

## **DEPARTMENT OF LAW**

### **Administrator – Uniform Consumer Credit Code**

#### **CONSUMER LEGAL FUNDING TRANSACTIONS RULES**

##### **4 CCR 902-1**

###### **Rule 19. Legal Funding Deferral Charges for Consumer Legal Funding Transactions**

A Legal Funding Deferral Charge for a Consumer Legal Funding Transaction imposed by a creditor pursuant to this rule shall be contracted for and may only be received if the creditor complies fully with this rule. Failure to comply with all provisions of this rule shall mean that the Legal Funding Deferral Charge is not permitted under the UCCC, and the Legal Funding Deferral Charge is not a permitted deferral charge pursuant to C.R.S. § 5-1-301(20)(b) and C.R.S. § 5-2-204(6).

###### **(a) Definitions.**

1. "Advertise" means the attempt by publication, dissemination, solicitation, or circulation, visual, oral, or written, to induce directly or indirectly any person to enter into any Consumer Legal Funding Transaction.
2. "Associated Legal Claim" means a bona fide civil claim or cause of action the potential proceeds of which are the subject of a Consumer Legal Funding Transaction.
3. "Consumer Legal Funding Transaction" means a nonrecourse consumer credit transaction as defined in C.R.S. § 5-1-301(12) contracted for in a written agreement between the creditor and consumer structured as an interest-bearing loan with monthly periodic payments that the creditor must collect from the potential proceeds, if any, resulting from the settlement or judgment of the consumer's Associated Legal Claim.
4. "Deferral" means the deferral of any periodic payment to a single installment owed at the end of the loan term if the consumer does not pay on the originally scheduled due date.
5. "Legal Funding Deferral Charge" means a charge for a Deferral that a creditor may assess to a consumer with a Consumer Legal Funding Transaction in accordance with this rule.
6. "Total Cost of Credit" means the original finance charge, any additional finance charge resulting from the Deferral(s), and the Legal Funding Deferral Charge(s).

###### **(b) Scope.**

1. This rule applies to creditors who enter into Consumer Legal Funding Transactions with consumers and charge consumers the Legal Funding Deferral Charge(s).

###### **(c) Process.**

1. Creditors may allow consumers to voluntarily elect to make the Deferral(s) of periodic payments such that a Consumer Legal Funding Transaction has no periodic payments on or before the commencement date of the Consumer Legal Funding Transaction in exchange for a Legal Funding Deferral Charge. The creditor must obtain an acknowledgement from the consumer that the consumer has elected to make the Deferral.
2. If a consumer elects to make the Deferral(s), in addition to the disclosures required under C.R.S. § 5-3-101 reflecting the original cost of the credit for the Consumer Legal Funding Transaction structured with periodic payments, the creditor must make, at the time of the election, the following separate disclosure reflecting the additional costs resulting from the Deferral(s) ("Additional Disclosure"). The Additional Disclosure must state the amount financed, the APR corresponding to the finance charge, the Total Cost of Credit, the total of payments, and the payment schedule reflecting a single installment owed at the end of the loan term. The Total Cost of Credit must be itemized listing the original finance charge, any additional finance charge resulting from the Deferral(s), and the total of the Legal Funding Deferral Charge(s), and also disclosed as a lump sum.
3. The consumer must acknowledge receipt of the Additional Disclosure.

**(d) Legal Funding Deferral Charge**

1. For Consumer Legal Funding Transactions, if contracted for by the consumer, creditors may charge the consumer Legal Funding Deferral Charge(s). The Legal Funding Deferral Charge shall only be earned after a Deferral when a periodic payment is not paid by the consumer on the originally scheduled due date. The Legal Funding Deferral Charge is not earned at the time of election.
2. The creditor may charge a Legal Funding Deferral Charge equal to \$15.
3. The Legal Funding Deferral Charge may only be repaid from the potential proceeds, if any, resulting from the settlement or judgment of the consumer's Associated Legal Claim.
4. Creditors may not charge interest on the Legal Funding Deferral Charge(s).

**(e) Refinance.**

1. If the term of the Consumer Legal Funding Transaction reaches maturity and the Associated Legal Claim has not concluded, the creditor shall offer the consumer the option to refinance the Consumer Legal Funding Transaction. If the consumer elects to refinance, the creditor must fully comply with this rule, including by issuing a new Additional Disclosure.

**(f) Prepayment.**

1. The consumer may prepay the Consumer Legal Funding Transaction, in full or in part, either from the proceeds of the Associated Legal Claim or otherwise, at any time without penalty.

**(g) Prohibited Acts.**

1. A creditor that enters into a Consumer Legal Funding Transaction with a consumer shall not:
  - i. pay or offer to pay a commission, referral fee, rebate, or other form of consideration to any attorney, law firm, medical provider, chiropractor, or physical therapist or to any employee thereof, in exchange for referring a consumer to the creditor;
  - ii. accept a commission, referral fee, rebate, or other form of consideration from any attorney, law firm, medical provider, chiropractor, or physical therapist or to any employee thereof;
  - iii. advertise materially false or misleading information regarding the company's products or services;
  - iv. (A) except as provided in subsection (g)(1)(iv)(B) of this section, refer a consumer or a potential consumer to a specific attorney, law firm, medical provider, chiropractor, physical therapist in furtherance of a Consumer Legal Funding Transaction. (B) if a consumer needs legal representation, a creditor may refer the consumer to a local or state bar association referral service.
  - v. fail to supply a copy of the executed contract for the Consumer Legal Funding Transaction to the consumer's attorney for the Associated Legal Claim, the potential proceeds of which are the subject of the Consumer Legal Funding Transaction.
  - vi. (A) except as provided in subsection (g)(1)(vi)(B) of this section, knowingly provide a Consumer Legal Funding Transaction to a consumer who has previously assigned or sold to another creditor a portion of the consumer's right to proceeds from the Associated Legal Claim without first reimbursing the other creditor for its entire funded amount and the Legal Funding Deferral Charge(s), unless another amount is agreed to in writing by the creditors. (B) multiple creditors may be parties to a Consumer Legal Funding Transaction if the consumer and the consumer's attorney consent to the arrangement in writing.
  - vii. make or influence any decisions by the court or by the parties with respect to a pending Associated Legal Claim or any settlement or resolution of an Associated Legal Claim;
  - viii. pay or offer to pay for court costs, filing fees, attorneys' fees, or other court costs related to the litigation, settlement, or resolution of the Associated Legal Claim using fund from the Consumer Legal Funding Transaction;
  - ix. report a consumer to a credit reporting agency if insufficient funds remain from the net proceeds from the Associated Legal Claim to repay the creditor; or
  - x. collect any prepaid finance charges;
  - xi. charge any fees in addition to the Legal Funding Deferral Charge(s), including but not limited to late fees or insufficient funds fees.