

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2025

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HOUSE BILL 925
PROPOSED COMMITTEE SUBSTITUTE H925-PCS30494-TG-30

Short Title: Consumers in Crisis Protection Act.

(Public)

Sponsors:

Referred to:

April 14, 2025

A BILL TO BE ENTITLED
AN ACT TO ENACT THE CONSUMERS IN CRISIS PROTECTION ACT.
The General Assembly of North Carolina enacts:

SECTION 1. Chapter 58 of the General Statutes is amended by adding a new Article to read:

"Article 94.

"Consumers in Crisis Protection Act.

"§ 58-94-1. Short title.

This Article may be cited as the "Consumers in Crisis Protection Act."

"§ 58-94-5. Definitions.

The following definitions apply in this Article:

- (1) Affiliate. – As defined in G.S. 53-244.030.
- (2) Charges. – Any fees permitted by this Article to be charged to a consumer by a consumer legal funding company, regardless of how denominated, including fees denominated as interest or rate.
- (3) Commissioner. – The Commissioner of Insurance.
- (4) Consumer. – An individual residing in this State.
- (5) Consumer legal funding company. – A person that enters into a consumer legal funding transaction with a consumer, whether or not the person is registered under this Article.
- (6) Consumer legal funding contract. – A contract for a consumer legal funding transaction.
- (7) Consumer legal funding transaction. – A nonrecourse transaction in which a consumer sells an unvested, contingent future interest in the potential net proceeds of a settlement or judgment obtained from a legal claim so long as all of the following apply:
 - a. The consumer is required to use the funds to address personal needs or household expenses.
 - b. The consumer is prohibited from using the funds to pay for attorneys' fees, legal filings, legal marketing, legal document preparation or drafting, appeals, expert testimony, or other litigation-related expenses.
 - c. The consumer is not required to use the funds in a particular manner, including to make specific payments or secure specific services.



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- (8) Funded amount. – The amount of money provided to, or on behalf of, a consumer pursuant to a consumer legal funding contract. The term excludes charges.
- (9) Gross proceeds. – The total amount of proceeds recovered by a consumer as a result of a legal claim.
- (10) Health care provider. – As defined in G.S. 90-21.50.
- (11) Legal claim. – A civil claim or cause of action, filed in a court of law in State or federal court, including any claim that triggers obligation arising under G.S. 58-63-15(11) or related regulations.
- (12) Net proceeds. – The amount recovered by a consumer as a result of a legal claim, less the following associated costs and liens:
- a. Attorneys' fees and litigation costs associated with the legal claim.
 - b. Attorney liens, valid health care provider liens, and ERISA contractual rights of recovery or subrogation liens.
 - c. Child support, Medicare, tax, or other statutory or governmental liens.

"§ 58-94-10. Relationship with other law.

A consumer legal funding transaction that complies with this Article is not a loan and is not subject to any provision of law governing loans or investment contracts. To the extent that this Article conflicts with any other law, this Article supersedes that law for purposes of regulating consumer legal funding transactions in this State.

"§ 58-94-15. Exemptions.

All of the following are exempt from this Article's requirements:

- (1) An immediate family member of the consumer.
- (2) A bank, lender, financing entity, or other special purpose entity that either provides financing to a consumer legal funding company or receives an interest in a consumer legal funding from a consumer legal funding company.
- (3) An attorney or accountant who provides services to a consumer.

"§ 58-94-20. Registration; fee; financial stability.

(a) No person shall enter into a consumer legal funding transaction with a consumer without first registering as a consumer legal funding company with the Commissioner, in a format prescribed by the Commissioner, and submitting a registration fee and proof of financial stability, as required by this Article. A consumer legal funding contract between a consumer and a consumer legal funding company that has not registered under this Article is void and unenforceable.

(b) A consumer legal funding company shall pay a nonrefundable fee of one thousand dollars (\$1,000) at the time of registration and at the time of each renewal. Registrations shall be renewed every three years.

(c) The Commissioner may deny a consumer legal funding company's registration or renewal of registration for failure to comply with this Article.

"§ 58-94-25. Registration application.

(a) Application. – Applications for registration under this Article shall be filed in a form determined by the Commissioner. To be considered complete, the application shall be verified by attestation of the applicant or a designee of the applicant and shall include all of the following:

- (1) The applicant's legal name, along with any assumed business name, principal address, including street address and mailing address, contact information, and social security number or taxpayer identification number.
- (2) The applicant's form and place of organization, if applicable.
- (3) A certificate of good standing from the state in which the applicant was organized, if applicable.

- (4) A certificate of authority from the Secretary of State to conduct business in this State or other evidence of the applicant's registration or qualification to do business in this State.
- (5) The qualifications and business history of the applicant, including a description of any injunction or administrative order by any state or federal authority to which the person is or has been subject for the past 10 years.
- (6) A record of any criminal convictions for the applicant, or in the case of an applicant that is an entity, every officer of the applicant, for a 10-year period prior to the date of the application, including the applicant's consent to a federal and State criminal background check and a set of the applicant's fingerprints in a form acceptable to the Commissioner.
- (7) Evidence of its financial stability in the form of certified financial statements by the chief financial officer, or equivalent, of the applicant that include proof of a surety bond or irrevocable letter of credit issued and confirmed by a financial institution authorized by law to transact business in this State for fifty thousand dollars (\$50,000).
- (8) Any additional information that the Commissioner deems relevant.
- (b) Abandoned Application. – The Commissioner may deem an application abandoned if the applicant fails to respond to a written request for information by the Commissioner within 30 days of the date of the request.
- "§ 58-94-30. Contents of consumer legal funding contract.**
- (a) Prior to entering into a consumer legal funding transaction in this State, a consumer legal funding company shall file with the Commissioner a template of a consumer legal funding contract.
- (b) A consumer legal funding contract shall be written using plain language and understandable to the average consumer who makes a reasonable effort under ordinary circumstances to read and comprehend the terms of the contract without having to obtain the assistance of a professional.
- (c) All terms of the consumer legal funding contract shall be completed when presented to the consumer for signature.
- (d) Each consumer legal funding contract shall include the following provisions:
- (1) Definitions of the terms "consumer," "consumer legal funding company," and "consumer legal funding transaction," as set forth in this Article.
- (2) An acknowledgement that the consumer is represented by an attorney for the legal claim and has had an opportunity to discuss the contract with the consumer's attorney.
- (3) A right of rescission, allowing the consumer to cancel the contract without penalty or further obligation if, within 10 business days following the execution of the contract or the consumer's initial receipt of any portion of the funded amount, the consumer gives notice of the rescission to the company and returns all funds provided to the consumer by the company.
- (4) Located immediately above the place on the contract where the consumer's signature is required, the following in 12-point bold font:
- "Do not sign this contract before you have read it completely or if it contains any blank spaces. You are entitled to a completely filled-in copy of the contract. Before you sign this contract, you should obtain the advice of an attorney. Depending on the circumstances, you may want to consult a tax, public or private benefits planning, or financial professional. You acknowledge that your attorney in the legal claim is not obligated to provide any tax, public or private benefit planning, or financial advice regarding this transaction.

- 1 You shall not use funds from this transaction to pay attorneys' fees or costs
2 related to the litigation of your claim."
- 3 (5) A requirement that a copy of the executed consumer legal funding contract
4 shall promptly be delivered to the consumer's attorney upon request.
- 5 (6) A statement of the maximum total amount to be assigned by the consumer to
6 the consumer legal funding company, including the funded amount and all
7 charges.
- 8 (e) Each contract shall include consumer disclosures on the first two pages, to the extent
9 possible. The consumer disclosures shall be in a form prescribed by the Commissioner and shall
10 include all of the following:
- 11 (1) Notification that some or all of the funded amount may be taxable.
12 (2) A description of the consumer's right of rescission.
13 (3) The total funded amount provided to the consumer under the contract.
14 (4) An itemization of charges.
15 (5) The total amount due from the consumer, in six-month intervals for 36
16 months, including all charges.
17 (6) A statement that no additional charges may accrue 36 months after execution
18 of the consumer legal funding contract.
19 (7) A statement that there are no payments owed by the consumer other than what
20 is disclosed on the disclosure form.
21 (8) In the event the consumer seeks more than one consumer legal funding
22 contract, a disclosure providing the cumulative amount due from the consumer
23 for all transactions, including charges under all contracts, if repayment is made
24 any time after the contracts are executed.
25 (9) A statement that the company has no influence over any aspect of the
26 consumer's legal claim or any settlement or resolution of the consumer's legal
27 claim and that all decisions related to the consumer's legal claim remain solely
28 with the consumer and the consumer's attorney.
29 (10) A statement that if there is no recovery of any money from the consumer's
30 legal claim, the consumer has no further financial obligation to the company
31 unless the consumer committed fraud against the consumer legal funding
32 company.
33 (11) A statement that, if the net proceeds of the claim are insufficient to repay the
34 consumer's financial obligation to the company, defined as the complete
35 funded amount and charges, the consumer is not responsible to the company
36 for any amount in excess of the net proceeds.
- 37 (f) The consumer legal funding contract shall contain a written acknowledgement by the
38 attorney retained by the consumer for the legal claim that attests to the following:
- 39 (1) To the best of the attorney's knowledge, the funded amounts and any charges
40 relating to the consumer legal funding transaction have been disclosed to the
41 consumer.
42 (2) The attorney is being paid pursuant to a separate written fee agreement
43 between the consumer and the attorney, and the consumer legal funding
44 company is not a party to that agreement.
45 (3) Gross proceeds of the legal claim shall be deposited into the client trust
46 account of the attorney or a settlement fund established to receive the gross
47 proceeds of the legal claim on behalf of the consumer.
48 (4) The attorney shall comply with the written irrevocable instructions of the
49 consumer with regard to the consumer legal funding transaction.

- (5) The attorney is obligated to disburse proceeds from the legal claim and pay the funded amount and charges due per the terms of the consumer legal funding contract.
- (6) Only liens related to the legal claim, including attorney liens, Medicare, Veterans Affairs, TriCare, Medicaid, State Employees Health Plan, ERISA contractual rights of recovery, valid health care provider liens, or other statutory liens, take priority over any contractual lien of the consumer legal funding company. All other liens take priority by operation of law.
- (7) The attorney for the legal claim is not obligated to provide any tax, public or private benefit planning, or financial advice regarding the consumer legal funding transaction.
- (g) The failure of the attorney retained by the consumer for the legal claim to provide written attestation as required by this section renders the contract null and void.
- (h) A consumer legal funding contract remains valid and enforceable in the event that, subsequent to execution, a consumer moves to substitute counsel or pursues a legal claim pro se.
- "§ 58-94-35. Nonrecourse obligation; authorized charges.**
- (a) If a consumer obtains no recovery from the consumer's legal claim, the consumer is not required to repay a consumer legal funding company unless the consumer committed fraud against the consumer legal funding company. If the net proceeds of the claim are insufficient to repay the consumer's financial obligation to the company, defined as the complete funded amount plus charges authorized by this section, the consumer is not responsible to the company for any amount in excess of the net proceeds.
- (b) The contracted amount to be paid to the consumer legal funding company shall be a predetermined amount based upon intervals of time from the funding date through the resolution date and shall not be determined as a percentage of the recovery from the legal claim.
- (c) Upon written request from the consumer or the consumer's attorney, the consumer legal funding company shall reduce charges to a maximum of twenty-five percent (25%) of the gross proceeds from the legal claim. Any such written request must include an attestation as to the final amount of the gross proceeds from the legal claim.
- (d) No charges shall accrue on a consumer legal funding transaction more than 36 months after execution of the consumer legal funding contract. A consumer legal funding company, however, may assess charges on any additional funding, whether by amendment to the consumer legal funding contract or by execution of a new consumer legal funding contract, for 36 months after the provision of the additional funding.
- "§ 58-94-40. Prohibited acts.**
- A consumer legal funding company shall not do any of the following:
- (1) Pay or offer to pay commissions, referral fees, or any other form of consideration to any attorney, law firm, health care provider, or an employee of a law firm or health care provider for referring a consumer to the company.
- (2) Accept any commissions, referral fees, or any other form of consideration from any attorney, law firm, health care provider, or an employee of a law firm or health care provider.
- (3) Refer, in furtherance of the initial legal funding, a consumer or potential consumer to an attorney, law firm, health care provider, or an employee of a law firm or health care provider; however, a consumer legal funding company may direct a consumer or potential consumer to a local or state bar association referral service or bona fide nonprofit legal aid organization.
- (4) Advertise false or misleading information regarding its products or services.
- (5) Receive any right to make any decisions with respect to or attempt to influence a decision relating to the conduct, settlement, or resolution of the consumer's

1 legal claim. The right to make these decisions remains solely with the
2 consumer and the consumer's attorney.

3 (6) Knowingly pay or offer to pay for case expenses, including court costs, filing
4 fees, or attorneys' fees, either during or after the resolution of the legal claim.

5 (7) Fail to promptly provide copies of contract documents to the consumer or the
6 consumer's attorney upon request.

7 (8) Provide legal advice to the consumer regarding the consumer legal funding
8 transaction or the underlying legal claim.

9 (9) Report a consumer to a credit reporting agency if insufficient funds remain
10 from the net proceeds to repay the company unless the consumer has
11 committed fraud against the consumer legal funding company.

12 (10) Knowingly provide funding to a consumer who has previously assigned or
13 sold a portion of the consumer's right to proceeds from the consumer's legal
14 claim without first purchasing a prior unsatisfied consumer legal funding
15 company's entire funded amount and contracted charges, unless a lesser
16 amount is otherwise expressly agreed to in writing by the consumer legal
17 funding companies. Multiple consumer legal funding companies, however,
18 may agree to contemporaneously provide funding to a consumer so long as
19 the consumer and the consumer's attorney consent to the agreement in writing.

20 (11) Collect from a consumer any fees or charges not authorized under this Article.

21 (12) Sell a contract in whole or in part to a third party. However, if the consumer
22 legal funding company retains responsibility for collecting payment,
23 administering, and otherwise enforcing the consumer legal funding contract,
24 this prohibition does not apply to any of the following:

25 a. An assignment to a wholly owned subsidiary of the consumer legal
26 funding company.

27 b. An assignment to an affiliate of the consumer legal funding company
28 that is under common control.

29 c. The granting of a security interest under Article 9 of Chapter 25 of the
30 General Statutes or as otherwise permitted by law.

31 (13) Knowingly offering or colluding to provide funding as an inducement to a
32 consumer who is presently represented by counsel to terminate that
33 engagement and engage such lawyer or law firm to represent them in the same
34 matter. Any consumer legal funding contract entered into in violation of this
35 paragraph shall be void ab initio.

36 (14) Collude with or knowingly assist a lawyer or law firm that is inducing or
37 intends to induce a consumer to bring a claim that the company knows or has
38 reason to know is fabricated or otherwise not brought in good faith. Any
39 consumer legal funding contract entered into in violation of this subdivision
40 shall be void ab initio.

41 (15) Accepting any funds from a foreign government or foreign non-government
42 person identified as a foreign adversary in 15 C.F.R. § 791.4, including any
43 agent or entity affiliated with such foreign adversary.

44 **"§ 58-94-45. Attorney prohibitions.**

45 (a) An attorney retained by a consumer for a legal claim, or that attorney's immediate
46 family member, shall not have a financial interest in the consumer legal funding company
47 offering consumer legal funding to the consumer. Additionally, any attorney who has referred
48 the consumer to the consumer's retained attorney shall not have a financial interest in the
49 consumer legal funding company offering consumer legal funding to the consumer.

50 (b) An attorney retained by a consumer for a legal claim shall not execute a consumer
51 legal funding contract on behalf of the consumer.

(c) A consumer legal funding contract that violates this section is null and void, and no person has a right to collect, attempt to collect, receive, or retain any funded amount or charges related to the consumer legal funding.

"§ 58-94-50. Effect of communication on privileges.

Communications between a consumer's attorney and a consumer legal funding company necessary to ascertain the status of a legal claim or a legal claim's expected value shall not be discoverable by a party with whom the claim is filed or against whom the claim is asserted. This section does not limit, waive, or abrogate the scope or nature of any statutory or common-law privilege, including the work-product doctrine and the attorney-client privilege.

"§ 58-94-55. Disclosure of consumer legal funding transactions.

(a) Within 30 calendar days of receipt of a written request, a consumer shall disclose to any party to a legal claim whether the consumer has entered into a consumer legal funding transaction.

(b) If a consumer enters into a consumer legal funding transaction after responding to a request pursuant to subsection (a) of this section, the consumer shall disclose this fact to the requesting person within 30 calendar days after the consumer entered into the transaction.

"§ 58-94-60. Discovery and admission of consumer legal funding contracts.

(a) Discovery. – Consumer legal funding contracts are presumed to be discoverable in a civil action, notwithstanding any agreement or provision with respect to confidentiality. A consumer may seek to rebut this presumption.

(b) Admission. – Consumer legal funding transactions disclosed pursuant to G.S. 58-94-55 and consumer legal funding contracts discovered pursuant to subsection (a) of this section are presumed to be inadmissible as evidence. A party may seek to rebut this presumption.

"§ 58-94-65. Examinations; charges.

For the purpose of protecting consumer interests and determining a consumer legal funding company's financial stability and compliance with the requirements of this Article, the Commissioner may conduct an examination of a consumer legal funding company. The company shall reimburse the Department of Insurance all reasonable costs and expenses of the examination. In unusual circumstances and in the interests of justice, the Commissioner may waive reimbursement for the costs and expenses of an examination under this section.

"§ 58-94-70. Rules.

The Commissioner may adopt rules necessary for the proper enforcement of this Article. Before proposing a rule, the Commissioner shall notify all companies registered or pending registration under this Article.

"§ 58-94-75. Penalties; enforcement.

(a) After notice and an opportunity for hearing, the Commissioner may do any of the following if the Commissioner determines that a consumer legal funding company willfully violated any provision of this Article:

- (1) Revoke, suspend, or refuse to renew a consumer legal funding company's registration.
- (2) Order a consumer legal funding company to cease and desist from entering into additional consumer legal funding transactions.
- (3) Assess a civil penalty of not more than ten thousand dollars (\$10,000) for each violation. The clear proceeds of any penalty assessed pursuant to this section shall be remitted to the Civil Penalty and Forfeiture Fund in accordance with G.S. 115C-457.2.
- (4) Order the consumer legal financing company to make restitution to an injured consumer.

(b) The powers vested in the Commissioner by this Article are in addition to and do not limit the ability of the Commissioner or any other officer, employee, or agent of the State to take enforcement action."

1 **SECTION 2.** If any provision of this act or its application to any person or
2 circumstance is held invalid, the invalidity does not affect other provisions or applications of this
3 act that can be given effect without the invalid provision or application and, to this end, the
4 provisions of this act are severable.

5 **SECTION 3.** This act becomes effective October 1, 2025.