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**AB-931 State Bar Act: consumer legal funding.** (2025-2026)

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**Assembly Bill No. 931**

**CHAPTER 565**

An act to amend, renumber, add, and repeal Section 6156 of, and to add Article 17 (commencing with Section 6250) to Chapter 4 of Division 3 of, the Business and Professions Code, relating to attorneys.

[ Approved by Governor October 10, 2025. Filed with Secretary of State October 10, 2025. ]

**LEGISLATIVE COUNSEL'S DIGEST**

AB 931, Kalra. State Bar Act: consumer legal funding.

Existing law, the State Bar Act, provides for the licensure and regulation of attorneys by the State Bar of California, a public corporation. The act prohibits an attorney from accepting a client from a referral service, unless it is a certified lawyer referral service or specified conditions are met, and makes a violation of that prohibition subject to a civil penalty. The act additionally imposes various restrictions on contracts for legal services and specified fee agreements, including that the contract or agreement be in writing and that the basis of compensation is expressly included.

This bill, for purposes of the State Bar Act, would define consumer legal funding to mean a transaction in which a consumer legal funding company, as defined, purchases and a consumer assigns to the company a contingent right to receive an amount of the potential proceeds of a settlement, judgment, award, or verdict obtained in the consumer's legal claim. The bill would require a consumer legal funding transaction to be in writing and contain specified provisions, including that the contract contain the amount to be paid to the consumer by the consumer legal funding company upon the completion of litigation and an itemization of any one-time charges. The bill would require, for a consumer legal funding contract negotiated in a language other than English, that the consumer receive a copy of the contract in both English and that language. The bill would prohibit those charges from exceeding 36 months from the funding date. The bill would prohibit a consumer legal funding company from paying commissions, referral fees, or other forms of consideration to an attorney or law firm, or their employees, for referring a consumer to the company, among other things, and would impose various penalties, including statutory damages, set as prescribed, for violation of those prohibitions. The bill would additionally state that the contingent right to receive an amount of the potential proceeds of a legal claim is assignable by a consumer.

This bill would prohibit an attorney from, among other things, promising or giving anything of value to a person for the purpose of recommending or securing the services of the attorney or the attorney's law firm, except as provided. The bill would additionally, until January 1, 2030, prohibit an attorney licensed or otherwise authorized to practice in the state from sharing legal fees directly or indirectly with an out-of-state entity that provides legal services while allowing nonlawyer ownership or decisionmaking authority, except as specified. The bill would specify that the above-described prohibition of the sharing of legal fees only applies to contracts entered into on or after January 1, 2026. The bill would make a violation of that prohibition of the sharing of legal fees cause for the imposition of discipline by the State Bar of California and would subject a violator to specified penalties.

Vote: majority Appropriation: no Fiscal Committee: no Local Program: no

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

**SECTION 1.** Section 6156 of the Business and Professions Code is amended and renumbered to read:

**6155.1.** (a) Any individual, partnership, association, corporation, or other entity, including, but not limited to, any person or entity having an ownership interest in a lawyer referral service, that engages, has engaged, or proposes to engage in violations of Section 6155, shall be liable for a civil penalty as defined in Sections 17206, 17206.1, and 17536, respectively, which shall be assessed and recovered in a civil action brought:

(1) In the manner specified in subdivision (a) of Section 17206 or Section 17536.

(2) By the State Bar of California.

(b) If the action is brought pursuant to subdivision (a), the court shall determine the reasonable expenses, if any, incurred by the State Bar in its investigation and prosecution of the action. In these cases, before any penalty collected is paid out pursuant to subdivision (b) of Section 17206 or Section 17536, the amount of the reasonable expenses incurred by the State Bar shall be paid to the State Bar and shall be deposited and used as provided in subdivision (c).

(c) If the action is brought pursuant to paragraph (2) of subdivision (a), the civil penalty shall be paid to the State Bar and shall be deposited into a special fund to be used first for the investigation and prosecution of other such cases by the State Bar, with any excess to be used for the investigation and prosecution of attorney discipline cases.

**SEC. 2.** Section 6156 is added to the Business and Professions Code, to read:

**6156.** (a) No attorney licensed or otherwise authorized to practice in this state shall share legal fees directly or indirectly with an out-of-state alternative business structure unless all of the following apply:

(1) The attorney is also licensed in the state in which the alternative business structure is approved.

(2) The fees are compensation for the provision of legal services in that state.

(3) The law of that state is controlling pursuant to Rule 8.5 of the California Rules of Professional Conduct or any successor rule.

(b) A violation of this section shall constitute cause for the imposition of discipline by the State Bar of California and shall subject the attorney to the following penalties:

(1) Statutory damages of ten thousand dollars (\$10,000) per violation or three times the actual damages incurred by the consumer, whichever is greater.

(2) Attorney's costs and fees.

(3) Injunctive or declaratory relief.

(c) (1) For the purposes of this section, "alternative business structure" means any entity that provides legal services while allowing nonattorney ownership or decisionmaking authority.

(2) For the purposes of this section, "alternative business structure" does not include nonprofit organizations.

(d) This section shall not apply to any arrangement for the sharing of legal fees if both of the following conditions are satisfied:

(1) The arrangement for the sharing of legal fees was ordered or approved by a court or tribunal of competent jurisdiction, including, but not limited to, the establishment or distribution of a common benefit fund in coordinated, consolidated, or multidistrict litigation.

(2) The manner in which the legal fees are to be allocated is subject to judicial or tribunal oversight and determined to be fair, reasonable, and necessary for the administration of justice.

(e) This section shall not apply to a contract in which all of the following are satisfied:

(1) The contract outlines a specific dollar amount for services rendered.

(2) No payment is related to the referral of legal services or purchase of a lead for a potential client or case.

(3) No payment is contingent on the amount recovered in a specific case.

(f) Nothing in this section shall be construed as superseding the holding in *Ridgley v. Lew* 55 F. Supp. 3d 89 (2014).

(g) This section shall only apply to contracts entered into on or after January 1, 2026.

(h) This section shall remain in effect only until January 1, 2030, and as of that date is repealed.

**SEC. 3.** Article 17 (commencing with Section 6250) is added to Chapter 4 of Division 3 of the Business and Professions Code, to read:

**Article 17. The California Consumer Legal Funding Act**

**6250.** (a) "Charges" means the amount of money to be paid to the consumer legal funding company by or on behalf of the consumer, above the funded amount provided by or on behalf of the company to a California consumer pursuant to this article. Charges include all administrative, origination, underwriting, or other fees, including interest, no matter how denominated. Those charges shall not exceed 36 months from the funding date.

(b) "Consumer" means a natural person who has a pending legal claim and who resides or is domiciled in California.

(c) "Consumer legal funding" means a nonrecourse transaction in which a consumer legal funding company purchases and a consumer assigns to the company a contingent right to receive an amount of the potential proceeds of a settlement, judgment, award, or verdict obtained in the consumer's legal claim.

(d) "Consumer legal funding company" means a person or entity that enters into a consumer legal funding contract with a consumer. A consumer legal company shall not include any of the following:

(1) An immediate family member of the consumer.

(2) A bank, lender, or other special purpose entity that is engaged in either of the following:

(A) Provides financing to a consumer legal funding company.

(B) Receives a security interest or transfer of rights from a consumer legal funding company.

(3) An attorney or accountant who provides services to a consumer.

(e) "Funded amount" means the amount of moneys provided to, or on behalf of, the consumer through a transaction meeting the definition of consumer legal funding.

(f) "Funding date" means the date on which the funded amount is transferred to the consumer by the consumer legal funding company either by personal delivery, wire, automated clearing house, or other electronic means, or mailed by insured, certified, or registered United States mail.

(g) "Immediate family member" means a parent, sibling, child by blood, adoption, or marriage, spouse, domestic partner, cohabitant, stepchild, immediate in-law, aunt, uncle, first cousin, grandparent, or grandchild.

(h) "Legal claim" means a bona fide civil claim or cause of action.

(i) "Resolution date" means the date the funded amount, plus the agreed upon charges, are delivered to the consumer legal funding company by the consumer or the consumer's attorney.

(j) Nothing in this article shall apply to support legal services rendered to an attorney regarding the legal claim.

**6251.** (a) (1) All consumer legal funding transactions shall be codified in a written contract.

(2) If the consumer legal funding contract was negotiated in a language other than English, the consumer shall be provided a copy of the contract in both English and the language in which the contract was negotiated.

(b) All contracts codifying a consumer legal funding transaction shall meet the following requirements:

(1) The contract shall be drafted in plain English such that the average consumer can read and understand the terms of the contract without having to obtain the assistance of a professional.

(2) All contract terms shall be contained in the agreement when first presented to the consumer.

(3) The contract shall contain a right of rescission allowing the consumer to cancel the contract without penalty or further obligation if, within five business days after the funding date, the consumer returns all funds disbursed by the consumer legal funding company.

(4) The contract requires the consumer to initial receipt of every page of the agreement.

(5) The contract contains a statement that there shall be no fees or charges to be paid by the consumer other than what is disclosed in the contract.

(6) The contract contains a statement of the maximum amount the consumer may be obligated to pay under the contract other than in a case of material breach, fraud, or misrepresentation by or on behalf of the consumer.

(7) The contract contains a clear statement of how charges, including any applicable fees, are incurred or accrued.

(c) The contract shall contain a written acknowledgement by an attorney retained by the consumer attesting to the following:

(1) The attorney has reviewed the disclosures specified in Section 6252 with the consumer.

(2) The attorney is being compensated on a contingency basis pursuant to a written agreement.

(3) All proceeds of the legal claim will be disbursed through the attorney's client trust account or a separate settlement fund established to receive the proceeds of the legal claim on behalf of the consumer.

(4) The attorney agrees to disburse funds from the legal claim in accordance with the contract and take any steps necessary to ensure that the terms of the litigation funding contract are fulfilled.

(5) A statement that the attorney has not received a referral fee or other consideration from the consumer legal funding company in connection with the contract and that the attorney will not receive future fees or consideration from the legal funding company.

(d) The absence of the acknowledgement required by subdivision (c) shall render the consumer legal funding transaction and associated contract null and void.

(e) Notwithstanding subdivision (d), a contract for a consumer legal funding transaction shall remain valid and enforceable in the event the consumer terminates the attorney who made the attestation required pursuant to subdivision (c).

(f) Notwithstanding any other law, a provision of the contract for a consumer legal funding transaction shall not impose a prepayment penalty on a consumer.

**6252.** (a) All contracts for a consumer legal funding transaction shall disclose material terms to the consumer, including, but not limited to, all of the following:

(1) Clear and conspicuous language, on the first page of the contract, detailing all of the following:

(A) The funded amount to be paid to the consumer by the consumer legal funding company upon the completion of litigation.

(B) An itemization of any one-time charges.

(C) The maximum total amount to be assigned by the consumer to the consumer litigation funding company, including the funded amount and all charges.

(D) A repayment schedule, including the dates in which all payments are due to the consumer litigation funding company.

(2) A disclosure stating, "Consumer's right to cancellation: You may cancel this contract without penalty or further obligation within five business days after the funding date if you return to the consumer legal funding company the full amount of the disbursed funds."

(3) (A) A disclosure stating that the consumer legal funding company shall have no role in deciding whether, when, or for what dollar amount a legal claim may be settled.

(B) Notwithstanding subparagraph (A), the consumer legal funding company may seek updated information about the status of the legal claim.

(b) All contracts for a consumer legal funding transaction shall require the consumer or the consumer's attorney to notify the consumer legal funding company of the outcome of the legal claim, including, but not limited to, all settlements, verdicts, or other means of dispute resolution.

**6253.** The contracted amount to be paid to the consumer legal funding company shall be a predetermined amount based upon intervals of time from the funding date through the resolution date, and shall not be determined as a percentage of the recovery

from the legal claim.

**6254.** (a) A consumer legal funding company shall be prohibited from doing any of the following:

(1) Paying or offering to pay commissions, referral fees, or other forms of consideration to any attorney, law firm, or any of their employees for referring a consumer to the company.

(2) Accepting any commissions, referral fees, rebates, or other forms of consideration from an attorney, law firm, or any of their employees.

(3) Intentionally providing a consumer materially false or misleading information regarding its products or services.

(4) (A) Referring, in furtherance of legal funding, a customer or potential customer to a specific attorney, law firm, or any of their employees.

(B) Nothing in subparagraph (A) shall prevent a consumer legal funding company from referring a consumer to a publicly available attorney referral service operated by a local bar association of the State Bar of California.

(5) Providing funding to a consumer who has previously assigned or sold portions of the consumer's right to proceeds from the consumer's legal claim without first making payment to satisfy that assignment if the consumer legal funding company knew or should have known that the consumer had assigned or sold a portion of their rights to the proceeds of the consumer's legal claim.

(6) Receiving any right to, or making, any decisions with respect to the conduct of the underlying legal claim or any settlement or resolution thereof.

(7) Attempting to obtain a waiver of any remedy or right by the consumer, including, but not limited to, the right to trial by jury.

(8) Paying or offering to pay for court costs, filing fees, or attorney's fees either during or after the resolution of the legal claim, using funds from the consumer legal funding transaction.

(9) Offering consumer legal funding on the condition that a consumer that is represented by counsel terminate that representation and adopt counsel recommended by the consumer legal funding company.

(10) Knowingly assisting a lawyer or law firm that is enticing or intends to entice a consumer to bring a claim that the company knows or has reason to know is fabricated or otherwise not brought in good faith.

(b) Any legal funding company that engages in conduct that is prohibited by subdivision (a) shall be liable for all of the following:

(1) Automatic termination of the contract for the consumer legal funding transaction.

(2) Statutory damages not to exceed ten thousand dollars (\$10,000) per violation or three times the actual damages incurred by the consumer, whichever is greater.

(3) Attorney's costs and fees.

(4) Injunctive or declaratory relief.

(c) In assessing the amount of statutory damages to be set pursuant to paragraph (2) of subdivision (b), the court shall consider any one or more of the relevant circumstances presented by any of the parties to the case, including, but not limited to, the nature and seriousness of the misconduct, the number of violations, the persistence of the misconduct, the length of time over which the misconduct occurred, the willfulness of the defendant's misconduct, and the defendant's assets, liabilities, and net worth.

**6255.** The contingent right to receive an amount of the potential proceeds of a legal claim is assignable by a consumer.

**6256.** (a) An attorney, or the attorney's immediate family, retained by a consumer shall not have a financial interest in a consumer legal funding company offering consumer legal funding, and shall not provide consumer legal funding directly to a consumer.

(b) Any attorney who has referred the consumer to the consumer's retained attorney shall not have a financial interest in a consumer legal funding company offering consumer legal funding to that consumer.

(c) An attorney retained by a consumer shall not disclose any privileged information to a legal funding company without the written consent of the consumer. Disclosing information to a legal funding company at the consumer's request shall not otherwise void the attorney-client privilege.

(d) An attorney shall not compensate, promise, or give anything of value to a person for the purpose of recommending or securing the services of the attorney or the attorney's law firm, except that an attorney may do the following:

(1) Pay the reasonable costs of advertisements or communications permitted by Rule 7.2 of the California Rules of Professional Conduct, or any successor rule.

(2) Pay the usual charges of a legal services plan or a qualified attorney referral service operating in accordance with the rules established by the state bar.

(3) Pay for a law practice operating in accordance with Rule 1.17 of the California Rules of Professional Conduct, or any successor rule.

(4) Refer clients to another attorney or a nonlawyer professional pursuant to an arrangement not otherwise prohibited by the California Rules of Professional Conduct or this chapter.

(e) Any attorney who violates this section shall be subject to discipline by the State Bar of California.