



February 27, 2026

The Honorable Kriselda Valderrama, Chair
The Honorable Lorig Charkoudian, Vice Chair
House Economic Matters Committee
230 Taylor House Office Building
Annapolis, Maryland 21401

Re: Supporting House Bill 1298: Third-Party Litigation Financing – Licensing and Regulation

Dear Chair Valderrama, Vice Chair Charkoudian, and members of the House Economic Matters Committee:

Thank you for the opportunity to submit written testimony in support of House Bill (SB) 1298, a bill concerning the licensing and regulation of third-party litigation financing (TPLF). We especially appreciate the leadership of HB 1298’s sponsor, Delegate Johnson.

I. Background

TPLF is a method of advancing funds to plaintiffs in civil tort litigation in exchange for a percentage of their ultimate monetary award, whether issued via settlement or judgment. In general, TPLF is a vehicle for plaintiffs to borrow money up front from litigation “investors” that are otherwise uninvolved in the underlying lawsuit.¹

Repayment terms often include predatory and compounding interest rates. For that reason, several states cap the interest rates that financiers can collect; some states also cap the total amount that financiers can recover from plaintiffs. Right now, in Maryland, depending on the nature of a TPLF contract, litigation financiers may be repaid, in part or in full, even if a plaintiff loses their underlying case.² HB 1298 would require plaintiffs to repay such loans only on the contingency that they receive compensation in connection with their suit.

Depending on the terms of the TPLF contract, plaintiffs in receipt of third-party funds may be permitted to use their discretion when spending the “borrowed” funds; in other arrangements, the

¹ TPLF financiers may be individuals or commercial enterprises. Frequent “lenders” may opt to spread their “investment risks” across multiple suits, referred to as “portfolio funding.” Financiers may limit plaintiffs’ use of the funds to expenses associated with the suit itself, like lawyers’ fees and/or expert witness fees and expenses. TPLF agreements directing the use of up-front monies to satisfy costs associated with litigation could encourage attorneys to prolong lawsuits because they could do so without absorbing the accompanying expenses.

² This outcome is most often achieved with TPLF agreements that include origination fees, specified breach triggers, diligence costs, or monitoring fees. Financiers whose TPLF agreements include such provisions retain those funds irrespective of the outcome of the suit, subject to the agreement’s other terms and applicable law.

TPLF contract may circumscribe the use of these funds. Absent applicable statutory or contractual restraints on plaintiffs' use of borrowed funds, plaintiffs can use the money as they wish.³

HB 1298 would, among other provisions, require litigation financiers to obtain state licenses, which would be issued pursuant to the Maryland Consumer Loan Law; deem litigation financing as a type of loan; require disclosure of the existence of litigation financing contracts; and require information about litigation financing contracts to be discoverable in civil actions.

The bill, which appropriately emphasizes consumer protection and transparency, is similar to TPLF legislation adopted in other states around the country. Passage of HB 1298 will protect consumers and reduce litigation disputes among parties over TPLF disclosures, particularly because it requires disclosure as a matter of course, without waiting for another party to issue a discovery request.

On behalf of the Allstate Insurance Company enterprise, I urge the members of this Committee to issue a favorable report on HB 1298.

II. Protecting consumers and holding TPLF financiers accountable

By virtue of their greater economic power, TPLF financiers enter into negotiations already at an advantage over the plaintiffs with whom they contract. Financiers' ability to exert leverage over plaintiffs, especially economically disadvantaged plaintiffs, has been unencumbered in Maryland to date. Passage of HB 1298 would protect consumers by limiting TPLF financiers' ability to recover to cases in which plaintiffs are awarded damages.

The bill would also protect consumers by creating a licensing regime for litigation financiers, ensuring a degree of uniformity for consumers interacting with financiers and giving the state tools to demand appropriate behavior from litigation financiers, to punish their misdeeds, and to incentivize good behavior in the future.

Because the Maryland legislature has thus far declined to intervene in their profitable but exploitative behavior, TPLF financiers largely operate unseen, fundamentally unencumbered by legislative prohibitions or regulatory attention. Their goal is generally to maximize the profits they can extract from each financed lawsuit, essentially transforming the judicial system into an unregulated, unmonitored betting market.

Crucially, HB 1298 would also codify and formalize the application of Maryland consumer lending laws to TPLF financiers. This codification is vital because without it, plaintiffs who are overcharged or otherwise improperly treated by a litigation financier cannot routinely seek recourse via Maryland's consumer loan protection laws.

III. Leveling the playing field for parties to litigation

Under current Maryland law, plaintiffs can enter into TPLF agreements without other parties even knowing they exist. This leaves parties outside the TPLF agreement at a disadvantage,

³ Plaintiffs may use the funds they are advanced to pay for their living expenses or costs associated with the litigation itself, for example.

without information about who may be literally invested in the suit and could be influencing its trajectory. Passage of HB 1298 would allow all parties to know the identity of the primary stakeholders to the litigation. Such disclosure is not a special privilege unfairly afforded to only one party. On the contrary, knowing the identities of the primary stakeholders to your litigation is fundamental to the development of a litigation strategy.

Indeed, disclosure of TPLF contracts is particularly important in suits involving more than two parties. Any party not involved in the TPLF arrangement has a vested interest in knowing of its existence. Mandatory disclosure will streamline the whole suit by enabling greater efficiency in both time and money that is magnified with each additional party.

IV. Acknowledging the presence of litigation financiers in Maryland

Several third-party litigation financing companies are active in Maryland. Unfortunately, reliable, specific information on the activities of litigation financiers in Maryland is not available because they are entirely unregulated. While the state legislature has not acted on this issue in the past, at the federal level, the U.S. District Court for the District of Maryland has promulgated a local rule requiring parties to disclose the presence of TPLF during litigation.⁴ In passing HB 1298, Maryland would join a number of states that have already passed TPLF statutes; similar bills are pending in about 20 states this year.

Writ large, the existence of unregulated TPLF financiers prolongs litigation, discourages settlement, and increases both the temporal and the financial costs of lawsuits. Passage of HB 1298 would promote consumer protection and transparency among parties and address some of the problems presently associated with TPLF financiers.

Allstate appreciates the opportunity to provide written comments in support of the bill, and we respectfully urge Committee members to issue a favorable report on HB 1298. Thank you for your time and consideration of this important issue.

Sincerely,



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⁴ See District of Maryland L. R. 103.3(b), available at [LocalRules.pdf](#).