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LEGAL INDUSTRY LENDING

Legal-Industry Turnaround Expertise Could Unlock a New Class of Lending in Texas

How appraisal, liquidation, and workout infrastructure could turn law firm fee receivables into a bankable asset class

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> *Lenders price every asset class against four things: clarity about what the collateral is, security that the interest in it is perfected and enforceable, visibility into its condition, and predictability about how it converts to cash on default. Legal fee receivables fail on all four today, not because the asset is weak, but because the infrastructure to supply those four pillars has never been built.*

Why Banks Won't Touch Fee Receivables

Conventional banks generally won't accept unearned contingency fees as collateral, and where they do lend, it is typically to individual partners personally rather than against the firm's fee stream. Valuing the receivable means valuing the case portfolio behind it, weighing liability exposure, time-to-resolution, and settlement ranges by case type and venue, with real risk a matter produces nothing. Most banks lack that expertise, and building it for one asset class isn't worth the investment.

Litigation funders have filled the vacuum with non-recourse advances against future fees, often priced at 2 to 3 percent simple interest per month. That's a genuine lifeline for firms that would otherwise self-fund case costs, but it's expensive, structured as an advance rather than a loan, and doesn't scale into the revolving, asset-based credit a healthy business should be able to access.

The Retail Liquidation Parallel

Banks have lent against inventory, receivables, and equipment for a century, but rarely got comfortable doing so alone. They got comfortable because independent appraisers and liquidators emerged to answer one question: if this borrower fails tomorrow, what is the collateral worth in an orderly or forced sale, and how fast can it convert to cash? That predictability function, the kind of work firms like Eaton Hudson already perform in e-commerce liquidation, collateral liquidation, and court-appointed receiverships, is what lets a bank extend credit against an asset class it doesn't itself understand.

Legal collateral has no equivalent infrastructure. There is no standardized, third-party-validated methodology for appraising a fee portfolio, and no established playbook for what happens to active matters if a firm fails. Turnaround and receivership firms already doing related work, legal-industry collateral liquidation, court-appointed receiverships, ABC administration, are among the few positioned to build it, because valuing and monitoring a distressed, illiquid, contingent asset is the same skill set they apply elsewhere.

What the Structure Could Look Like

- Independent fee-portfolio appraisal, refreshed periodically, using case-type-specific loss and timing curves. This supplies clarity.
- A properly characterized and perfected lien on the firm's own contractual fee receivables, filed of record. This supplies security.
- Ongoing monitoring covenants modeled on the borrowing-base certificate process in traditional ABL, subject to confidentiality limits. This supplies visibility.
- A defined wind-down protocol covering active matters, client files, and referral arrangements if the firm fails, so a lender has a credible answer to what it actually recovers. This supplies predictability.

The Texas Framework: Five Walls to Build Around

A lender who tries to solve a bad loan by interfering with a borrower's cases runs into five independent rules. Read correctly, they aren't obstacles. They define where clarity and security are achievable.

What may be pledged

Texas bars a lawyer from taking a proprietary interest in a client's claim; a security interest in the cause of action itself is impermissible. The firm's own contractual fee, however, is an ordinary, freely pledgeable property right, and a Texas court of appeals has enforced exactly that arrangement, upholding a non-lawyer lender's security interest in a firm's contingency-fee receivables against the argument that it violated the disciplinary rules. It is an account under UCC Article 9, not a general intangible or payment intangible, since an account covers a right to payment for services rendered or to be rendered, earned or not, a classification a federal court applying Texas law has confirmed for contingent fee contracts. It should be perfected by UCC-1 filing with the Texas Secretary of State. The rule of thumb: pledge the fee proceeds, never the claim, and never anything that lets the lender steer the case.

Unauthorized practice of law

Texas defines the practice of law broadly enough to reach management of a client matter and any service requiring legal skill or judgment. If a lender pushes for a quick settlement or vetoes strategy, it crosses that line. This is where a specialty legal-advisory firm adds value: its lawyers make every judgment touching a client matter, while the lender monitors only its receivable.

Tortious interference

An attorney-client relationship is a contract, and pushing clients toward a lender-preferred firm can constitute interference even though the engagement is terminable at will. A lender too enmeshed in firm operations also risks being recast as a fiduciary of the firm it is trying to collect from.

The Rule 5.04 wall

Texas prohibits fee-sharing with non-lawyers and bars non-lawyers from holding an interest, an officer or director role, or control over professional judgment in a law practice. A financing arrangement giving the lender a percentage of a contingent recovery or of firm revenue is prohibited fee-sharing regardless of label. Equity, board seats, and management control are all off the table. Repayment of principal and interest is fine; a percentage of the fee is not. Texas courts put it plainly: there is a significant difference between sharing legal fees with a non-lawyer and paying a debt with legal fees, much as a wage earner who pays rent from a paycheck is not sharing wages with the landlord. The risk sits in collecting, not in lending.

Client confidentiality

The duty of confidentiality covers all unprivileged client information acquired through the representation, and applies to third-party funders and monitors. An advisory firm can't simply review the file drawer to value the portfolio; doing so requires informed client consent or a narrowly drawn court order, and disclosure can't exceed what that consent or order allows. Any monitoring regime that ignores this is unworkable, however clean it looks on paper.

What a Workout Looks Like With No Process: Two Cautionary Tales

Girardi Keese is the industry's most complete autopsy of what happens without one. The Los Angeles firm borrowed from four litigation lenders against overlapping collateral, and by 2018 to 2019 was in default on roughly $28 million in funder loans. When funders moved to collect, one lender's principal pushed the firm to install a chief restructuring officer of the lender's choosing, the kind of lender-directed control ethics rules forbid, later used against the lenders by the bankruptcy trustee.

There was no orderly workout. In December 2020, after a federal judge held the firm and its principal in contempt for withholding $2 million in client settlement funds, one lender's counsel told the court that creditors would file involuntary bankruptcy within forty-eight hours, so the judge declined to appoint a receiver. The Chapter 7 petition followed on December 18, 2020, and the firm was defunct within weeks. More than $495 million in claims were filed, and the trustee sued the lenders themselves for unlawful fee-sharing, alleging they were partners-in-fact who breached fiduciary duties. The lesson cuts both ways: the collateral was destroyed before formal tools were used, and the lenders' informal control became the theory of liability against them.

If Girardi shows the danger of a lender reaching for control it doesn't have, a more recent case shows the danger of predatory lending with no lawful structure to channel it. In New York Marine & General Insurance Co. v. Case Cash Funding, filed in the Southern District of New York on June 12, 2026, an insurer alleges a consumer litigation funder turned small advances into vastly larger demands. In one matter, the funder advanced $76,500; when the claimant's lawyer and the mediators agreed $750,000 was fair, the funder refused and asserted a lien of more than $1.4 million, forcing the case to continue purely to chase its own return. The complaint alleges the advances were marketed as “non-recourse” while the funder controlled the claims and blocked settlements everyone else had accepted, the same control the walls above forbid.

The two cases frame the argument. Girardi is a lender reaching for control it may not have; Case Cash is capital entering through predatory side doors because the front door, ordinary, regulated lending, isn't open. The two are different markets, Case Cash involves consumer advances to claimants, not lending to firms, but both stem from the same gap: no mainstream, lawful way to finance legal claims and recover when a deal fails. Build that, and both forms of dysfunction lose their oxygen, the point of making this lending look boring and bank-like.

The Texas Backdrop

Texas has one of the largest plaintiffs' bars in the country and a correspondingly large stock of contingency-fee receivables currently self-funded or financed through high-cost litigation funders. It has no cap on litigation funding returns, and its new commercial financing disclosure law, effective September 2025, requiring sales-based financing providers to register with the Texas Office of Consumer Credit Commissioner by the end of 2026, is pushing the broader alternative-finance industry toward more standardized, transparent structures, which favors a bank-adjacent product over today's opaque advance structures.

This is still a live, unsettled regulatory area. The Texas Supreme Court's rules advisory committee has been examining third-party litigation funding disclosure, echoing a pending federal Litigation Funding Transparency Act and similar bills elsewhere pushing toward disclosure of funding arrangements to opposing parties and courts. Critics argue litigation funding can distort settlement incentives and introduce undisclosed parties with influence over strategy; a fee-portfolio lender needs to be structured and marketed as a passive, disclosed, non-recourse-to-the-client credit facility, clearly distinct from an equity stake in outcomes, with the line drawn carefully and defensibly.

Why It Matters

A true asset-based credit facility priced closer to conventional commercial loan rates would meaningfully undercut the 2 to 3 percent monthly cost of typical litigation funding. The larger effect is on access to justice: firms that currently decline capital-intensive cases, mass torts, multi-year commercial litigation, matters requiring heavy expert and discovery spend, would gain a financing path that doesn't require surrendering a large share of the eventual recovery to a funder. That's a structural change to how plaintiffs' litigation gets financed in Texas, not just a cheaper version of an existing product.

The Larger Stake

Capital is the hidden variable in plaintiffs' practice. When it's scarce, few firms can afford to fight, and the injured client's leverage against a well-funded defendant is thin. When it's abundant and cheap, more firms can carry more matters further, invest in reaching clients who need them, and hold out for the fair result instead of the fast one.

Texas learned early that oil in the ground is worth nothing until someone brings the capital to drill it. The same is true of the Texas legal market: the reserves are proven, billions in meritorious claims and earned but unpaid fees, but inert without the infrastructure to turn them into a working asset. Build it, and firms stop turning away good cases and stop settling strong ones early because payroll is due; they compete for clients against the best-funded advertisers in the state, and they arrive at the Legislature and the appellate courts with resources to match institutional defendants.

The missing piece has never been lender appetite; capital isn't scarce. The missing piece is a trusted, independent party capable of supplying clarity, security, visibility, and predictability where a bank cannot supply them alone. That is the role turnaround, appraisal, and liquidation specialists already play in every other distressed, illiquid asset class. Extending it into legal-industry collateral is less a leap than a natural next step, and the difference between an industry that runs on what it can scrape together and one that runs on what it can raise.

SOURCES

Counsel Financial Services, L.L.C. v. Leibowitz, No. 13-12-00103-CV, 2013 WL 3895331 (Tex. App.—Corpus Christi July 25, 2013, pet. denied) (mem. op.); In re Girardi Keese, No. 2:20-bk-21022-BR (Bankr. C.D. Cal.) (involuntary Chapter 7; Elissa D. Miller, Chapter 7 Trustee); The Recorder/Law.com (Dec. 18, 2020); Bloomberg Law (Dec. 17, 2020 hearing; Nov. 2022 claims totals); ABA Journal (Sept. 2022, trustee suit); New York Marine & General Insurance Co. v. Case Cash Funding, No. 1:26-cv-04812 (S.D.N.Y., filed June 12, 2026).