

SESSION OF 2026

SUPPLEMENTAL NOTE ON SENATE BILL NO. 426

As Amended by Senate Committee on Judiciary

Brief*

SB 426, as amended, would create the Kansas Transparency in Consumer Legal Funding Act (Act).

Consumer Legal Funding Contract

The bill would require a consumer legal funding contract (contract) to:

- Be written clearly using words with common, everyday meaning so that a reasonable consumer could read it and understand it;
- Be completely filled in when presented to the consumer for signature;
- Contain a right of rescission that would allow the consumer to cancel the contract without penalty within 10 business days after the funding date if the consumer returns to the consumer legal funding company (company) the full amount of the disbursed funds;
- Contain the initials of the consumer on each page;
- Contain a statement that there are no fees or charges other than those disclosed on the form;

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <https://klrd.gov/>

- Disclose the cumulative amount due for all transactions if the consumer seeks more than one contract from the same company;
- Contain a statement of the maximum amount the consumer may be responsible for under the contract;
- Clearly and conspicuously detail how charges are incurred or accrued;
- Be translated into the consumer's native language, upon written request, if the consumer's primary language is not English; and
- State that if there is no recovery from the consumer's civil action, the consumer shall owe nothing to the company unless the consumer violated any material term of the contract or committed fraud against the company.

The bill would require a copy of the contract to be delivered by the consumer to the consumer's attorney if requested.

The bill would require the contract to contain written acknowledgment by the consumer's attorney that:

- The attorney reviewed the disclosure requirements;
- The attorney is being paid on contingency;
- All proceeds of the claim will be disbursed via the attorney's trust account or settlement fund;
- The attorney is obligated to disburse funds to the company from the legal claim and take any other steps to ensure that the terms of the contract are fulfilled;

- The attorney has not received a referral fee from the company; and
- The attorney has provided no tax, public, or private benefit planning or financial advice regarding the consumer legal funding transaction.

If no such acknowledgment is made, the bill would require the contract to be null and void. If the consumer terminates the relationship with the initial attorney or retains a new attorney, the contract would remain valid and enforceable as long as it complies with the acknowledgment requirements.

Payment Requirements

The bill would prohibit prepayment penalties or fees, and would specify that a consumer legal funding transaction (transaction) that complies with the provisions of the bill is not a loan.

The bill would specify a transaction would not be subject to any provision of law governing loans or investment contracts and, to the extent that the bill's provisions conflict with any other law, the bill's provisions would control for the purposes of regulating such transactions.

The bill would require the amount to be paid by the consumer to the company to be a predetermined amount based on intervals of time from the funding through the resolution date and not be a percentage of the recovery.

The bill would require the consumer to disclose to any requesting party to a legal claim and each insurer if the consumer has entered into a contract within 30 days after receipt of such request.

The bill would provide that the contingent right to receive an amount of the potential proceeds of the legal claim is assignable by a consumer to a company.

The bill would provide that communications between a consumer's attorney and a company to ascertain the status or expected value of a legal claim are not discoverable by a person against whom the legal claim is asserted or filed.

Disclosures

The bill would require certain disclosures to be made within the contract. These would include:

- The funding amount to be paid by the consumer;
- An itemized list of one-time charges;
- The maximum total amount to be assigned by the consumer to company;
- A payment schedule;
- Rights to cancellation;
- A statement that the company has no role in decision making regarding the legal claim;
- A statement that charges shall be paid only from the proceeds of the legal claim; and
- The circumstances under which a person should not sign the contract.

The bill would require the disclosure to be in a bold type font of a certain type size and specify its locations in the contract.

Company Obligations

The bill would prohibit the company from:

- Paying consideration to or accepting commissions from an attorney or specified other professionals for referring a consumer to the company;
- Advertising false or misleading information regarding services;
- Knowingly providing funding to a consumer who has previously assigned or sold a portion of the consumer's right to proceeds from the legal claim without first making payment to a prior unsatisfied company's entire funded amount unless a lesser amount is agreed to in writing;
- Influencing decision making in the legal claim;
- Attempting to obtain a waiver of a consumer remedy or right, including the right to trial by jury;
- Knowingly paying for court costs or attorney fees during or after the resolution of the legal claim using funds from the transaction;
- Knowingly offering to collude to provide funding to a consumer to terminate a legal relationship and engage another attorney;
- Colluding with an attorney to entice a consumer to bring a claim the company knows is fabricated or brought in bad faith; and
- Accepting funds from a foreign government or adversary.

The bill would require all such companies to register with the Secretary of State.

Company Penalties for Violations

The bill would authorize the Attorney General, after finding a company has willfully violated the Act, after notice and opportunity for hearing, to assess a civil penalty upon such company not to exceed \$10,000 per violation.

In addition, the bill would prohibit such company from recovering the funded amount or charges under such contract.

Any civil penalty recovered would be remitted to the State Treasurer in accordance with continuing law, and would be deposited in the State Treasury to the credit of the State General Fund.

The bill would require any penalties assessed to be due and payable within 10 days after written notice of assessment is served. After 10 days of nonpayment, the Attorney General would be authorized to file a copy of the notice of assessment with the clerk of the district court in the county where the violation occurred, and such notice would be enforceable as a judgment of the district court.

Any action of the Attorney General under these provisions would be subject to review under the Kansas Judicial Review Act.

Consumer's Attorney Obligations

The bill would prohibit the consumer's attorney or such attorney's immediate family member from having a financial interest in a company offering funding to that consumer or that consumer's immediate family. The bill would also prohibit such attorney from providing consumer legal funding, loans, or advances for personal needs to current or prospective consumers or the consumer's immediate family members.

The bill would prohibit an attorney who referred a consumer to another attorney from having a financial interest in the company offering funds to that consumer.

The bill would prohibit the consumer's attorney from disclosing any confidential or privileged information to the company without consent of the consumer.

The bill would authorize only the consumer to enter into a contract unless such consumer lacks legal capacity to do so, and would prohibit the consumer's legal representative from executing any contract.

Definitions

The bill would provide definitions for certain terms for purposes of the Act, including:

- “Consumer” would mean a natural person who resides or is domiciled in Kansas and is a plaintiff in a civil action in Kansas, and would include the state of a decedent who was domiciled in Kansas at the time of death if the civil action is a wrongful death claim;
- “Consumer legal funding” would mean a nonrecourse transaction in which the company purchases and a consumer assigns to the company a contingent right to receive an amount of the potential proceeds of any recovery, including a settlement or judgment, in the consumer's legal claim, and the funds to the consumer are used for household or personal expenses, but the term would not include expenses directly related to prosecuting the legal claim;

- “Consumer legal funding company” would mean a person or entity that enters into or facilitates a consumer legal funding contract with a consumer, but the term would not include;
 - An immediate family member of the consumer;
 - A bank, lender, financing entity, or other special purpose entity that provides financing to a consumer legal funding company or to which a consumer legal funding company grants a security interest in or transfers any rights or interest in a consumer legal funding contract; or
 - An attorney or accountant who provides services to the consumer.
- “Funding date” would mean the date on which the funded amount is transferred to the consumer by the company;
- “Immediate family member” would mean a parent, sibling, child, stepchild, spouse, domestic partner, cohabitant, immediate in-law, aunt, uncle, first cousin, grandparent, or grandchild; and
- “Resolution date” would mean the date the funded amount, plus the agreed-upon charges, is delivered to the company by the consumer, the consumer’s attorney, or otherwise.

Severability

The bill’s provisions would be severable. If any provision of the bill, or its application to any person or circumstance, is found to be unconstitutional or invalid, the rest of the Act would continue to stand and would be enforceable so long as it could be enforced without the unconstitutional or invalid provisions.

Background

The bill was introduced by the Senate Committee on Judiciary at the request of the Alliance for Responsible Consumer Legal Funding (ARC).

Senate Committee on Judiciary

In the Senate Committee hearing, representatives of ARC and American Legal Finance Association (ALFA) provided **proponent** testimony. Proponents generally stated the bill would establish comprehensive consumer protections, impose meaningful and enforceable prohibitions, and preserve access to consumer legal funding. The representative of ALFA noted that the association originally submitted opponent testimony but its concerns have since been addressed.

No other testimony was provided.

The Senate Committee amended the bill to redefine “consumer” for purposes of the Act, authorize the Attorney General to enforce the Act, and define penalties for violations of the Act.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill as introduced, the Office of Judicial Administration (OJA) indicates enactment of the bill could increase the amount of time spent by personnel to process, research, and hear cases, but it could also result in the collection of more fees. However, the OJA could not estimate a precise fiscal effect.

The Office of the Attorney General indicates enactment of the bill would have no fiscal effect on the agency.

Any fiscal effect associated with enactment of the bill as introduced is not reflected in *The FY 2027 Governor's Budget Report*.

Judiciary; Kansas Transparency in Consumer Legal Funding Act; consumer disclosures