



WRITTEN TESTIMONY IN OPPOSITION TO HB 7751

Rhode Island House Judiciary Committee

Chair and Members of the Committee:

Thank you for the opportunity to submit testimony in opposition to HB 7751.

HB 7751 does not regulate Consumer Legal Funding. It eliminates it.

WHAT HB 7751 DOES

HB 7751 defines a “litigation lending agreement” broadly and then declares that all payments above the amount received shall be considered interest on loans subject to Rhode Island’s usury statute. The bill applies this loan classification regardless of how the agreement is characterized, regardless of the terminology used, and even if repayment is contingent on the outcome of the litigation.

In other words, the bill expressly overrides the non-recourse nature of Consumer Legal Funding and forces it into the framework of traditional lending law. That change is not regulatory. It is prohibitory.

CONSUMER LEGAL FUNDING IS NOT A LOAN

Consumer Legal Funding provides non-recourse funds to plaintiffs. Repayment occurs only if the consumer successfully resolves their case. If the case is lost, the consumer owes nothing.

A loan creates a guaranteed repayment obligation, a fixed maturity, and personal liability regardless of outcome. Consumer Legal Funding creates a contingent right to payment, no personal liability, and no repayment if there is no recovery.

HB 7751 explicitly states that even if repayment is contingent on the outcome of litigation, it will still be treated as interest on a loan. That provision demonstrates that the bill is not attempting to regulate the product as it exists. It is attempting to redefine it out of existence.

WHY LOAN CLASSIFICATION ELIMINATES THE PRODUCT

Traditional usury laws are designed for recourse lending where repayment is guaranteed. Non-recourse funding carries materially higher risk because many cases resolve for less than expected, some cases are dismissed, some cases are lost at trial, and some defendants are judgment-proof.

If funding companies must comply with interest caps designed for secured or unsecured recourse loans, they cannot price for the risk of total loss. When the risk of losing 100 percent of the funds is combined with loan-rate caps, the economic model becomes impossible.

The result is predictable. Providers exit the state. Capital disappears. Consumers lose access.

WHO IS HARMED

The individuals harmed are injured Rhode Islanders who are unable to work due to injury, are waiting months or years for resolution, have rent, utilities, and medical bills, and cannot qualify for traditional credit.

Without access to non-recourse funding, these individuals face impossible choices: accept an early, undervalued settlement; accumulate high-interest credit card debt; face eviction or utility shutoffs; or abandon legitimate claims.

Consumer Legal Funding exists to prevent economic hardship from dictating legal outcomes. HB 7751 would remove that financial bridge.

REGULATION VERSUS ELIMINATION

If the Committee's goal is consumer protection, there are workable approaches including clear written disclosures, caps on total return rather than interest rate, prohibitions on compounding, cooling-off periods, and registration and oversight requirements.

Many states regulate Consumer Legal Funding in this manner while preserving access. HB 7751 does not attempt tailored regulation. Instead, it overrides the non-recourse nature of the agreement and subjects it to loan usury law regardless of structure. That approach effectively bans the product.

ACCESS TO JUSTICE CONCERNS

When injured plaintiffs lack financial stability, insurers and well-capitalized defendants gain leverage. The longer a plaintiff can financially withstand litigation, the more likely the resolution reflects the merits of the case rather than economic desperation.

Eliminating Consumer Legal Funding shifts leverage toward defendants and away from injured Rhode Islanders.

CONCLUSION

Classifying Consumer Legal Funding as a loan does not regulate the product. It extinguishes it.

The practical effect of HB 7751 will be the withdrawal of funding companies from Rhode Island, the loss of a non-recourse financial option for injured consumers, increased financial pressure on plaintiffs, and greater settlement leverage for insurance companies.

Rhode Islanders who are injured, out of work, and waiting for justice deserve access to lawful, transparent, non-recourse financial support.

For these reasons, we respectfully urge the Committee to oppose HB 7751 or to work with stakeholders to develop legislation that protects consumers without eliminating a critical financial tool.

Thank you for your consideration.

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