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Personal Injury Lawsuit Loans are Very Costly

A recent New York Times article illustrates the predatory nature of personal injury lawsuit funding companies. The article cites instances where plaintiffs ultimately turned over almost their entire settlement or judgment to the lawsuit lenders.

The lawsuit lenders like to call themselves investors. In fact, they are highly predatory lenders. They argue that lawsuit lending is more akin to venture capital than lending. They justify interest rates of up to 100% a year on the rationale that they are at risk of not getting paid back at all.

In reality, most of these companies screen their cases with extreme care. The Times article suggested that the companies will refuse loans on 70% of the applications and then loaned on 10 to 20 percent of the expected recovery. In short, they are looking for slam dunk settlement cases. And, in fact, it is not terribly difficult to evaluate the likelihood of recovery on most cases.

If nothing else, these companies could use programs like the insurance industry's Colossus software for evaluating claims. This software is used by a large number of auto insurance companies. Upon entry of the specifics of an auto accident, the software spits out a settlement range. To the chagrin of many injured persons and their lawyers, there are some insurance companies that will not budge off these very conservative settlement value estimates.

Even without a program like Colossus, cases with high and/or certain settlement value are not hard to spot in most routine personal injury cases. There are others such as medical malpractice and products liability that are more difficult to evaluate and fairly risky to undertake. However, if these companies are truly screening 80% of the cases from eligibility, then it would seem that they are instead focusing on the sure cases with very little risk of loss.

Yet they continue to charge rates up to 100% annual interest. To further illustrate the point that these are low risk, extremely high interest predatory loans, the Times cited one industry leader who stated, "We don't want judges to shine a light on us." To avoid scrutiny from judges who often will refuse to enforce these predatory loans, many of the lenders will loan only on those cases that have a high probability of pre-trial settlement. In other words, they make only very low risk loans or "investment."

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What does this mean for you and your personal injury claims? It means that if the company is willing to lend to you, by definition, you should not take their loan. The fact that they have approved the loan suggests that your case has a very good chance of pre-trial settlement.

If you are truly desperate for funds, then you might consider lowering your settlement demand to facilitate a more rapid settlement. This would be a more prudent and far less financially detrimental route than ultimately turning over your settlement to a lawsuit lender.

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