Consumer Legal Funding 101

Also Known As......

Everything you wanted to know about Consumer Legal Funding but were afraid to ask.

Eric Schuller
President
Alliance for Responsible Consumer Legal Funding
What is Consumer Legal Funding?

• Consumer Legal funding is a financial product that can help people who have been in an accident, suffered a loss of income, and have a pending legal claim.

• Individuals can sell a small amount of their recovery to generate, typically about $2,000, in immediate proceeds.

• Consumer Legal funding helps families meet obligations, avoid public assistance, and recover.
Who accesses it and why?

• People who have an existing legal claim and are represented by an attorney can apply.

• Consumer Legal funding is a valuable choice for families trying to regain financial stability and meet their obligations while they pursue the fair value of their claim.
What are the benefits over a loan?

• Consumer Legal funding best resembles an asset purchase because the individual sells a small, fixed dollar amount of the potential future settlement for a competitive bid today.

• Legal funding also operates differently than other products, like loans.
  – **NO** Payments
  – **NO** Credit Check
  – **NO** Debt Created
  – **NO** Risk to Consumer’s Credit
  – **NO** Collections if the Consumer Loses the Case
  – **NO** Defined maturity date

• If the individual loses the case and receives no recovery, then he or she keeps the funds provided by the legal funding provider, with **NO** strings attached. The provider absorbs that loss and assumes all the risk.
What is the money used for?

* Based on consumer feedback
Factors in determining if a consumer receives a funding

• Valid Legal Claim

• Represented by an Attorney

• The Legal Claim has a possibility of being successful
Factors **NOT** used to determine if a consumer receives consumer legal funding

- Consumers Credit Score
- Consumers Employment Status or History
- Consumers Banking Information
- If they own or rent their home
- If they own a car
- Any other tangible collateral
HOW CONSUMER LEGAL FUNDING WORKS

The Process
How Consumer Legal Funding Works

1. **Consumer Contact**
The consumer contacts a consumer legal funding company to seek funding on a pending claim.

2. **Verification**
The company verifies that the consumer is represented by an attorney and the pending legal claim is legitimate.

3. **Case Review**
With the consumer’s permission, the company reviews the potential value of the claim with the consumer’s attorney. The consumer legal funding company then makes an independent funding determination. A funding is typically 5%-10% of the expected value of a claim.

4. **Purchase Agreement**
The consumer legal funding company sends a Purchase Agreement, with clear and concise terms, to the consumer and his/her attorney for review and approval. Both the consumer and the attorney must sign off on the Purchase Agreement.

5. **Funding**
After providing final approval, the company disperses the funds directly to the consumer for personal use and not for litigation purposes.
Why Consumers Chose Consumer Legal Funding

• In a typical claim that should settle for $20,000 most initial offers from Insurance Companies are less than 25% of projected value, $5,000.

• If a consumer has immediate financial obligation, such as facing eviction or reposition, the consumer may feel financial pressure to accept the initial offer rather than an amount that makes them whole.
### National Consumer Demographics

**Consumers Who Used Legal Funding in 2015**

<table>
<thead>
<tr>
<th>Household Type</th>
<th>52%</th>
<th>Have children in the household</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
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<tr>
<td>50% Male</td>
<td></td>
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<tr>
<td>40% Female</td>
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<tr>
<td>10% No Response</td>
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<tr>
<td>Marital Status</td>
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<tr>
<td>41% Married</td>
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<tr>
<td>44% Single</td>
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<td></td>
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<tr>
<td>15% No Response</td>
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<tr>
<td>Age</td>
<td>47</td>
<td>Is the average age of a consumer</td>
</tr>
<tr>
<td>Ethnicity</td>
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<tr>
<td>37% Caucasian</td>
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<tr>
<td>43% African American</td>
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<tr>
<td>11% Hispanic</td>
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<tr>
<td>9% No Response</td>
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<tr>
<td>Household Income</td>
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<tr>
<td>16% $100,000+ Annual Family Income</td>
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<td>7% $75-100,000 Annual Family Income</td>
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<td>14% $50-75,000 Annual Family Income</td>
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<tr>
<td>27% $25-50,000 Annual Family Income</td>
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<tr>
<td>36% &lt; $25,000 Annual Family Income</td>
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<tr>
<td>Level of Education</td>
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<td></td>
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<tr>
<td>33% High School Graduates</td>
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<tr>
<td>29% Some College</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8% College Degree</td>
<td></td>
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<tr>
<td>5% Graduate Degree</td>
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<tr>
<td>25% No Response</td>
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<tr>
<td>Homeowner Status</td>
<td>43%</td>
<td>Are Homeowners</td>
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<td></td>
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<tr>
<td>$130,970 Avg. Estimated Home Value</td>
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</table>
Legislation that has been introduced across the country on Consumer Legal Funding
States Where Only Positive Legislation Was Introduced

States Where Only Negative Was Introduced

States Where Both Positive/Negative Legislation Was Introduced

States Where Legislation Passed

From 2005-2018
States Where No Legislation Has Passed On The Industry
States Where A Legal Funding Statue Has Been Enacted
States Where Administrative Order or Action Has Deemed it a Loan
States Where The Court Has Deemed it a Loan
States Where Regulated by Administrative or AG Agreement
States Where The Court Has Deemed it not a Loan

As of 10/22/2018
Model Legislation To Regulate The Industry
What Our Model Legislation Does to Protect Consumers

**Requires** funding companies to include registration fees, the posting of bonds to ensure solvency, and the filing of all forms and contracts with the state authorities.

**Requires** plain English and transparent contract that clearly and boldly shows the consumer’s rights and obligations.

**Requires** consumer to know the first day of the contract how much they could owe each month and the MAXIMUM amount they will owe for funding.

**Requires** that the consumer has the Right of Rescission for five (5) days after receiving funding.

**Requires** consumer to inform attorney of the funding companies contract and requires attorney to acknowledge they have been informed.
What Our Model Legislation Does to Protect Consumers

**Prohibits** the funds companies provide to consumers be used to fund the litigation process. Can only be used for household needs.

**Prohibits** funding companies from interference or decision making with respect to the conduct of the legal claim.

**Prohibits** the payments of commissions, referral fees, rebates, etc. to attorneys, law firms, medical providers, chiropractors, or physical therapist or any of their employees.

**Prohibits** false and misleading advertising by funding companies.

**Prohibits** attorney’s from having any financial interest in a funding company that funds their clients.
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