



## Legal Note – Equity Stripping

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Non-liquid assets, such as real estate, are highly vulnerable to creditor claims. Such assets cannot be easily converted to statutorily protected assets or moved beyond the reach of creditors. Moreover, the title transfer of real property offshore to avoid local court jurisdiction is likely to be ignored or compromise a good faith attempt to retain the property.

As certain real estate may not practically be held in a protective entity, a simple protective strategy known as “equity stripping” may be implemented, to deplete the property of value exposed to creditors. To implement the strategy, the property owner borrows money, the repayment of which is secured by the creditor’s lien on the property. The borrowed money is then invested in a statutorily protected asset such as whole life insurance, an annuity or the owner’s homestead.

Many of our clients are receptive to equity stripping because it both (i) protects otherwise exposed property value and (ii) permits the productive investment of otherwise stagnant equity. Care must, however, be taken to ensure that the value transferred to a protected asset does not eliminate the borrower’s ability to make payments on the loan. Although often ignored, the issue becomes prevalent during collection litigation which may limit access to other cash reserves.

If interested in the concept of equity stripping, the client should consult an attorney.