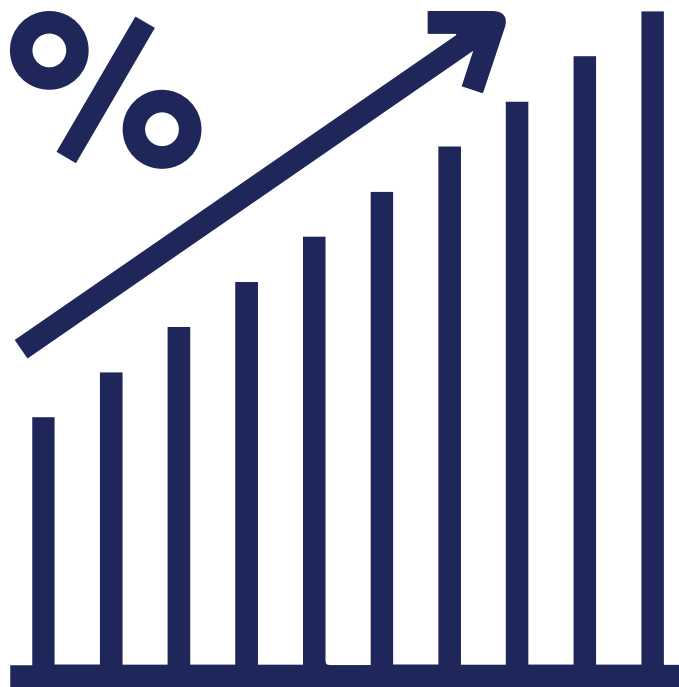


THE DANGERS OF LAWSUIT LOANS



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THE DANGERS OF LAWSUIT LOANS

Just because a plaintiff is likely to win their case doesn't mean that they aren't suffering from financial hardships throughout the process. Medical bills, repairs, and time off from work can all add up and contribute to added stress during the lawsuit process. But lawsuit loans should almost never be the answer. They're unethical, mostly unregulated, and highly predatory in the interest rates charged. Lawsuit loans are predatory advances on the money a plaintiff expects to receive from a lawsuit victory or settlement. Lawsuit lenders target litigants who have a high likeliness of winning their lawsuits or walking away with substantial settlements.



What is a lawsuit loan?

A lawsuit loan is a loan given as an advance to a lawsuit victory or settlement that only needs to be repaid if you win your case or receive a settlement. They charge exorbitant interest rates (borrowers often end up repaying 2-3 times the amount borrowed), and they are relatively unregulated, which leads to deceptive marketing practices and allows for the high interest rates.



What makes lawsuit loans “ethically questionable?”

In the state of Missouri, lawyers cannot take part in no risk (nonrecourse) loans. They risk suspension or disbarment if they agree to repay a nonrecourse loan. This is because lawsuit loans are considered to be champerty—an illegal agreement in which a person with no previous interest in a lawsuit agrees to fund it (partially or in its totality) with an agreement to share the proceeds of the case if the suit is a success.

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Exorbitant interest rates

Though you will never be required to pay back more than the amount you receive in your settlement (or anything, if you lose your case) the interest rates attached to lawsuit loans are astronomical. Since the lender is taking a huge risk by lending money to a plaintiff for whom they have no guarantee will win their case—and thus be required to pay back the loan—they charge astronomical interest rates to offset the potential losses they may incur. Borrowers often end up owing 2-3 times what they initially borrowed due to high, compounding interest rates.

While the risk they incur by providing these loans is real, it's also blown out of proportion, since they are highly selective as to which plaintiffs they will give loans to. Lawsuit lenders often reach out to individuals who are involved with the case to get any inside information about the likeliness of the plaintiff winning. If there is any doubt in the mind that the plaintiff will win, they refuse the loan. This means that the people who would actually benefit from these loans are almost always denied.



Lack of regulation

Lawsuit loans have only been around since the 1980s, and the government hasn't gotten around to fully regulating them yet. This means that lawsuit loans don't have the same consumer protections included with them that other types of loans do, like car loans and mortgages.

There are few restrictions on what lawsuit lenders can charge for their services and the interest rates attached to the loans.

The advertising practices surrounding lawsuit loans are also relatively unregulated. Lawsuit lenders don't have to advertise their interest rates, meaning that consumers cannot shop around for the best rates without speaking to a representative of the lenders and involving themselves in a sales pitch. The lack of regulation also allows for discrepancies in their advertising language, with some lenders referring to their product as a loan, while others call it an advance.

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Other forms of loans

While we understand that some clients may need to take out a loan to get them through the lawsuit process, we implore our clients to not reach out to any of these predatory lenders. Your first recourse should be to attempt to get a loan from a bank or credit company. If you aren't approved for those loans, reach out to your friends, family, and employer before ever considering a lawsuit loan.

At the Pottenger Law Firm, we discourage all our clients from taking out risky or misleading loans. If you were injured in an accident, you should contact a personal injury lawyer to discuss your legal options. At the Pottenger Law Firm, we prepare every case as though it may go to trial. For more information on what to do if you were hurt in an accident, please contact The Pottenger Law Firm at (816) 531-6006, or submit our contact form today for a free consultation.



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