

SETTLEMENT LOAN CONSIDERATIONS *by BridgePoint Financial*

Key considerations for anyone applying for a litigation settlement loan:

Have other financing options been explored?

Loans against future settlements should only be considered as a last resort once other less expensive alternatives have been exhausted (including family and/or friends, or more traditional lenders such as banks if the required monthly payments can be maintained).

Discuss your situation with your lawyer.

Your lawyer is the best source of information about the status of your claim and any interim financial benefits you may be entitled to. While ultimately the decision to borrow funds against a future settlement is yours alone to make, it is important for your lawyer to understand your financial situation and for you and your lawyer to discuss the pros and cons of your available options.

Determine your true financial needs before applying.

Settlement loans are not intended for discretionary purchases and should only be considered to pay for:

- Necessary basic living expenses (rent, utilities, food, etc.);
- Reasonable and necessary med/rehab, attendant care or other treatment services where insurance coverage is not available;
- Refinancing higher interest debt or to cover minimum monthly debt payments on bank or credit card debt that may be in default;
- Reasonable disbursements for your legal claim if these are not covered under the retainer agreement with your lawyer.

If a settlement loan is required, consider a “staged” loan.

If a loan is to be used to cover ongoing living expenses, a “staged” loan where pre-determined amounts are advanced to the borrower each month may be a good option. Staged loans offer borrowers the peace of mind of a regular source of funds while reducing interest costs (as interest only accrues once funds are advanced). Depending on a borrower’s needs, a combination lump sum/staged loan can be arranged.

Once a decision to pursue a settlement loan has been made, comparison shop for the best terms.

Many borrowers and their lawyers mistakenly assume that the terms offered between different litigation lenders are similar. This is not the case. In fact, the financing costs charged by the main litigation lenders in Canada can range from 20% to 60% per year. Unfortunately, many litigation lenders do not disclose their rates up front and several add an array of fees, charges and rate fluctuations over time which can be very confusing to borrowers wishing to know the true cost of the loans.

The following are suggested questions that borrowers can ask each litigation lender to make a proper “apples to apples” comparison:

- **What interest rate will apply to the loan and will it fluctuate over time?**
- **How often will interest be compounded?**
Loans with more frequent compounding

(i.e. monthly) will accrue much greater interest over time.

- **What fees or other charges aside from interest will I incur?** Will they be deducted from the initial loan proceeds or added to the principal (and hence accrue additional interest). By example, one Canadian litigation lender charges a 20% admin fee - meaning a borrower of \$5,000 will only receive \$4,000 after the fee (but pays interest on the full \$5,000).
- **Is the litigation lender collecting fees or charges on behalf of any other service provider?** Some litigation lenders have active ties to payday lending companies and require borrowers to utilize their services (and pay their high additional fees) in order to access their loan proceeds.
- **Is there a minimum interest period?** This is particularly important for borrowers who expect their settlement imminently.
- For comparison purposes, ask each lender how much in total would be owing on a loan amount at various repayment dates (i.e. 6 months, 1 year, 2 years, 3 years). Ensure this includes any fees as part of the financing cost.

Do not deal with any lender that is unwilling to provide in writing the information requested above.

Finally, ask your lawyer to review with you any loan documentation provided by the lender before you sign!