

Consumer Legal Funding Rates, Explained

Consumer legal funding can be a critical lifeline for victims pursuing justice. While rates on these pre-settlement advances may seem high, they are commensurate with the risk associated with this product and the correspondingly high cost of capital.

Case Study: \$5,000 Advance

Below is a breakdown of a \$5,000 advance that is outstanding for six months with a fee rate of 3% per month (36% per year). At the end of the transaction, the **funder only nets \$128 in revenue.**

Funded Amount	- \$5,000
Due At 6 Months At 3% Per Month	\$5,900
Loss (8%)	- \$472
Funder Cost Of Capital For 6 Months At 12% Per Year	- \$300
Net Revenue	\$128

Why Do Cash Advances Have High Rates?

- **Contingent Repayment.** Recipients only have to repay if their case is successful and they receive a payment. Additionally, these cases are subject to the whims and external factors of the judicial and insurance claims processes, rather than victims' creditworthiness.
- **Transactions Are Small And Short-Term.** Most transactions average about \$5,000, and over 50% are resolved in under one year.
- **Higher Risk.** Funders experience a high rate of loss due to failure to recover funds or lower recovery than expected. For ALFA members, it's approximately 8%-10% of each advance.
- **Higher Cost Of Capital.** Because funders access capital through capital markets and institutions, their total cost of funds typically runs between 12%-15% or higher. Unlike banks, they do not lower costs by securitizing advances.

Rate caps that don't account for the unique nature of consumer legal funding threaten access by making it economically impossible for funders to offer advances.