

SENATE BILL No. 426

By Committee on Judiciary

1-29

1 AN ACT enacting the Kansas transparency in consumer legal funding act;
2 providing requirements for consumer legal funding agreements;
3 prohibiting consumer legal funding companies from engaging in certain
4 conduct; requiring certain consumer disclosures related to consumer
5 legal funding agreements; providing for penalties for violation of the
6 act.

7
8 *Be it enacted by the Legislature of the State of Kansas:*

9 Section 1. (a) The provisions of sections 1 through 4, and
10 amendments thereto, shall be known and may be cited as the transparency
11 in consumer legal funding act. The purpose of the act is to promote
12 consumer protections related to consumer legal funding transactions.

13 (b) The provisions of this act are severable. If any portion of this act
14 is held by a court to be unconstitutional or invalid, or the application of
15 any portion of this act to any person or circumstance is held by a court to
16 be unconstitutional or invalid, the invalidity shall not affect other portions
17 of this act that can be given effect without the invalid portion or
18 application and the applicability of such other portions of this act to any
19 person or circumstance remains valid and enforceable.

20 Sec. 2. As used in the transparency in consumer legal funding act:

21 (a) "Advertise" means publishing or disseminating any written, oral,
22 electronic or printed communication or any communication by means of
23 recorded telephone message or transmitted or broadcast on radio,
24 television, the internet or similar communication media, including, but not
25 limited to, audio recordings, film strips, motion pictures and videos,
26 published, disseminated, circulated or placed before the public for the
27 purpose of inducing a consumer to enter into a consumer legal funding
28 contract.

29 (b) "Charges" means the amount of money to be paid to the consumer
30 legal funding company by or on behalf of the consumer, above the funded
31 amount provided by or on behalf of the consumer legal funding company
32 to the consumer. "Charges" includes all administrative, origination,
33 underwriting and other fees, including interest, regardless of how such
34 charges are denominated.

35 (c) "Consumer" means ~~an individual who is a Kansas resident or an~~
36 ~~estate for a decedent related to a wrongful death with a legal claim a~~

1 *natural person who resides or is domiciled in Kansas and a plaintiff in a*
2 *civil action in Kansas. "Consumer" includes the state of a decedent who*
3 *was domiciled in Kansas at the time of death if the civil action is a*
4 *wrongful death claim.*

5 (d) "Consumer legal funding" means a nonrecourse transaction in
6 which a consumer legal funding company purchases and a consumer
7 assigns to the company a contingent right to receive an amount of the
8 potential proceeds of any recovery, including a settlement or judgment, in
9 the consumer's legal claim, and the funds to the consumer are used for
10 household or personal expenses. "Consumer legal funding" does not
11 include expenses directly related to prosecuting the legal claim.

12 (e) "Consumer legal funding company" or "company" means a person
13 or entity that enters into or facilitates a consumer legal funding contract
14 with a consumer. "Consumer legal funding company" does not include:

- 15 (1) An immediate family member of the consumer;
16 (2) a bank, lender, financing entity or other special purpose entity:
17 (A) That provides financing to a consumer legal funding company; or
18 (B) to which a consumer legal funding company grants a security
19 interest in or transfers any rights or interest in a consumer legal funding
20 contract; or
21 (3) an attorney or accountant who provides services to the consumer.

22 (f) "Funded amount" means the amount of money provided to or on
23 behalf of the consumer in a consumer legal funding contract excluding
24 charges.

25 (g) "Funding date" means the date on which the funded amount is
26 transferred to the consumer by the consumer legal funding company by,
27 including, but not limited to, personal delivery, wire, ACH or other
28 electronic means or mailed by insured, certified or registered United States
29 mail.

30 (h) "Immediate family member" means a parent, sibling, child,
31 stepchild, spouse, domestic partner, cohabitant, immediate in-law, aunt,
32 uncle, first cousin, grandparent or grandchild.

33 (i) "Legal claim" means a civil claim or cause of action.

34 (j) "Resolution date" means the date the funded amount, plus the
35 agreed upon charges, are delivered to the consumer legal funding company
36 by the consumer, the consumer's attorney or otherwise.

37 Sec. 3. (a) A consumer legal funding contract shall:

38 (1) Be written in a clear manner using words with common, everyday
39 meanings to enable a reasonable consumer to read and understand the
40 terms of the contract without having to obtain the assistance of a
41 professional;

42 (2) be completely filled in when presented to the consumer for
43 signature;

1 (3) contain a right of rescission, allowing the consumer to cancel the
2 contract without penalty or further obligation if, within 10 business days
3 after the funding date, the consumer returns to the consumer legal funding
4 company the full amount of the disbursed funds;

5 (4) contain the initials of the consumer on each page;

6 (5) contain a statement that there are no fees or charges to be paid by
7 the consumer other than what is disclosed on the disclosure form;

8 (6) if the consumer seeks more than one legal funding contract from
9 the same company, disclose the cumulative amount due from the consumer
10 for all transactions from the company, including, but not limited to,
11 charges under all contracts, if repayment is made any time after the
12 contracts are executed;

13 (7) contain a statement of the maximum amount the consumer may be
14 obligated to pay under the contract other than in a case of material breach,
15 fraud or misrepresentation by or on behalf of the consumer;

16 (8) clearly and conspicuously detail how charges, including, but not
17 limited to, any applicable fees, are incurred or accrued;

18 (9) for consumers whose primary language is not English, on written
19 request from the consumer or the consumer's attorney, be translated in
20 writing into the consumer's native language in which the oral negotiations
21 are conducted between the consumer legal funding company and the
22 consumer; and

23 (10) state that if there is no recovery from the consumer's civil action,
24 the consumer shall owe nothing to the consumer legal funding company
25 unless the consumer violated any material term of the contract or
26 committed fraud against the consumer legal funding company.

27 (b) A consumer legal funding contract shall contain the disclosures
28 described in this section and such disclosures are material terms of the
29 contract. Unless otherwise specified, such disclosures shall be typed in at
30 least 12-point font and be placed clearly and conspicuously within the
31 contract as follows:

32 (1) On the front page under appropriate headings, language
33 specifying:

34 (A) The funding amount to be paid to the consumer by the consumer
35 legal funding company;

36 (B) an itemization of one-time charges;

37 (C) the maximum total amount to be assigned by the consumer to the
38 company, including the funded amount and all charges; and

39 (D) a payment schedule including, but not limited to, the funded
40 amount and charges, all dates and the amount due at the end of each six-
41 month period from the funding date until the date the maximum amount
42 due to the company pursuant to the contract is paid.

43 (2) Within the body of the contract:

1 (A) In at least 12-point bold type font: "Consumer's right to
2 cancellation: You may cancel this contract without penalty or further
3 obligation within 10 business days after the funding date if you return to
4 the consumer legal funding company the full amount of the disbursed
5 funds."

6 (B) A statement that the consumer legal funding company shall have
7 no role in deciding whether, when or how much the legal claim is settled
8 for, but the consumer and consumer's attorney shall notify the company of
9 the outcome of the legal claim by settlement or adjudication prior to the
10 resolution date. The company may seek updated information about the
11 status of the legal claim, but the company shall not interfere with the
12 independent professional judgment of the attorney handling the legal claim
13 or any settlement thereof.

14 (C) In all capital letters and in at least 12-point bold type font
15 contained within a box: "THE FUNDED AMOUNT AND AGREED
16 UPON CHARGES SHALL BE PAID ONLY FROM THE PROCEEDS
17 OF YOUR LEGAL CLAIM, AND SHALL BE PAID ONLY TO THE
18 EXTENT THAT THERE ARE AVAILABLE PROCEEDS FROM YOUR
19 LEGAL CLAIM. YOU WILL NOT OWE (INSERT NAME OF THE
20 CONSUMER LEGAL FUNDING COMPANY) ANYTHING IF THERE
21 ARE NO PROCEEDS FROM YOUR LEGAL CLAIM, UNLESS YOU
22 HAVE VIOLATED ANY MATERIAL TERM OF THIS CONTRACT OR
23 YOU HAVE COMMITTED FRAUD AGAINST (INSERT NAME OF
24 CONSUMER LEGAL FUNDING COMPANY)."

25 (3) Located immediately above the place on the contract where the
26 consumer's signature is required in 12-point bold type font: "Do not sign
27 this contract before you read it completely. Do not sign this contract if it
28 contains any blank spaces. You are entitled to a completely filled-in copy
29 of the contract before you sign this contract. You should obtain the advice
30 of an attorney. Depending on the circumstances, you may want to consult a
31 tax, public or private benefits planning or financial professional. You
32 acknowledge that your attorney in the legal claim has provided no tax,
33 public or private benefit planning, or financial advice regarding this
34 transaction. You further acknowledge that your attorney has explained the
35 terms and conditions of the consumer legal funding contract."

36 (c) If requested, a copy of the executed contract shall promptly be
37 delivered by the consumer to the attorney for the consumer.

38 (d) A consumer legal funding contract shall contain a written
39 acknowledgment by the attorney retained by the consumer in the legal
40 claim that attests to the following:

41 (1) The attorney has reviewed the mandatory disclosures required by
42 this section with the consumer;

43 (2) the attorney is being paid on a contingency fee basis pursuant to a

1 written fee agreement;

2 (3) all proceeds of the legal claim will be disbursed by means of
3 either the trust account of the attorney or a settlement fund established to
4 receive the proceeds of the legal claim on behalf of the consumer;

5 (4) the attorney is obligated to disburse funds to the consumer legal
6 funding company from the legal claim and take any other steps to ensure
7 that the terms of the legal funding contract are fulfilled;

8 (5) the attorney has not received and will not receive a referral fee or
9 other consideration from the consumer legal funding company in
10 connection with the consumer legal funding; and

11 (6) the attorney in the legal claim has provided no tax, public or
12 private benefit planning or financial advice regarding the consumer legal
13 funding transaction.

14 (e) If the acknowledgment required by subsection (d) is not provided
15 by the attorney or firm retained by the consumer in the legal claim, the
16 consumer legal funding contract shall be null and void. A consumer legal
17 funding contract that complies with this section shall remain valid and
18 enforceable if the consumer terminates the relationship with the initial
19 attorney or retains a new attorney with respect to the legal claim.

20 (f) No prepayment penalties or fees shall be charged or collected on
21 consumer legal funding. A prepayment penalty or fee on consumer legal
22 funding shall be unenforceable.

23 (g) A consumer legal funding transaction that complies with this
24 section is not a loan and is not subject to any provision of law governing
25 loans or investment contracts. To the extent that this section conflicts with
26 any other law, this section shall control for the purposes of regulating
27 consumer legal funding transactions.

28 (h) The contracted amount to be paid to the consumer legal funding
29 company shall be a predetermined amount based upon intervals of time
30 from the funding date through the resolution date and shall not be
31 determined as a percentage of the recovery from the legal claim.

32 (i) Within 30 days after receipt of a written request, a consumer or the
33 consumer's attorney shall disclose to any requesting party to a legal claim
34 and each insurer that has a duty to defend if the consumer has entered into
35 a consumer legal funding contract. The consumer and the consumer's
36 attorney have a continuing obligation to disclose that the consumer has
37 entered into a consumer legal funding contract within 30 days after the
38 consumer enters such contract.

39 (j) The contingent right to receive an amount of the potential
40 proceeds of a legal claim is assignable by a consumer to a consumer legal
41 funding company.

42 (k) Communications between a consumer's attorney and a consumer
43 legal funding company to allow the consumer legal funding company to

1 ascertain the status of a legal claim or a legal claim's expected value are
2 not discoverable by a person against whom the legal claim is asserted or
3 filed.

4 Sec. 4. (a) A consumer legal funding company shall not:

5 (1) Pay or offer to pay commissions, referral fees or other forms of
6 consideration to any attorney, law firm, medical provider, chiropractor or
7 physical therapist or any employees of such providers for referring a
8 consumer to the company;

9 (2) accept commissions, referral fees, rebates or other forms of
10 consideration from any attorney, law firm, medical provider, chiropractor
11 or physical therapist or any employees of such providers;

12 (3) advertise false or misleading information regarding its products or
13 services;

14 (4) knowingly provide funding to a consumer who has previously
15 assigned or sold a portion of the consumer's right to proceeds from the
16 legal claim without first making payment to or purchasing a prior
17 unsatisfied consumer legal funding company's entire funded amount and
18 contracted charges unless a lesser amount is otherwise agreed to in writing
19 by the consumer legal funding companies, except that multiple companies
20 may agree to contemporaneously provide funding to a consumer if the
21 consumer and the consumer's attorney consent to the arrangement in
22 writing;

23 (5) have any influence, receive any right to or make any decisions
24 with respect to the conduct of the underlying legal claim or any settlement
25 or resolution thereof, and the right to make such decisions shall remain
26 solely with the consumer and the consumer's attorney in the legal claim;

27 (6) attempt to obtain a waiver of any remedy or right by the
28 consumer, including, but not limited to, the right to trial by jury;

29 (7) knowingly pay or offer to pay for court costs, filing fees or
30 attorney fees during or after the resolution of the legal claim using funds
31 from the consumer legal funding transaction;

32 (8) knowingly offer or collude to provide funding as an inducement
33 to a consumer who is presently represented by counsel to terminate that
34 relationship and engage an attorney or law firm to represent the consumer
35 in the legal claim, and any contract that purports to do so is void and
36 unenforceable; and

37 (9) collude with or knowingly assist an attorney or law firm that is
38 enticing or intends to entice a consumer to bring a claim that the company
39 knows or has reason to know is fabricated or otherwise brought not in
40 good faith, and any contract that purports to do so is void and
41 unenforceable.

42 (b) (1) Any attorney retained by a consumer or any immediate family
43 member of such attorney shall not have a financial interest in a consumer

1 legal funding company offering consumer legal funding to that consumer
2 or provide consumer legal funding, loans or advances for personal needs,
3 cash or nonmonetary equivalent to current or prospective consumers or the
4 consumer's immediate family members.

5 (2) Any attorney who has referred the consumer to the consumer's
6 retained attorney shall not have a financial interest in the consumer legal
7 funding company offering consumer legal funding to such consumer.

8 (c) The attorney for a consumer may only disclose confidential or
9 privileged information to the consumer legal funding company with the
10 written consent of the consumer.

11 (d) Only the consumer shall be authorized to execute a consumer
12 legal funding agreement unless the consumer lacks the legal capacity to
13 execute a contract. The consumer's legal representative in the legal claim
14 shall not execute a consumer legal funding contract on behalf of the
15 consumer. A consumer legal funding contract executed by the consumer
16 legal representative on behalf of such consumer shall be void and
17 unenforceable.

18 (e) A consumer legal funding company shall not accept any funds
19 from a foreign government or foreign adversary as defined in 15 C.F.R.
20 §791.4, as in effect on July 1, 2026.

21 (f) All consumer legal funding companies shall register with the
22 secretary of state pursuant to K.S.A. 17-7901, et seq., and amendments
23 thereto.

24 ~~(g) (1) A consumer legal funding company that violates the~~
25 ~~provisions of this section shall be liable to the consumer for:~~

26 ~~(A) Automatic termination of the consumer legal funding contract;~~

27 ~~(B) statutory damages in an amount not to exceed \$10,000 per~~
28 ~~violation or three times the actual damages incurred by the consumer,~~
29 ~~whichever is greater;~~

30 ~~(C) attorney fees; and~~

31 ~~(D) injunctive or declaratory relief.~~

32 ~~(2) In assessing the amount of statutory damages under this~~
33 ~~subsection, the court shall consider any relevant information presented by~~
34 ~~any party to the case, including, but not limited to the:~~

35 ~~(A) Persistence of the violation;~~

36 ~~(B) length of time over which the violation occurred;~~

37 ~~(C) culpability of the defendant with respect to such violation; and~~

38 ~~(D) defendant's assets, liabilities and net worth.—~~ *The attorney*
39 *general, upon a finding that a consumer legal funding company has*
40 *willfully violated the provisions of this act after notice and opportunity*
41 *for hearing in accordance with the Kansas administrative procedure act,*
42 *may assess upon such consumer legal funding company a civil penalty*
43 *of not to exceed \$10,000 per violation.*

1 (2) *In addition to any civil penalty assessed pursuant to paragraph*
2 *(1), such consumer legal funding company shall not recover the funded*
3 *amount or any charges under such consumer legal funding contract.*

4 (3) *Any civil penalty recovered pursuant to this subsection shall be*
5 *remitted to the state treasurer in accordance with the provisions of*
6 *K.S.A. 75-4215, and amendments thereto. Upon receipt of each such*
7 *remittance, the state treasurer shall deposit the entire amount in the*
8 *state treasury to the credit of the state general fund.*

9 (4) *All civil penalties assessed pursuant to this subsection shall be*
10 *due and payable within 10 days after written notice of assessment is*
11 *served on the person. If a civil penalty is not paid within the applicable*
12 *time period, the attorney general may file a certified copy of the notice of*
13 *assessment with the clerk of the district court in the county where the*
14 *violation occurred. The notice of assessment shall be enforced in the*
15 *same manner as a judgment of the district court.*

16 (5) *Any action by the attorney general pursuant to this subsection*
17 *shall be subject to review in accordance with the Kansas judicial review*
18 *act.*

19 Sec. 5. This act shall take effect and be in force from and after its
20 publication in the statute book.