

Date of Hearing: April 28, 2025

ASSEMBLY COMMITTEE ON BANKING AND FINANCE
Avelino Valencia, Chair
AB 743 (Michelle Rodriguez) – As Amended March 24, 2025

SUBJECT: California Financing Law: lawsuit financiers

SUMMARY: Creates the “Lawsuit Financier” license under the California Financing Law.

Specifically, **this bill:**

- 1) Defines “Lawsuit Financier” to mean a person engaged in lawsuit financing under the California Financing Law (CFL).
- 2) Defines “lawsuit financing” to mean a transaction in which a person provides, with or without recourse, money, services, or anything else having value to any person in return for a contingent right to receive an amount out of the proceeds of any realized judgment, award, settlement, or verdict a person may receive on an underlying civil claim or action, or in return for interest, fees, or other consideration.
- 3) Prohibits a person from engaging in the business of lawsuit financing without obtaining a license from the Department of Financial Protection and Innovation (DFPI).
- 4) Directs the commission to include lawsuit financing as an industry category on the licensee search page.
- 5) Requires a licensed lawsuit financier to maintain a surety bond in a minimum amount of \$250,000.
- 6) Authorizes the commissioner to increase by rule the bond amount based on the dollar amount of lawsuit financing originated by the lawsuit financier.
- 7) Expands the definition of “commercial loan” to include lawsuit finance, as specified.
- 8) Establishes civil penalties for willful violations of any order, provision or rule of up to \$100,000 for a first violation and up to \$250,000 for each repeat violation.

EXISTING LAW:

- 1) California Financing Law requires DFPI to license and regulate finance lenders, brokers, or program administrators (Financial Code, § 22000 et seq.).

FISCAL EFFECT: Unknown. This bill is keyed Fiscal by Legislative Counsel.

COMMENTS:

- 1) Purpose. According to the author:

The absence of any regulation in the lawsuit financing industry poses substantial risks to California consumers, the legal system, and the state's economic stability. By requiring

licensure of lawsuit financiers, AB 743 will introduce long overdue oversight and transparency, helping to prevent and address exploitative financial practices while preserving access to justice for those in need.

2) Lawsuit Financier

Commercial litigation financing is when a third party invests in a lawsuit in exchange for a share of the profit. The rise in litigation financing raises concerns about the lack of transparency regarding funding lawsuits, disclosures and protections for recipients, and the regulation of litigating financiers. The funding is typically in the millions of dollars by private firms that obtain investment capital from various investors.

According to The WestFleet Insider, 2024 Litigation Finance Market Report, litigation funders in the U.S. can be divided into three types: dedicated, multi-strategy, and ad hoc.¹

Dedicated funders specialize in litigation finance and account for most of the industry's capital and deal volume. Some operate with full investment autonomy; others must obtain investor approval on deals. Some raise funds on a deal-by-deal basis rather than maintaining dedicated capital. A few with major U.S. operations are publicly traded; the rest are private.

Multi-strategy funders, often hedge funds, invest across various markets, and maintain litigation finance "desks." While similar to dedicated funders, they face more conflict-of-interest and compliance concerns due to their broader financial activities.

Ad hoc funders like hedge funds or family offices participate sporadically in litigation finance without dedicated teams. Their activity is hard to track, as they rarely disclose involvement.

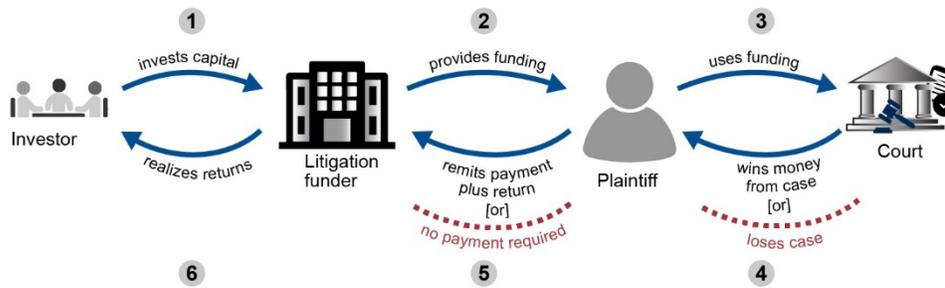
In 2024, claim monetization comprised 26% of capital commitments, up from 21% in 2023. Patent litigation remained the top category, comprising 32% of commitments. For the first time, data showed that 19% of commitments were backed by contingent risk insurance.²

This bill is focused on hedge funds, sovereign wealth funds, and litigation finance companies—offering capital for commercial litigation, such as business contract disputes or intellectual property claims. The bill does not apply to consumer litigation funding.

¹ <https://www.westfleetadvisors.com/wp-content/uploads/2025/03/WestfleetInsider-2024-Litigation-Finance-Report.pdf>

² <https://www.westfleetadvisors.com/wp-content/uploads/2025/03/WestfleetInsider-2024-Litigation-Finance-Report.pdf>

Example of Third-Party Litigation Financing for Plaintiffs



Source: GAO. | GAO-23-105210

3) Consumer Financing Law (CFL)

- a) *Overview.* The CFL regulates the making and brokering of secured and unsecured, residential and commercial installment loans \$5,000 or more in California by nondepository institutions, through the licensure of finance lenders, finance brokers, and mortgage loan originators.
- b) *Licenses.* As of December 31, 2023, the DFPI licensed 4,391 lenders, brokers, lenders and brokers, and PACE program administrators. Of these licensees, 4,241 filed the required annual reports, including all four PACE program administrators.³
- c) *Data.* CFL application requirements vary depending on the license. Below are some basic information required.
 - i) Legal name, business address, and formation documents (e.g., Articles of Incorporation/Organization)
 - ii) List of business activities
 - iii) A detailed business plan

4) Workability. One of the criticisms of legal financing is the lack of transparency about the funders. This bill will require licensing “lawsuit financiers.” However, the bill does not require disclosure of the lawsuits financed. Licensing is deemed a first step to knowing who is financing litigation.

5) Policy Items for Consideration

- a) **Consumer and Commercial.** AB 931 (Kalra) adopts a regulatory framework by providing protections to consumers seeking a loan via a legal funding agreement. The author may wish to consider establishing an equivalent set of protections for businesses.
- b) While not the purview of this committee, AB 931 establishes terms equivalent to those in AB 743, e.g., “Consumer legal funding” and “lawsuit financing.” The author is encouraged to work with the author of AB 931 to ensure consistency.

³ <https://dfpi.ca.gov/wp-content/uploads/2024/12/2023-Annual-Report-CFL-Aggregated.pdf>

6) Amendments

- a) The CFL requirements reference the specific licenses. However, the bill does not add “lawsuit financier” to all CFL requirements.
- b) The bill authorizes the commissioner to increase by rule the bond amount based on the dollar amount of lawsuit financing originated by the lawsuit financier. However, the bill does not require this disclosure. Amendments should clarify that a lawsuit financier is required to disclose information to the commissioner.

On page 4, line 22, after “financier.”

The licensee shall disclose the dollar amount of lawsuit financing upon request by the commissioner.

REGISTERED SUPPORT / OPPOSITION:**Support**

American Property Casualty Insurance Association
 California Builders Alliance
 California Business Properties Association
 California Business Roundtable
 California Chamber of Commerce
 California Life Sciences
 California Manufacturers & Technology Association
 California Trucking Association
 Carlsbad Chamber of Commerce
 Cooperative of American Physicians, INC.
 El Dorado County Chamber of Commerce
 El Dorado Hills Chamber of Commerce
 Elk Grove Chamber of Commerce
 Family Business Association of California
 Folsom Chamber of Commerce
 Greater Conejo Valley Chamber of Commerce
 Independent Hospitality Coalition
 Lincoln Area Chamber of Commerce
 Oceanside Chamber of Commerce
 Rancho Cordova Chamber of Commerce
 Rocklin Area Chamber of Commerce
 Roseville Area Chamber of Commerce
 Sacramento Regional Builders Exchange
 Shingle Springs/cameron Park Chamber of Commerce
 Unified Patents
 United Chamber Advocacy Network
 Yuba Sutter Chamber of Commerce

Opposition

None on file.

Analysis Prepared by: Darci Sears / B. & F. / (916) 319-3081