount to be paid to the consumer legal funding company be a predetermined amount based upon intervals of time from the funding date through the resolution date, and shall not be determined as a percentage of the recovery from the legal claim.
- 10) Prohibits a consumer legal funding company from engaging in specified conduct, including paying or offering to pay commissions, referral fees, or other forms of consideration to any attorney, law firm, or any of their employees for referring a consumer to the company; and receiving any right to, or making, any decisions with respect to the conduct of the underlying legal claim or any settlement or resolution thereof.
- 11) Provides that any legal funding company that engages in conduct that is prohibited in the preceding paragraph is liable for specified remedies, including automatic termination of the contract; statutory damages; and attorneys' fees.
- 12) Makes the contingent right to receive an amount of the potential proceeds of a legal claim assignable by a consumer.
- 13) Prohibits an attorney, or the attorney's immediate family, retained by a consumer from having a financial interest in a consumer legal funding company offering consumer legal funding, and from providing consumer legal funding directly to a consumer. Provides that any attorney who has referred the consumer to their retained attorney shall not have a financial interest in a funding company offering consumer legal funding to that consumer.
- 14) Prohibits an attorney retained by a consumer from disclosing any privileged information to a legal funding company without the written consent of the consumer. Disclosing information to a legal funding company at the consumer's request shall not otherwise void the attorney-client privilege.

- 15) Provides that an attorney shall not compensate, promise, or give anything of value to a person for the purpose of recommending or securing the services of the attorney or their firm, except as provided.
- 16) Subjects any attorney who violates the preceding conflict of interest provisions to discipline by the State Bar of California.
- 17) Prohibits any attorney licensed or otherwise authorized to practice in this state, from directly or indirectly sharing legal fees with an out-of-state alternative business structure, until January 1, 2030, unless specified conditions apply.
- 18) Provides that the above does not apply to any fee sharing arrangement if the following conditions are satisfied:
 - a) The arrangement for the sharing of legal fees was ordered or approved by a court of competent jurisdiction, including the establishment or distribution of a common benefit fund in coordinated, consolidated, or multidistrict litigation.
 - b) The manner in which the legal fees are to be allocated is subject to judicial oversight and determined to be fair, reasonable, and necessary for the administration of justice.
- 19) Subjects an attorney that violates the previous provision to the following:
 - a) Statutory damages of \$10,000 per violation or three times the actual damages incurred by the consumer, whichever is greater.
 - b) Attorney's costs and fees.
 - c) Injunctive or declaratory relief.
- 20) Provides that a violation of the fee sharing prohibition shall also constitute cause for the imposition of discipline by the State Bar of California.
- 21) Defines "alternative business structure" as any entity that provides legal services while allowing nonattorney ownership or decisionmaking authority. It does not include nonprofit organizations.

Background

Generally speaking, litigation financing is the practice in which a third party unrelated to an underlying lawsuit provides funds to a plaintiff in return for a portion of any financial recovery resulting from the case. This allows plaintiffs the

financial ability to pay bills and other expenses while they wait for their anticipated award. This financing is non-recourse, meaning that the lender only collects if the lawsuit is ultimately successful. However, if the case is successful, the plaintiff is usually required to pay back the loan and a pre-negotiated rate of interest.

Concerns have arisen that many of these litigation financing contracts are predatory and usurious, leaving plaintiffs with a fraction of their ultimate settlement or judgement. Issues have also been raised about potential conflicts of interest between consumers' attorneys and the lending companies. Critics argue that this type of lending disproportionately hurts vulnerable communities who have no other financial safety net to rely on. Given their unique nature, this type of financing is not thoroughly regulated, although some states outright ban such lending under a legal doctrine called champerty. This bill seeks to bring some needed oversight to the industry by erecting clear guardrails and implementing conflict of interest provisions.

This bill also prohibits any attorney licensed in this state, and associated entities, from directly or indirectly sharing legal fees with an out-of-state "alternative business structure," essentially an entity that provides legal services while allowing nonattorney ownership, management, or decision making authority. Much of the opposition is focused on this portion of this bill, which seeks to codify an existing California Rule of Professional Conduct. This section of this bill includes a sunset on January 1, 2030.

This bill is sponsored by the Consumer Attorneys of California. It is supported by a variety of consumer and legal organizations, including the Western Center on Law and Poverty. It is opposed by various business and insurance associations, including the California Trucking Association and the California Hispanic Chambers of Commerce. For a more thorough analysis, please see the Senate Judiciary Committee analysis of this bill.

Comment

According to the author:

[R]ecognizing that the litigation finance industry, when behaving in an ethical manner, provides a vital service to plaintiffs, this bill adopts regulations that will enable the industry to operate while better protecting consumers. AB 931 establishes legal and ethical guidelines to protect consumers who must seek out litigation financing loans. This bill ensures that consumers are better informed about the terms

of their loan agreement, can rescind agreements signed under duress, and protects the sanctity of the attorney-client relationship by prohibiting litigation funding companies from dictating legal strategy. By permitting both consumers and the State Bar of California to enforce the provisions of this bill, Californians will be better protected from nefarious practices in the litigation financing industry.

FISCAL EFFECT: Appropriation: No Fiscal Com.: No Local: No

SUPPORT: (Verified 7/3/25)

Consumer Attorneys of California (Source)
Alameda Contra-costa Trial Lawyers Association
Alliance for Responsible Consumer Legal Funding
California Advocates for Nursing Home Reform
California Alliance for Retired Americans
California Employment Lawyers Association
California Rural Legal Assistance Foundation, Inc.
Capitol City Trial Lawyers Association
Central Valley Trial Lawyers Association
Coalition of California Welfare Rights Organizations
Community Legal Aid SoCal
Community Legal Services in East Palo Alto
Consumer Attorneys Association of Los Angeles
Consumer Attorneys of California
Consumer Federation of California
Consumer Watchdog
Consumers for Auto Reliability and Safety
La Raza Centro Legal
The Law Foundation of Silicon Valley
Legal Aid Association of California
Legal Services for Seniors
Marin Trial Lawyers Association
Orange County Trial Lawyers Association
San Francisco Trial Lawyers Association
San Joaquin County Trial Lawyer's Association
San Mateo County Trial Lawyers Association
Senior Advocacy Network
United Policyholders
Western Center on Law & Poverty, Inc.

OPPOSITION: (Verified 7/3/25)

Alliance of Californians for Community Empowerment (ACCE) Institute
American Legion Auxiliary Department of California
American Property Casualty Insurance Association
Asian Law Alliance
Building Owners and Managers Association of California
Calasian Chamber of Commerce
California African American Chamber of Commerce
California Asian Pacific Chamber of Commerce
California Black Chamber of Commerce
California Business Properties Association
California Business Roundtable
California Chamber of Commerce
California Hispanic Chambers of Commerce
California League of United Latin American Citizens
California Trucking Association
Center for Restorative Justice Works
Civil Justice Association of California (CJAC)
Commercial Real Estate Development Association, NAIOP of California
Cooperative of American Physicians, INC.
Family Business Association of California
Legal Access Advocates, LLC
Los Angeles Metropolitan Hispanic Chamber of Commerce
Madera Coalition for Community Justice
National Association of Mutual Insurance Companies
OCA Sacramento - Asian Pacific American Advocates
Orange County Hispanic Chamber of Commerce
Personal Insurance Federation of California
Responsive Law
Solano County Black Chamber of Commerce Political Action Committee
South Bay Center for Counseling
Strength Based Community Change

ARGUMENTS IN SUPPORT: The California Employment Lawyers Association argues:

Litigation funding can serve as a financial lifeline for those injured due to another party's negligence, allowing them to cover essential expenses such as rent, medical bills, and daily necessities. However, the absence of regulation has allowed predatory practices to thrive,

leaving plaintiffs exposed to opaque contract terms and deceptive lending practices. Many individuals rely on these advances to survive. They may seek out litigation financing because they are in desperate financial situations due to injuries or other hardships. Unfortunately, without legal safeguards, too many consumers find themselves trapped in financially devastating agreements.

AB 931 addresses a pressing need for oversight and regulation in a largely unregulated industry that has significant impacts on vulnerable plaintiffs.

ARGUMENTS IN OPPOSITION: The American Property Casualty Insurance Association writes:

We appreciate that AB 931 recognizes that hedge funds are controlling cases in California and believes that while AB 931 contains some positive provisions, the legislation currently lacks important consumer protection and transparency requirements that many other states have implemented, and so APCIA must oppose and request that these deficiencies in the bill be addressed. . . .

Many states provide additional consumer protections that are not included in the current version of AB 931. California consumers should be afforded such protections. TPLF agreements with consumers often charge excessive interest rates that can leave borrowers with little to no recovery in their lawsuit. Some states limit the interest and other fees that consumers can be charged under TPLF arrangements. Given the widely acknowledged danger of excessive charges in this type of lending arrangement, these protections are essential to make AB 931 effective in protecting consumers.

ASSEMBLY FLOOR: 59-0, 4/21/25

AYES: Addis, Aguiar-Curry, Ahrens, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Chen, Connolly, Davies, Elhawary, Ellis, Fong, Gabriel, Garcia, Gipson, Mark González, Haney, Harabedian, Hart, Irwin, Jackson, Kalra, Krell, Lee, Lowenthal, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Patel, Pellerin, Petrie-Norris, Quirk-Silva, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Solache, Stefani, Valencia, Ward, Wicks, Wilson, Zbur, Rivas

NO VOTE RECORDED: Alanis, Castillo, DeMaio, Dixon, Flora, Gallagher, Jeff
Gonzalez, Hadwick, Hoover, Lackey, Macedo, Papan, Patterson, Ramos,
Sanchez, Sharp-Collins, Soria, Ta, Tangipa, Wallis

Prepared by: Christian Kurpiewski / JUD. / (916) 651-4113
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