

## 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.

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

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

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

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

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

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

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

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

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

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

38       (2) be completely filled in when presented to the consumer for  
39 signature;

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

- 1        (4) contain the initials of the consumer on each page;
- 2        (5) contain a statement that there are no fees or charges to be paid by
- 3        the consumer other than what is disclosed on the disclosure form;
- 4        (6) if the consumer seeks more than one legal funding contract from
- 5        the same company, disclose the cumulative amount due from the consumer
- 6        for all transactions from the company, including, but not limited to,
- 7        charges under all contracts, if repayment is made any time after the
- 8        contracts are executed;
- 9        (7) contain a statement of the maximum amount the consumer may be
- 10      obligated to pay under the contract other than in a case of material breach,
- 11      fraud or misrepresentation by or on behalf of the consumer;
- 12      (8) clearly and conspicuously detail how charges, including, but not
- 13      limited to, any applicable fees, are incurred or accrued;
- 14      (9) for consumers whose primary language is not English, on written
- 15      request from the consumer or the consumer's attorney, be translated in
- 16      writing into the consumer's native language in which the oral negotiations
- 17      are conducted between the consumer legal funding company and the
- 18      consumer; and
- 19      (10) state that if there is no recovery from the consumer's civil action,
- 20      the consumer shall owe nothing to the consumer legal funding company
- 21      unless the consumer violated any material term of the contract or
- 22      committed fraud against the consumer legal funding company.

23      (b) A consumer legal funding contract shall contain the disclosures

24      described in this section and such disclosures are material terms of the

25      contract. Unless otherwise specified, such disclosures shall be typed in at

26      least 12-point font and be placed clearly and conspicuously within the

27      contract as follows:

- 28        (1) On the front page under appropriate headings, language
- 29        specifying:
  - 30            (A) The funding amount to be paid to the consumer by the consumer
  - 31            legal funding company;
  - 32            (B) an itemization of one-time charges;
  - 33            (C) the maximum total amount to be assigned by the consumer to the
  - 34            company, including the funded amount and all charges; and
  - 35            (D) a payment schedule including, but not limited to, the funded
  - 36            amount and charges, all dates and the amount due at the end of each six-
  - 37            month period from the funding date until the date the maximum amount
  - 38            due to the company pursuant to the contract is paid.
- 39        (2) Within the body of the contract:
  - 40            (A) In at least 12-point bold type font: "Consumer's right to
  - 41            cancellation: You may cancel this contract without penalty or further
  - 42            obligation within 10 business days after the funding date if you return to
  - 43            the consumer legal funding company the full amount of the disbursed

1 funds."

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

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

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

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

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

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

39 (2) the attorney is being paid on a contingency fee basis pursuant to a  
40 written fee agreement;

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

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

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

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

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

16     (f) No prepayment penalties or fees shall be charged or collected on  
17 consumer legal funding. A prepayment penalty or fee on consumer legal  
18 funding shall be unenforceable.

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

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

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

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

38     (k) Communications between a consumer's attorney and a consumer  
39 legal funding company to allow the consumer legal funding company to  
40 ascertain the status of a legal claim or a legal claim's expected value are  
41 not discoverable by a person against whom the legal claim is asserted or  
42 filed.

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

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

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

8       (3) advertise false or misleading information regarding its products or  
9 services;

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

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

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

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

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

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

38      (b) (1) Any attorney retained by a consumer or any immediate family  
39 member of such attorney shall not have a financial interest in a consumer  
40 legal funding company offering consumer legal funding to that consumer  
41 or provide consumer legal funding, loans or advances for personal needs,  
42 cash or nonmonetary equivalent to current or prospective consumers or the  
43 consumer's immediate family members.

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

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

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

14       (e) A consumer legal funding company shall not accept any funds  
15 from a foreign government or foreign adversary as defined in 15 C.F.R.  
16 §791.4, as in effect on July 1, 2026.

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

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

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

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

26           (C) attorney fees; and

27           (D) injunctive or declaratory relief.

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

31           (A) Persistence of the violation;

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

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

34           (D) defendant's assets, liabilities and net worth.

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