

## Lawsuit Loans: Are the Pros Worth the Cons?

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The lawsuit loan industry is loaning plaintiffs more than \$100 million in the United States each year, but at what price to the injured and their loved ones?

This type of funding is also known as a lawsuit cash advance, lawsuit funding, settlement funding, and pre-settlement funding. No matter what you call it, having the ability to take out a cash advance against a pending settlement has helped thousands of people to cover their costs during the litigation process. That doesn't mean it's without its risks.

Lawsuit loans are typically funded by hedge funds, private investors, or banks that are willing to loan money to plaintiffs with the promise of a hefty return on their investment. Critics of lawsuit loans have pointed out that the legal standards other types of lenders are bound to do not apply to this type of lending, since it is largely unregulated in most states.

The business of lending to plaintiffs arose over the last decade, part of a trend in which banks, hedge funds, and private investors are putting money into other people's lawsuits. But the industry, which now lends plaintiffs more than \$100 million a year, remains unregulated in most states, free to ignore laws that protect people who borrow from most other kinds of lenders.

### Why People Take Out Lawsuit Loans

According to a 2019 survey by [Charles Schwab](#), 59% of Americans are one paycheck away from homelessness. This situation certainly hasn't improved now that the country has been in the grip of a pandemic for the past year. Many people are already struggling to make ends meet, and an accident could quickly put the average person in dire financial straits.

When someone is injured in an accident that was caused by another party's negligence, they may lose their ability to work, either temporarily or permanently. This can quickly push a family that was barely making it over the financial brink and into a never-ending cycle of late notices, collection calls, and eviction notices.

Before there is any discussion about whether or not the pros of a lawsuit are worth the cons, we must consider the fact that this is not solely a theoretical discussion about whether or not certain types of lending are predatory in nature or whether or not there is enough regulation. The pros and cons of

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lawsuit loans must be considered against the real-life financial consequences a particular plaintiff may be facing during their lawsuit before a judgment can be made.

## **The Benefits of Lawsuit Loans**

There are plenty of benefits to taking advantage of pre-settlement funding, especially if you're a plaintiff who is in a financial bind. The biggest of these benefits, of course, is being able to have food in your refrigerator, functioning utilities, and a roof over your head while you're out of work and struggling to recover from an accident. But the benefits go beyond basic survival needs.

Insurance companies often pressure the victims of injury accidents to settle for an unfair amount because they know they are in a bad situation and looking for an immediate solution. They may drag the settlement process out hoping the plaintiff will cave in out of financial necessity. In addition to this, personal injury attorneys may also feel pressured into covering their clients' expenses during the claims process. This can be a tremendous expense.

One of the benefits of lawsuit loans that plaintiffs appreciate most is in some types of funding, such as pre-settlement funding, you will not be required to repay the loans if your case fails to settle or get a court award. This, of course, is only a benefit if you are certain the type of funding you are signing up for does not require repayment. It is critical that any plaintiff clearly understands the terms of the financing before they sign any agreements.

## **The Drawbacks of Lawsuit Loans**

The main disadvantage of lawsuit loans is the cost. While it is true that an attorney may be able to get a much larger settlement if the plaintiff can afford to hang in there throughout negotiations, many accident victims and their families are still shocked when the final bill comes in.

This is only a drawback if you aren't well-informed about what the interest rate will be and what that figure may look like in relation to your estimated settlement. It can also become a drawback if you take a larger lawsuit loan than you need. However, if you only take what is needed and you are realistic about what your settlement will look like after you've paid the interest, settlement funding can keep you afloat during this difficult time.

Another disadvantage of lawsuit loans is the fact that you may not qualify, especially if the lender does not require you to pay the loan back if your case isn't successful. These lenders are taking a huge risk, so in order to qualify for settlement funding your case must be likely to reach a favorable conclusion for the injured party.

## **What Borrowers and Their Attorneys Need to Know**

Lawsuit loans can mean the difference between seeing that justice is done and being further victimized by insurance corporations that put profits before human lives. They can also send a plaintiff into sticker shock and leave them feeling angry if they don't do their homework and understand what they're getting into before they sign on the dotted line.

When you're looking for a lender, whether for yourself or for a client, be sure to choose a lawsuit loan provider who believes in complete transparency throughout the process. If a lender won't work with you on a personal level to make sure you clearly understand the terms of the loan, it's better to

take your business elsewhere.

So, are the pros of lawsuit loans worth the cons? The answer is...it depends on the plaintiff's situation. If you or your client can make it through the lawsuit without accepting funding, it's probably your best option to do so. However, if you're struggling and there's no end in sight, you may find that the drawbacks of settlement funding are well worth the advantages.

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