



Ankin Law Office LLC

Protecting the Rights of Injured Workers

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The Debate Continues Over Lawsuit Loans



In December we predicted that the [issues surrounding lawsuit loans](#) (where banks make loans to both attorneys—to help them with costs related to litigating the claim—and to the litigants themselves) would be a hot topic throughout 2011. And, sure enough, lawsuit loans made the news earlier this month.

The New York Times [reported](#) that companies that advance lawsuit loans were lobbying for legislation that would exempt them from usury limits on interest rates and other state laws intended to protect borrowers.

As explained in the article:

(T)he lawsuit lending companies want to adopt a separate and less rigorous set of protections. Since February, they have persuaded legislators in at least five states, including New York, to introduce bills based on the industry's own proposals. The campaign is drawing strong opposition from chambers of commerce, insurance companies and others who worry that lawsuit loans encourage litigation by emboldening plaintiffs. These critics also argue that the bills would strip protections from borrowers.

One major criticism is that lawsuit loans take advantage of [personal injury plaintiffs](#), as explained in this [article](#) from Gazette.net:

(W)hile the...lenders claim to offer financial help to those in need, their fees often are so high that consumers who use their services end up with nothing, or worse, end up in debt even after receiving their lawsuit award or settlement.

Of course, there are two sides to every story. The lenders assert that they're entitled to charge higher interest rates because they take large risks when making the loan. This [article](#) from allgov.com elaborates on their position:

These lawsuit lenders, which include banks and hedge funds, argue that their efforts should not be subject to usury laws, even though they are known to charge high interest rates on their loans. They're entitled to demand exorbitant rates, they say, because of the risk of many plaintiffs losing their cases. Known in the business as "alternative litigation financing" (ALF), the rules prevent lenders from charging plaintiffs if the case is lost.

And so, the debate continues with no end in sight. Only time will tell how this issue will play out. Perhaps some states will regulate it and others will not. In the meantime, the American Bar Association is [studying the issue](#) and is expected to weigh in with their opinion in the fall of 2011.

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By [Admin - BN](#)

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