

CONCURRENCE IN SENATE AMENDMENTS

AB 931 (Katra)

As Amended August 26, 2025

Majority vote

SUMMARY

Adopts a regulatory framework for providing protections to consumers seeking to obtain a loan via a legal funding agreement.

Major Provisions

- 1) Requires all contracts for a consumer legal funding transaction to disclose material terms to the consumer, as specified.
- 2) Requires that all contracts for a consumer legal funding transaction 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.
- 3) Requires that the contracted amount to be paid to the consumer legal funding company is to be a predetermined amount based upon intervals of time from the funding date through the resolution date, and cannot be determined as a percentage of the recovery from the legal claim.
- 4) Prohibits a consumer legal funding company from doing any of the following:
 - a) 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;
 - b) Accepting any commissions, referral fees, rebates or other forms of consideration from an attorney, law firm, or any of their employees;
 - c) Intentionally providing a consumer materially false or misleading information regarding its products or services;
 - d) Referring, in furtherance of legal funding, a customer or potential customer to a specific attorney, law firm, or any of their employees except that a legal funding company may refer a customer or potential customer to a legal referral service approved by the State Bar of California;
 - e) Providing funding to a consumer who has previously assigned or sold portions of the consumer's right to proceeds from the consumer's legal claim without first making payment to satisfy that assignment if the consumer legal funding company knew or should have known that the consumer had assigned or sold a portion of their rights to the proceeds of the consumer's legal claim;
 - f) Receiving any right to, or making, any decisions with respect to the conduct of the underlying legal claim or any settlement or resolution thereof;

- g) Attempting to obtain a waiver of any remedy or right by the consumer, including, but not limited to, the right to trial by jury;
 - h) Paying or offering 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;
 - i) Offering consumer legal funding on the condition that a consumer that is represented by counsel terminate that representation and adopt counsel recommended by the consumer legal funding company; and
 - j) Knowingly assisting a lawyer or law firm that is enticing or intends to entice a consumer to bring a claim that the company knows or has reason to know is fabricated or otherwise not brought in good faith.
- 5) Authorizes a civil action against a legal funding company that violates the provisions of this bill.
- 6) Provides that, notwithstanding any other law, only attorneys' liens related to the legal claim, which is the subject of the consumer legal funding or medicare or other statutory liens related to the legal claim, take priority over any lien of the consumer legal funding company.
- 7) 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 cannot provide consumer legal funding directly to a consumer.
- 8) Prohibits any attorney who has referred the consumer to the consumer's retained attorney from having a financial interest in a consumer legal funding company offering consumer legal funding to that consumer.
- 9) Prohibits an attorney from disclosing any privileged information to a legal funding company without the written consent of the consumer, and that disclosing information to a legal funding company at the consumer's request does not otherwise void the attorney-client privilege.
- 10) Provides that an attorney who violates the provisions of 7) through 9) is subject to discipline by the State Bar of California.
- 11) Prohibits an attorney licensed in this state, or a partnership, corporation, association, or any other nongovernmental entity employing an attorney licensed in this state, from directly or indirectly sharing legal fees with an out-of-state alternative business structure unless the following applies:
- a) The attorney is also licensed in the state in which the alternative business structure is approved;
 - b) The fees are compensation for the provision of legal services in that state; and
 - c) The law of that state is controlling pursuant to the California Rules of Professional Conduct.

- 12) Provides that the provisions of 11) do not apply if all of the following are satisfied:
- a) A contract between a California attorney and an alternative business structure establishes a specific dollar amount to be tendered for services rendered;
 - b) No payment is related to the referral of legal services or purchase of a lead for a potential client or case; and
 - c) No payment is contingent on the amount recovered in a specific case.
- 13) Provides that the provisions of 11) are to remain effect only until January 1, 2030, and as of that date is repealed.
- 14) Authorizes a civil action against attorneys who violate 11).
- 15) Defines for the purpose of 11) and 12) "alternative business structure" to mean any entity that provides legal services while allowing nonattorney ownership, management, or decisionmaking authority, unless the entity is a non-profit.

Senate Amendments

- 1) Narrow the scope of the provisions related to alternative business structures and permit these businesses to work with California attorneys so long as no client fees are directly shared.
- 2) Adopt a sunset date of January 1, 2030 for the provisions related to alternative business structures.
- 3) Clarify that an attorney is prohibited from compensating or promising to give anything of value for the purpose of securing legal services.
- 4) Make various technical changes.

COMMENTS

Consumer legal funding agreements are contracts whereby a financing entity offers a contingent loan to a consumer to assist that consumer with expenses while the consumer is pursuing a civil cause of action. If the consumer wins their case, they would be required to pay the loan off with the proceeds of their legal action. If the consumer loses in court, the contingent loan would not necessarily be required to be paid back. These loans are especially helpful in a tort litigation context. For example, if a consumer were injured and could not work, a legal funding agreement may be the only source of income for the consumer, pending the outcome of their claim. However, when unscrupulous actors refer unsuspecting consumers to legal funding companies where a conflict of interest exists, the resulting agreement may significantly harm the consumer. Seeking to protect consumers, while maintaining this critical industry in California, this bill adopts a framework for regulating legal funding providers.

Legal funding agreements can supplement a plaintiff's income pending the resolution of their claim. In return for a portion of the plaintiff's ultimate recovery, the legal funding company provides the plaintiff with funds to spend in the near-term; and if the claim is ultimately unsuccessful, the plaintiff rarely has to repay their loan. Unfortunately, the industry is presently unregulated. As a result, attorneys with a stake in the funding company can refer consumers to

unscrupulous legal funding companies. Perhaps even more pernicious, consumers can be pressured into signing loan agreements with extremely high interest rates, unrealistic repayment timelines, and even terms permitting the legal funding company to play a role in litigation strategy. Without legal protections, desperate consumers may have no choice but to sign these predatory agreements or face financial ruin.

In order to protect consumers from agreeing to loans with unfair terms, this bill adopts a framework to safeguard consumers seeking legal funding. First, the bill adopts contract transparency rules that require disclosure of critical loan terms, including interest rates and repayment schedules, in easy-to-read plain English. The bill also provides consumers with a five-day right to terminate the legal funding agreement. The measure seeks to avoid conflicts of interest by regulating how a consumer may be referred to legal funding providers and prohibits attorneys from referring a consumer to a funding company with which the attorney has a financial interest. The bill also prohibits the legal funding company from dictating legal strategy, or requiring a consumer to use legal counsel preferred by the company. The bill provides for a private right of action against parties found to have violated these provisions, and authorizes the State Bar of California to institute professional disciplinary proceedings against an attorney who violates the bill.

This bill also seeks to limit fee sharing between California attorneys and out-of-state alternative business structure law firms. Unlike California law firms, which must be wholly owned by attorneys, these out-of-state firms may be owned by non-attorneys, potentially hindering attorneys professional judgment in the name of profit. While the bill permits these companies to sell technology to California attorneys, the bill prohibits the direct sharing of legal fees, thus protecting California consumers.

According to the Author

Recognizing 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 consumer 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 potentially nefarious practices in the litigation financing industry.

Arguments in Support

This bill is sponsored by the Consumer Attorneys of California and supported by the California Employment Lawyers Association. In support of the bill, the Consumer Attorneys of California write:

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

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.

Arguments in Opposition

The American Property Casualty Insurance Association and several other business and insurance organizations oppose the bill unless they can gain access to consumer legal funding contracts. In opposition the coalition 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. In recent years, we have seen a proliferation of third parties investing money in litigation, viewing the civil justice system not as a way of resolving disputes and providing fair compensation, but purely as a profit-making opportunity. An outside funder's presence can turn what is traditionally a negotiation between two opposing parties into a multi-party affair with a "behind the scenes" funder. Given the above, it is therefore critical that all parties engaged in the litigation be informed of the existence of TPLF agreements to ensure that both plaintiffs and defendants are equally equipped to pursue justice. Just as insurance contracts are required to be disclosed pursuant to California Rule CCP § 2016.090 and 2017.210, TPLF agreements should also be disclosed so that the parties can make realistic and knowing assessments of a case and develop appropriate settlement or litigation strategies. Disclosure is a step that has been and is increasingly being taken nationwide. At least nine states have now taken action to increase the transparency of TPLF arrangements, with five of those states acting in the past two years. Montana, Oklahoma, Wisconsin and West Virginia require disclosure of the litigation funding agreements themselves.

FISCAL COMMENTS

None

VOTES:

ASM JUDICIARY: 12-0-0

YES: Kalra, Dixon, Wicks, Bryan, Connolly, Harabedian, Pacheco, Papan, Sanchez, Stefani, Zbur, Tangipa

ASSEMBLY FLOOR: 59-0-20

YES: 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

ABS, ABST OR NV: Alanis, Castillo, DeMaio, Dixon, Flora, Gallagher, Jeff Gonzalez, Hadwick, Hoover, Lackey, Macedo, Papan, Patterson, Ramos, Sanchez, Sharp-Collins, Soria, Ta, Tangipa, Wallis

SENATE FLOOR: 29-10-1

YES: Allen, Archuleta, Arreguín, Ashby, Becker, Blakespear, Cabaldon, Caballero, Cervantes, Cortese, Durazo, Gonzalez, Grayson, Hurtado, Laird, Limón, McGuire, McNerney, Menjivar, Padilla, Pérez, Richardson, Rubio, Smallwood-Cuevas, Stern, Umberg, Wahab, Weber Pierson, Wiener

NO: Alvarado-Gil, Choi, Dahle, Grove, Jones, Niello, Ochoa Bogh, Seyarto, Strickland,
Valladares
ABS, ABST OR NV: Reyes

UPDATED

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

FN: 0001403