

March 25, 2025

Chairman Lampton, Vice Chair Craig, Ranking Member Tims and the members of the Insurance Committee.

My name is Brian Garelli, and I am the President and Founder of Preferred Capital Funding. My company is the largest provider of consumer legal funding in your state. I am also a licensed attorney and have practiced law since 1990. When I first started practicing law, I worked at one of the largest defense firms in Chicago and did work for some of the largest insurance companies in the country defending injury claims. At the beginning of my career insurance companies were more reasonable and would give me authority fairly early on in the case to settle for fair amounts and I was able to get a lot of cases wrapped up quickly. However, in the mid to late 90's the insurance industry began to change how it handled claims and began dragging cases out as long as possible with the hope that people would get worn down and settle for Pennies on the dollar due to financial pressures. Prior to insurance companies changing their claims handling practices, the consumer legal funding industry did not exist. And for many years the deny, delay, defend strategy worked and insurance company's profits skyrocketed as most people could not afford to wait many years for a fair offer to settle their claim.

As I saw all these changes happening, I decided to leave my defense career behind and start representing plaintiffs instead. I also decided to launch Preferred Capital in 1998 to level the playing field between multi-billion-dollar insurance companies and ordinary people who were living paycheck to paycheck before an accident and who suddenly could not work due to their injuries. Those folks would start falling behind on their rent, utilities and food bills and often be forced to settle for cents on the dollar because they could not afford to wait many years to get a fair offer. By providing them a relatively small amount of money to cover their living expenses ordinary people could get by until they got their day in court and that would force the insurance company to pay a fair settlement or to have a jury set the amount they would have to pay.

When the insurance industry discovered that companies like mine were leveling the playing field, they went on a full-time campaign to force companies like mine out of business by passing legislation that either prohibited consumer legal funding or that made it not profitable for us to operate by passing ridiculously low-interest rate caps way below those that applied to any other financial product.

Let me explain why the product is not sustainable at the proposed 10% rate in HB 105. Unlike a mortgage which is secured by a piece of property and requires monthly payments, consumer legal funding is a much riskier undertaking. Because we are non-recourse and

only get paid if the case works out, loss rates are often in double digits. In addition, we don't get repaid until the case settles, which often takes many years. Because of the risky nature of our business most companies can't get traditional bank financing to borrow the money we lend. We are forced to borrow in the secondary market where we get charged in the mid to high teens to get our capital. Even for the lucky few like me that can get bank financing for a small piece of what I fund based on pledging all my other assets I currently pay my bank around 9 percent interest as rates have increased the last several years. The rest of the money I borrow in the secondary market costs me between 12-14 percent interest, which is the largest piece of my capital stack. Add on top of that all the other overhead to run my business like rent, paying my employees, marketing costs to get business and losses I need to eat when cases are lost and there is no way a company in my industry could survive with a rate cap even in the low 30 percent range let alone the 10 percent the insurance industry is pushing in this bill.

No other financial product has a rate cap anywhere near that low. I can also tell you from experience that in states that have placed rate caps in the 36-49 percent range on this product it discourages competition as all companies just end up charging the highest amount allowed under the cap. I am forced to be much more competitive on what I charge in states that have no rate cap as the free market sets the rate.

I also understand there have been questions about what consumers do with the funds we advance them. At my company we require the consumer to show us what bills they are behind on and we only fund them what they need to make ends meet. We also often pay the larger expenses like rent directly to their landlord. We won't advance funds for things like vacations or non-necessities. We are just trying to give folks a fair chance to obtain justice for their injuries which were no fault of their own.

In the almost 20 years I've been operating in Ohio I have not had one consumer complaint. In that time, I've helped thousands of hard-working Ohioans get fair compensation for their injuries. The only people complaining about my industry are the insurance companies that want desperate people so they can be forced to settle for way below their claims value.

Thank you for your time today.

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