

D R A F T

FOR DISCUSSION ONLY

UNIFORM VOIDABLE TRANSACTIONS ACT

(Formerly Uniform Fraudulent Transfer Act)

(As Amended in 2014)

2014 AMENDMENTS ARE INDICATED BY UNDERScore AND STRIKEOUT

NATIONAL CONFERENCE OF COMMISSIONERS

ON UNIFORM STATE LAWS

April 2014 Draft

With Prefatory Notes and Official Comments

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By

NATIONAL CONFERENCE OF COMMISSIONERS
ON UNIFORM STATE LAWS

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April 9, 2014

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TRANSACTIONS ACT (FORMERLY UNIFORM FRAUDULENT TRANSFER ACT)**

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~~**UNIFORM FRAUDULENT TRANSFER ACT**~~
~~**UNIFORM VOIDABLE TRANSACTIONS ACT**~~

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1 **UNIFORM FRAUDULENT TRANSFER ACT**
2 **UNIFORM VOIDABLE TRANSACTIONS ACT**
3 *(Formerly Uniform Fraudulent Transfer Act)*
4

5 **PREFATORY NOTE (1984)**
6

7 *Note (2014): The following version of the 1984 Prefatory Note was edited in connection with the*
8 *2014 amendments to the Act and differs slightly from the original. It continues to speak to the*
9 *Act as originally promulgated in 1984, but references to sections of the Act and its comments*
10 *have been updated to the 2014 numbering.*
11

12 The Uniform Fraudulent Conveyance Act was promulgated by the National Conference
13 of Commissioners on Uniform State Laws in 1918. ~~The Act~~ As of 1984 it has been adopted in
14 25 jurisdictions, including the Virgin Islands. It has also been adopted in the sections of the
15 Bankruptcy Act of 1938 and the Bankruptcy Reform Act of 1978 that deal with fraudulent
16 transfers and obligations.
17

18 The Uniform Fraudulent Conveyance Act was a codification of the “better” decisions
19 applying the Statute of 13 Elizabeth. See Analysis of H.R. 12339, 74th Cong., 2d Sess. 213
20 (1936). The English statute was enacted in some form in many states, but, whether or not so
21 enacted, the voidability of fraudulent ~~transfer~~ transfers was part of the law of every American
22 jurisdiction. ~~Since the~~ Because intent to hinder, delay, or defraud creditors is seldom susceptible
23 of direct proof, courts have relied on badges of fraud. The weight given these badges varied
24 greatly from jurisdiction to jurisdiction, and the Conference sought to minimize or eliminate the
25 diversity by providing that proof of certain fact combinations would conclusively establish fraud.
26 In the absence of evidence of the existence of such facts, proof of a fraudulent transfer was to
27 depend on evidence of actual intent. An important reform effected by the Uniform Fraudulent
28 Conveyance Act was the elimination of any requirement that a creditor have obtained a judgment
29 or execution returned unsatisfied before bringing an action to avoid a transfer as fraudulent. See
30 *American Surety Co. v. Conner*, 251 N.Y. 1, 166 N.E. 783, 67 A.L.R. 244 (1929) (per C.J.
31 Cardozo).
32

33 The Conference was persuaded in 1979 to appoint a committee to undertake a study of
34 the Uniform Fraudulent Conveyance Act with a view to preparing the draft of a revision. The
35 Conference was influenced by the following considerations:
36

37 (1) The Bankruptcy Reform Act of 1978 has made numerous changes in the
38 section of that Act dealing with fraudulent transfers and obligations, thereby substantially
39 reducing the correspondence of the provisions of the federal bankruptcy law on fraudulent
40 transfers with the Uniform Fraudulent Conveyance Act.
41

42 (2) The Committee on Corporate Laws of the Section of Corporations, Banking
43 & Business Law of the American Bar Association, engaged in revising the Model
44 Corporation Act, suggested that the Conference review provisions of the Uniform Fraudulent
45 Conveyance Act with a view to determining whether the Acts are consistent in respect to the
46 treatment of dividend distributions.

1 (3) The Uniform Commercial Code, enacted at least in part by all 50 states, had
2 substantially modified related rules of law regulating transfers of personal property, notably
3 by facilitating the making and perfection of security transfers against attack by unsecured
4 creditors.

5
6 (4) Debtors and trustees in a number of cases have avoided foreclosure of
7 security interests by invoking the fraudulent transfer section of the Bankruptcy Reform Act.

8
9 (5) The Model Rules of Professional Conduct, adopted by the House of Delegates
10 of the American Bar Association on August 2, 1983, forbid a lawyer to counsel or to assist a
11 client in conduct that the lawyer knows is fraudulent.

12
13 The Drafting Committee appointed by the Conference held its first meeting in January of
14 1983. A first reading of a draft of the revision of the Uniform Fraudulent Conveyance Act was
15 had at the Conference's meeting in Boca Raton, Florida, on July 27, 1983. The Committee held
16 four meetings in addition to a meeting held in connection with the Conference meeting in Boca
17 Raton. Meetings were also attended by the following representatives of interested organizations:

18
19 Robert Rosenberg, Esq., of the American Bar Association;

20
21 Richard Cherin, Esq., of the Commercial Financial Services Committee of the
22 Corporation, Banking and Business Law Section of the American Bar Association;

23
24 Robert Zinman, Esq., of the American College of Real Estate Lawyers;

25
26 H. Bruce Bernstein, Esq., of the National Commercial Finance Association; and

27
28 Ernest E. Specks, Esq., of the Real Property, Probate and Trust Law Section of
29 the American Bar Association.

30
31 The Committee determined to ~~rename the Act~~ name the new Act the Uniform Fraudulent
32 Transfer Act in recognition of its applicability to transfers of personal property as well as real
33 property, "conveyance" having a connotation restricting it to a transfer of ~~personal~~ real property.
34 As noted in Comment ~~(2)~~ accompanying § 1 and Comment ~~(8)~~ 9 accompanying § 4,
35 however, ~~this~~ the new Act, like the ~~original~~ Uniform Fraudulent Conveyance Act, does not
36 purport to cover the whole law of voidable transfers and obligations. The limited scope of the
37 ~~original~~ Uniform Fraudulent Conveyance Act did not impair its effectiveness in achieving
38 uniformity in the areas covered. See McLaughlin, *Application of the Uniform Fraudulent*
39 *Conveyance Act*, 46 Harv.L.Rev. 404, 405 (1933).

40
41 The basic structure and approach of the Uniform Fraudulent Conveyance Act are
42 preserved in the Uniform Fraudulent Transfer Act. There are two sections in the new Act
43 delineating what transfers and obligations are fraudulent. Section 4(a) is an adaptation of three
44 sections of the U.F.C.A.; § 5(a) is an adaptation of another section of the U.F.C.A.; and § 5(b) is
45 new. One section of the U.F.C.A. (§ 8) is not carried forward into the new Act because deemed

1 to be redundant in part and in part susceptible of inequitable application. Both Acts declare a
2 transfer made or an obligation incurred with actual intent to hinder, delay, or defraud creditors to
3 be fraudulent. ~~Both Acts~~ Provisions of the new Act, similar to provisions of the Uniform
4 Fraudulent Conveyance Act, render a transfer made or obligation incurred without adequate
5 consideration to be constructively fraudulent—*i.e.*, without regard to the actual intent of the
6 ~~parties~~ debtor—under one of the following conditions:
7

8 (1) the debtor was left by the transfer or obligation with unreasonably small assets
9 for a transaction or ~~the~~ business in which he the debtor was engaged or was about to engage;

10 (2) the debtor intended to incur, or believed or reasonably should have believed
11 that he the debtor would incur, more debts than he the debtor would be able to pay as they
12 become due; or
13

14 (3) the debtor was insolvent at the time or as a result of the transfer or obligation.
15
16

17 As under the ~~original~~ Uniform Fraudulent Conveyance Act, a transfer or obligation that is
18 constructively fraudulent because insolvency concurs with or follows failure to receive adequate
19 consideration (clause (3) above) is voidable only by a creditor in existence at the time the
20 transfer occurs or the obligation is incurred. Either an existing or subsequent creditor may avoid
21 a transfer or obligation for inadequate consideration when accompanied by ~~the financial~~
22 condition specified in § 4(a)(2)(i) or the mental state specified in § 4(a)(2)(ii) a condition
23 referred to in clause (1) or (2) above.
24

25 Reasonably equivalent value is required in order to constitute adequate consideration
26 under the ~~revised~~ new Act. The ~~revision~~ new Act follows the Bankruptcy Code in eliminating
27 good faith on the part of the transferee or obligee as an issue in the determination of whether
28 adequate consideration is given by a transferee or obligee. The new Act, like the Bankruptcy Act
29 Code, allows the transferee or obligee to show good faith in defense after a creditor establishes
30 that a fraudulent transfer has been made or a fraudulent obligation has been incurred. Thus a
31 showing by a defendant that a reasonable equivalent has been given in good faith for a transfer or
32 obligation is a complete defense although the debtor is shown to have intended to hinder, delay,
33 or defraud creditors.
34

35 A good-faith transferee or obligee ~~who~~ that has given less than a reasonable equivalent is
36 nevertheless allowed a reduction in liability to the extent of the value given. The new Act, like
37 the Bankruptcy Code, eliminates the provision of the Uniform Fraudulent Conveyance Act that
38 enables a creditor to attack a security transfer on the ground that the value of the property
39 transferred is disproportionate to the debt secured. The premise of the new Act is that the value
40 of the interest transferred for security is measured by and thus corresponds exactly to the debt
41 secured. Foreclosure of a debtor's interest by a regularly conducted, noncollusive sale on default
42 under a mortgage or other security agreement may not be avoided under the new Act as a
43 transfer for less than a reasonably equivalent value.
44

45 The definition of insolvency under the new Act is adapted from the definition of the term
46 in the Bankruptcy Code. Insolvency is presumed from proof of a failure generally to pay debts

1 as they become due.

2
3 The new Act adds a new category of fraudulent transfer, namely, a preferential transfer
4 by an insolvent ~~insider debtor~~ to a creditor ~~who had~~ that is an insider of the debtor and that has
5 reasonable cause to believe the debtor to be insolvent. An insider is defined in much the same
6 way as in the Bankruptcy Code and includes a relative, also defined as in the Bankruptcy Code, a
7 director or officer of a corporate debtor, a general partner, or a person in control of a debtor.
8 This provision is available only to an existing creditor. Its premise is that an insolvent debtor is
9 obliged to pay debts to creditors not related to ~~him the debtor~~ before paying ~~those who are~~
10 insiders that have reason to know of the debtor's financial distress.

11
12 The new Act omits any provision directed particularly at transfers or obligations of
13 insolvent partnership debtors. Under § 8 of the Uniform Fraudulent Conveyance Act any
14 transfer made or obligation incurred by an insolvent partnership to a partner is fraudulent without
15 regard to intent or adequacy of consideration. So categorical a condemnation of a partnership
16 transaction with a partner may unfairly prejudice the interests of a partner's separate creditors.
17 The new Act also omits as redundant a provision in the ~~original~~ Uniform Fraudulent Conveyance
18 Act that makes fraudulent a transfer made or obligation incurred by an insolvent partnership for
19 less than a fair consideration to the partnership.

20
21 Section 7 lists the remedies available to creditors under the new Act. It eliminates as
22 unnecessary and confusing a differentiation made in the ~~original~~ Uniform Fraudulent
23 Conveyance Act between the remedies available to holders of matured claims and those holding
24 unmatured claims. Since promulgation of the Uniform Fraudulent Conveyance Act the Supreme
25 Court has imposed restrictions on the availability and use of prejudgment remedies. As a result
26 many states have amended their statutes and rules applicable to such remedies, and it is
27 frequently unclear whether a state's procedures include a prejudgment remedy against a
28 fraudulent transfer or obligation. A bracketed paragraph is included in ~~Section~~ § 7 for adoption
29 by those states that elect to make such a remedy available.

30
31 Section 8 prescribes the measure of liability of a transferee or obligee under the new Act
32 and enumerates defenses. Defenses against avoidance of a preferential transfer to an insider
33 under § 5(b) include an adaptation of defenses available under § 547(c)(2) and (4) of the
34 Bankruptcy Code when such a transfer is sought to be avoided as a preference by the trustee in
35 bankruptcy. In addition, a preferential transfer may be justified when shown to be made
36 pursuant to a good-faith effort to stave off forced liquidation and rehabilitate the debtor.
37 Section 8 also precludes avoidance, as a constructively fraudulent transfer, of the termination of
38 a lease on default or the enforcement of a security interest in compliance with Article 9 of the
39 Uniform Commercial Code.

40
41 The new Act includes a new section specifying when a transfer is made or an obligation
42 is incurred. The section specifying the time when a transfer occurs is adapted from ~~Section~~
43 § 548(d) of the Bankruptcy Code. Its premise is that if the law prescribes a mode for making the
44 transfer a matter of public record or notice, it is not deemed to be made for any purpose under the
45 new Act until it has become such a matter of record or notice.

1 The new Act also includes a statute of limitations that bars the right rather than the
2 remedy on expiration of the statutory periods prescribed. The law governing limitations on
3 actions to avoid fraudulent transfers among the states is unclear and full of diversity. The new
4 Act recognizes that laches and estoppel may operate to preclude a particular creditor from
5 pursuing a remedy against a fraudulent transfer or obligation even though the statutory period of
6 limitations has not run.

7
8 **PREFATORY NOTE (2014)**
9

10 In 2014 the Uniform Law Commission approved a set of amendments to the Uniform
11 Fraudulent Transfer Act. The amendments changed the title of the Act to the Uniform Voidable
12 Transactions Act. The amendment project was instituted to address a small number of narrowly-
13 defined issues, and was not a comprehensive revision. The principal features of the amendments
14 are listed below. Further explanation of provisions added or revised by the amendments may be
15 found in the comments to those provisions.

16
17 *Choice of Law.* The amendments add a new § 10, which sets forth a choice of law rule
18 for claims of the nature governed by the Act.

19
20 *Evidentiary Matters.* New §§ 4(c), 5(c), 8(g), and 8(h) add uniform rules allocating the
21 burden of proof and defining the standard of proof with respect to claims and defenses under the
22 Act. Language in the former comments to § 2 relating to the presumption of insolvency created
23 by § 2(b) has been moved to the text of that provision, the better to assure its uniform
24 application.

25
26 *Deletion of the Special Definition of “Insolvency” for Partnerships.* Section 2(c) of the
27 Act as originally written set forth a special definition of “insolvency” applicable to partnerships.
28 The amendments delete original § 2(c), with the result that the general definition of “insolvency”
29 in § 2(a) now applies to partnerships. One reason for this change is that original § 2(c) gave a
30 partnership full credit for the net worth of each of its general partners. That makes sense only if
31 each general partner is liable for all debts of the partnership, but such is not necessarily the case
32 under modern partnership statutes. A more fundamental reason is that the general definition of
33 “insolvency” in § 2(a) does not credit a non-partnership debtor with any part of the net worth of
34 its guarantors. To the extent that a general partner is liable for the debts of the partnership, that
35 liability is analogous to that of a guarantor. There is no good reason to define “insolvency”
36 differently for a partnership debtor than for a non-partnership debtor whose debts are guaranteed
37 by contract.

38
39 *Defenses.* The amendments refine in relatively minor respects several provisions relating
40 to defenses available to a transferee or obligee, as follows:

41
42 (1) As originally written, § 8(a) created a complete defense to an action under § 4(a)(1)
43 (which renders voidable a transfer made or obligation incurred with actual intent to hinder,
44 delay, or defraud any creditor of the debtor) if the transferee or obligee takes in good faith
45 and for a reasonably equivalent value. The amendments add to § 8(a) the further requirement
46 that the reasonably equivalent value must be given the debtor.

1 (2) Section 8(b), derived from Bankruptcy Code §§ 550(a), (b) (1984), creates a defense
2 for a subsequent transferee (that is, a transferee other than the first transferee) that takes in
3 good faith and for value, and for any subsequent transferee from such a person. The
4 amendments clarify the meaning of § 8(b) by rewording it to follow more closely the
5 wording of Bankruptcy Code §§ 550(a), (b) (which is substantially unchanged as of 2014).
6 Among other things, the amendments make clear that the defense applies to recovery of or
7 from the transferred property or its proceeds, by levy or otherwise, as well as to an action for
8 a money judgment.

9
10 (3) Section 8(e)(2) as originally written created a defense to an action under § 4(a)(2) or
11 § 5 to avoid a transfer if the transfer results from enforcement of a security interest in
12 compliance with Article 9 of the Uniform Commercial Code. The amendments exclude from
13 that defense acceptance of collateral in full or partial satisfaction of the obligations it secures
14 (a remedy sometimes referred to as “strict foreclosure”).

15
16 *Series Organizations.* A new § 11 provides that each “protected series” of a “series
17 organization” is to be treated as a person for purposes of the Act, even if it is not treated as a
18 person for other purposes. This change responds to the emergence of the “series organization” as
19 a significant form of business organization.

20
21 *Medium Neutrality.* In order to accommodate modern technology, the references in the
22 Act to a “writing” have been replaced with “record,” and related changes made.

23
24 *Style.* The amendments make a number of stylistic changes that are not intended to
25 change the meaning of the Act. For example, the amended Act consistently uses the word
26 “voidable” to denote a transfer or obligation for which the Act provides a remedy. As originally
27 written the Act sometimes inconsistently used the word “fraudulent.” No change in meaning is
28 intended. See § 14, Comment 4. Likewise, the retitling of the Act is not intended to change its
29 meaning. See § 14, Comment 1.

30
31 *Official Comments.* Comments were added explaining provisions added or revised by the
32 amendments, and the original comments were supplemented and otherwise refreshed.

1 ~~UNIFORM FRAUDULENT TRANSFER ACT~~

2 UNIFORM VOIDABLE TRANSACTIONS ACT

3 **SECTION 1. DEFINITIONS.** As used in this [Act]:

4 (1) “Affiliate” means:

5 (i) a person ~~who~~ that directly or indirectly owns, controls, or holds with power to
6 vote, 20 percent or more of the outstanding voting securities of the debtor, other than a person
7 ~~who~~ that holds the securities,

8 (A) as a fiduciary or agent without sole discretionary power to vote the
9 securities; or

10 (B) solely to secure a debt, if the person has not in fact exercised the
11 power to vote;

12 (ii) a corporation 20 percent or more of whose outstanding voting securities are
13 directly or indirectly owned, controlled, or held with power to vote, by the debtor or a person
14 ~~who~~ that directly or indirectly owns, controls, or holds, with power to vote, 20 percent or more of
15 the outstanding voting securities of the debtor, other than a person ~~who~~ that holds the securities,

16 (A) as a fiduciary or agent without sole discretionary power to vote the
17 securities; or

18 (B) solely to secure a debt, if the person has not in fact exercised the
19 power to vote;

20 (iii) a person whose business is operated by the debtor under a lease or other
21 agreement, or a person substantially all of whose assets are controlled by the debtor; or

22 (iv) a person ~~who~~ that operates the debtor’s business under a lease or other
23 agreement or controls substantially all of the debtor’s assets.

1 (2) “Asset” means property of a debtor, but the term does not include:

2 (i) property to the extent it is encumbered by a valid lien;

3 (ii) property to the extent it is generally exempt under nonbankruptcy law; or

4 (iii) an interest in property held in tenancy by the entirety to the extent it is not
5 subject to process by a creditor holding a claim against only one tenant.

6 (3) “Claim” means a right to payment, whether or not the right is reduced to judgment,
7 liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal,
8 equitable, secured, or unsecured.

9 (4) “Creditor” means a person ~~who~~ that has a claim.

10 (5) “Debt” means liability on a claim.

11 (6) “Debtor” means a person ~~who~~ that is liable on a claim.

12 (7) “Electronic” means relating to technology having electrical, digital, magnetic,
13 wireless, optical, electromagnetic, or similar capabilities.

14 ~~(7)~~ (8) “Insider” includes:

15 (i) if the debtor is an individual,

16 (A) a relative of the debtor or of a general partner of the debtor;

17 (B) a partnership in which the debtor is a general partner;

18 (C) a general partner in a partnership described in clause (B); or

19 (D) a corporation of which the debtor is a director, officer, or person in
20 control;

21 (ii) if the debtor is a corporation,

22 (A) a director of the debtor;

23 (B) an officer of the debtor;

1 (C) a person in control of the debtor;
2 (D) a partnership in which the debtor is a general partner;
3 (E) a general partner in a partnership described in clause (D); or
4 (F) a relative of a general partner, director, officer, or person in control of
5 the debtor;

6 (iii) if the debtor is a partnership,
7 (A) a general partner in the debtor;
8 (B) a relative of a general partner in, a general partner of, or a person in
9 control of the debtor;
10 (C) another partnership in which the debtor is a general partner;
11 (D) a general partner in a partnership described in clause (C); or
12 (E) a person in control of the debtor;
13 (iv) an affiliate, or an insider of an affiliate as if the affiliate were the debtor; and
14 (v) a managing agent of the debtor.

15 ~~(8)~~ (9) “Lien” means a charge against or an interest in property to secure payment of a
16 debt or performance of an obligation, and includes a security interest created by agreement, a
17 judicial lien obtained by legal or equitable process or proceedings, a common-law lien, or a
18 statutory lien.

19 ~~(9) “Person” means an individual, partnership, corporation, association, organization,~~
20 ~~government or governmental subdivision or agency, business trust, estate, trust, or any other~~
21 ~~legal or commercial entity.~~

22 (10) “Organization” means a person other than an individual.

23 (11) “Person” means an individual, estate, business or nonprofit entity, public

1 corporation, government or governmental subdivision, agency, or instrumentality, or other legal
2 entity.

3 ~~(10)~~ (12) “Property” means anything that may be the subject of ownership.

4 (13) “Record” means information that is inscribed on a tangible medium or that is stored
5 in an electronic or other medium and is retrievable in perceivable form.

6 ~~(11)~~ (14) “Relative” means an individual related by consanguinity within the third
7 degree as determined by the common law, a spouse, or an individual related to a spouse within
8 the third degree as so determined, and includes an individual in an adoptive relationship within
9 the third degree.

10 (15) “Sign” means, with present intent to authenticate or adopt a record:

11 (i) to execute or adopt a tangible symbol; or

12 (ii) to attach to or logically associate with the record an electronic symbol, sound,
13 or process.

14 ~~(12)~~ (16) “Transfer” means every mode, direct or indirect, absolute or conditional,
15 voluntary or involuntary, of disposing of or parting with an asset or an interest in an asset, and
16 includes payment of money, release, lease, license, and creation of a lien or other encumbrance.

17 ~~(13)~~ (17) “Valid lien” means a lien that is effective against the holder of a judicial lien
18 subsequently obtained by legal or equitable process or proceedings.

19 **Official Comment**

20
21 ~~(1.)~~ The definition of “affiliate” is derived from Bankruptcy Code § 101(2) (1984). ~~of the~~
22 ~~Bankruptcy Code.~~

23
24 ~~(2.)~~ The definition of “asset” is substantially to the same effect as the definition of
25 “assets” in § 1 of the Uniform Fraudulent Conveyance Act. The definition in this Act, unlike
26 that in the earlier Act, does not, however, require a determination that the property is liable for
27 the debts of the debtor. Thus, for example, an unliquidated claim for damages resulting from
28 personal injury or a contingent claim of a surety for reimbursement, subrogation, restitution,

1 contribution, ~~or the like, or subrogation~~ may be counted as an asset for the purpose of
2 determining whether the holder of the claim is solvent as a debtor under § 2 of this Act, ~~although~~
3 even if applicable law may not allow such an asset to be levied on and sold by a creditor. *Cf.*
4 *Manufacturers & Traders Trust Co. v. Goldman (In re Ollag Construction Equipment Corp.)*,
5 578 F.2d 904, 907-09 (2d Cir. 1978).

6
7 Subparagraphs (i), (ii), and (iii) provide clarification by excluding from the term not only
8 generally exempt property but also an interest in a tenancy by the entirety in many states and an
9 interest that is generally beyond reach by unsecured creditors because subject to a valid lien.
10 This Act, like ~~its predecessor~~ the Uniform Fraudulent Conveyance Act and the Statute of 13
11 Elizabeth, declares rights and provides remedies for unsecured creditors against transfers that
12 impede them in the collection of their claims. The laws protecting valid liens against impairment
13 by levying creditors, exemption statutes, and the rules restricting levyability of interest in
14 entireties property are limitations on the rights and remedies of unsecured creditors, and it is
15 therefore appropriate to exclude property interests that are beyond the reach of unsecured
16 creditors from the definition of “asset” for the purposes of this Act.

17
18 A creditor of a joint tenant or tenant in common may ordinarily collect a judgment by
19 process against the tenant’s interest, and in some states a creditor of a tenant by the entirety may
20 likewise collect a judgment by process against the tenant’s interest. See 2 American Law of
21 Property 10, 22, 28-32 (1952); Craig, *An Analysis of Estates by the Entirety in Bankruptcy*, 48
22 Am.Bankr.L.J. 255, 258-59 (1974). The levyable interest of such a tenant is included as an asset
23 under this Act.

24
25 The definition of “assets” in the Uniform Fraudulent Conveyance Act excluded property
26 that is exempt from liability for debts. The definition did not, however, exclude all property that
27 cannot be reached by a creditor through judicial proceedings to collect a debt. Thus, it included
28 the interest of a tenant by the entirety although in nearly half the states such an interest cannot be
29 subjected to liability for a debt unless it is an obligation owed jointly by the debtor with his or
30 her cotenant by the entirety. See 2 American Law of Property 29 (1952); Craig, *An Analysis of*
31 *Estates by the Entirety in Bankruptcy*, 48 Am.Bankr.L.J. 255, 258 (1974). The definition in this
32 Act requires exclusion of interests in property held by tenants by the entirety that are not subject
33 to collection process by a creditor without a right to proceed against both tenants by the entirety
34 as joint debtors.

35
36 The reference to “generally exempt” property in § 1(2)(ii) recognizes that all exemptions
37 are subject to exceptions. Creditors having special rights against generally exempt property
38 typically include claimants for alimony, taxes, wages, the purchase price of the property, and
39 labor or materials that improve the property. See Uniform Exemptions Act § 10 (1979) and the
40 accompanying Comment. The fact that a particular creditor may reach generally exempt
41 property by resorting to judicial process does not warrant its inclusion as an asset in determining
42 whether the debtor is insolvent.

43
44 ~~Since~~ Because this Act is not an exclusive law on the subject of voidable transfers and
45 obligations (see Comment (8) 2 to § 4 *infra*), it does not preclude the holder of a claim that may
46 be collected by process against property generally exempt as to other creditors from obtaining

1 relief from a transfer of such property that hinders, delays, or defrauds the holder of such a claim.
2 Likewise the holder of an unsecured claim enforceable against tenants by the entirety is not
3 precluded by the Act from pursuing a remedy against a transfer of property held by the entirety
4 that hinders, delays, or defrauds the holder of such a claim.
5

6 Nonbankruptcy law is the law of a state or federal law that is not part of the Bankruptcy
7 Code, Title 11 of the United States Code. The definition of an “asset” thus does not include
8 property that would be subject to administration for the benefit of creditors under the Bankruptcy
9 Code unless it is subject under other applicable law, state or federal, to process for the collection
10 of a creditor’s claim against a single debtor.
11

12 (3.) The definition of “claim” is derived from Bankruptcy Code § 101(4) (1984). ~~of the~~
13 ~~Bankruptcy Code.~~ Since Because the purpose of this Act is primarily to protect unsecured
14 creditors against transfers and obligations injurious to their rights, the words “claim” and “debt”
15 as used in the Act generally have reference to an unsecured claim and debt. As the context may
16 indicate, however, usage of the terms is not so restricted. See, e.g., ~~§§ 1(1)(i)(B) and 1(8)~~
17 §§ 1(1)(i)(B) and 1(9).
18

19 (4.) The definition of “creditor” in combination with the definition of “claim” has
20 substantially the same effect as the definition of “creditor” under § 1 of the Uniform Fraudulent
21 Conveyance Act. As under that Act, the holder of an unliquidated tort claim or a contingent
22 claim may be a creditor protected by this Act.
23

24 (5.) The definition of “debt” is derived from Bankruptcy Code § 101(11) (1984). ~~of the~~
25 ~~Bankruptcy Code.~~
26

27 (6.) The definition of “debtor” ~~is new~~ had no analogue in the Uniform Fraudulent
28 Conveyance Act.
29

30 (7.) The definition of “electronic” is the standard definition of that term used in acts
31 prepared by the Uniform Law Commission as of 2014.
32

33 (7) 8. The definition of “insider” is derived from Bankruptcy Code § 101(28) (1984). ~~of~~
34 ~~the Bankruptcy Code.~~ In this Act, as in the Bankruptcy Code, the definition states that the term
35 “includes” certain listed persons; it does not state that the term “means” the listed persons.
36 Hence the definition is not exclusive, and the statutory list is merely exemplary. See also
37 Bankruptcy Code § 102(3) (1984). Accordingly, a person may be an “insider” of a debtor that is
38 an individual, corporation or partnership even though the person is not designated as such by the
39 statutory list. For example, a trust may be found to be an “insider” of a beneficiary. Similarly, a
40 court may find a person living with an individual debtor for an extended time in the same
41 household or as a permanent companion to have the kind of close relationship intended to be
42 covered by the term “insider.” See also, e.g., *Browning Interests v. Allison (In re Holloway)*, 955
43 F.2d 1008 (5th Cir.1992) (former spouse of debtor was an “insider” because of their close and
44 continued personal relationship, even though they had long ago divorced and remarried others).
45 Likewise, a person may be an “insider” of a debtor that is not an individual, corporation or
46 partnership. See, e.g., *In re Longview Aluminum, L.L.C.*, 657 F.3d 507 (7th Cir. 2011) (holding,

1 under the Bankruptcy Code definition, that an individual serving on the Board of Managers of,
2 and having a 12% membership interest in, a limited liability company was an “insider” of the
3 company; the company’s organic documents vested management authority “in the Board of
4 Managers and the Members”).

5
6 The differences between the definition in this Act and that in the Bankruptcy Code are
7 slight. In this Act, the ~~The~~ definition has been restricted in clauses (i)(C), (ii)(E), and (iii)(D) to
8 make clear that a partner is not an insider of an individual, corporation, or partnership if any of
9 these latter three persons is only a limited partner. The definition of “insider” in the Bankruptcy
10 Code does not purport to make a limited partner an insider of the partners or of the partnership
11 with which the limited partner is associated, but it is susceptible of a contrary interpretation and
12 one which would extend unduly the scope of the defined relationship when the limited partner is
13 not a person in control of the partnership. The definition of “insider” in this Act also differs
14 from the definition in the Bankruptcy Code in omitting the reference in ~~11 U.S.C. § 101(28)(D)~~
15 to an elected official or relative of such an official as an insider of a municipality. ~~As in the~~
16 Bankruptcy Code (see 11 U.S.C. § 102(3)), the word “includes” is not limiting, however. Thus,
17 a court may find a person living with an individual for an extended time in the same household
18 or as a permanent companion to have the kind of close relationship intended to be covered by the
19 term “insider.” Likewise, a trust may be found to be an insider of a beneficiary.

20
21 ~~(8)~~ 9. The definition of “lien” is derived from paragraphs (30), (31), (43), and (45) of
22 Bankruptcy Code § 101 (1984), ~~of the Bankruptcy Code,~~ which define “judicial lien,” “lien,”
23 “security interest,” and “statutory lien” respectively.

24
25 ~~(9)~~ (9) The definition of “person” is adapted from paragraphs (28) and (30) of § 1-201 of the
26 Uniform Commercial Code, defining “organization” and “person” respectively.

27
28 10. The definition of “organization” is derived from Uniform Commercial Code
29 § 1-201(b)(25) (2014).

30
31 11. The definition of “person” is the standard definition of that term used in acts
32 prepared by the Uniform Law Commission as of 2014. Section 11 renders a “protected series”
33 of a “series organization” a “person” for purposes of this Act, even though the “protected series”
34 may not qualify as a “person” under paragraph (11) of this section.

35
36 ~~(10)~~ 12. The definition of “property” is derived from Uniform Probate Code § 1-201(33)
37 (1969). ~~of the Uniform Probate Code.~~ Property includes both real and personal property,
38 whether tangible or intangible, and any interest in property, whether legal or equitable.

39
40 13. The definition of “record” is the standard definition of that term used in acts prepared
41 by the Uniform Law Commission as of 2014.

42
43 ~~(11)~~ 14. The definition of “relative” is derived from Bankruptcy Code § 101(37) (1984)
44 of the ~~Bankruptcy Code~~ but is explicit in its references to the spouse of a debtor in view of
45 uncertainty as to whether the common law determines degrees of relationship by affinity.

1 15. The definition of “sign” is the standard definition of that term used in acts prepared
2 by the Uniform Law Commission as of 2014.

3
4 ~~(12)~~ 16. The definition of “transfer” is derived principally from Bankruptcy Code
5 § 101(48) (1984). ~~of the Bankruptcy Code.~~ The definition of “conveyance” in § 1 of the
6 Uniform Fraudulent Conveyance Act was similarly comprehensive, and the references in this
7 Act to “payment of money, release, lease, and the creation of a lien or encumbrance” are derived
8 from the Uniform Fraudulent Conveyance Act. While the definition in the Uniform Fraudulent
9 Conveyance Act did not explicitly refer to an involuntary transfer, the decisions under that Act
10 were generally consistent with an interpretation that covered such a transfer. See, e.g., *Hearn 45*
11 *St. Corp. v. Jano*, 283 N.Y. 139, 27 N.E.2d 814, 128 A.L.R. 1285 (1940) (execution and
12 foreclosure sales); *Lefkowitz v. Finkelstein Trading Corp.*, 14 F.Supp. 898, 899 (S.D.N.Y. 1936)
13 (execution sale); *Langan v. First Trust & Deposit Co.*, 277 App.Div. 1090, 101 N.Y.S.2d 36 (4th
14 Dept. 1950), *aff’d*, 302 N.Y. 932, 100 N.E.2d 189 (1951) (mortgage foreclosure); *Catabene v.*
15 *Wallner*, 16 N.J.Super. 597, 602, 85 A.2d 300, 302 (1951) (mortgage foreclosure). The 2014
16 amendments add a reference to transfer by “license,” which is derived from the definition of
17 “proceeds” in Uniform Commercial Code § 9-102(a)(64)(A) (2014).

18
19 ~~(13)~~ 17. The definition of “valid lien” ~~is new~~ had no analogue in the Uniform Fraudulent
20 Conveyance Act. A valid lien includes an equitable lien that may not be defeated by a judicial
21 lien creditor. See, e.g., *Pearlman v. Reliance Insurance Co.*, 371 U.S. 132, 136 (1962)
22 (upholding a surety’s equitable lien in respect to a fund owing a bankrupt contractor).

23 **SECTION 2. INSOLVENCY.**

24
25 (a) A debtor is insolvent if, at fair valuations, the sum of the debtor’s debts is greater
26 than ~~all~~ the sum of the debtor’s assets ~~at a fair valuation.~~

27 (b) A debtor ~~who~~ that is generally not paying ~~his [or her]~~ the debtor’s debts as they
28 become due other than as a result of bona fide dispute is presumed to be insolvent. The
29 presumption imposes on the party against which the presumption is directed the burden of
30 proving that the nonexistence of insolvency is more probable than its existence.

31 ~~(c)~~ (e) ~~A partnership is insolvent under subsection (a) if the sum of the partnership’s debts is~~
32 ~~greater than the aggregate, at a fair valuation, of all of the partnership’s assets and the sum of the~~
33 ~~excess of the value of each general partner’s nonpartnership assets over the partner’s~~
34 ~~nonpartnership debts.~~

35 ~~(d)~~ (c) Assets under this section do not include property that has been transferred,

1 concealed, or removed with intent to hinder, delay, or defraud creditors or that has been
2 transferred in a manner making the transfer voidable under this [Act].

3 ~~(e)~~ (d) Debts under this section do not include an obligation to the extent it is secured by
4 a valid lien on property of the debtor not included as an asset.

5 Official Comment

6
7 (1.) Subsection (a) is derived from the definition of “insolvent” in Bankruptcy Code
8 § 101(29)(A) (1984), ~~of the Bankruptcy Code~~. The definition in subsection (a) ~~and the~~
9 ~~correlated definition of partnership insolvency in subsection (e) contemplate~~ contemplates a fair
10 valuation of the debts as well as the assets of the debtor. The 2014 amendments reword
11 subsection (a) in order to (i) eliminate the elegant variation in the original text between “the sum
12 of” debts and “all of” assets, and (ii) make clearer that “fair valuation” applies to debts as well as
13 to assets. No change in meaning is intended.

14
15 “Fair valuation” of an asset or a debt for financial accounting purposes may be based on
16 standards different from those appropriate for use in subsection (a). For example, Fin.
17 Accounting Standards Bd., *Statement of Financial Accounting Standards No. 157: Fair Value*
18 *Measurements* (2006) requires for financial accounting purposes that the “fair value” of a
19 liability reflect nonperformance risk (i.e., the risk that the debtor will not pay the liability as and
20 when due). By contrast, proper application of subsection (a) excludes any adjustment to the face
21 amount of a liability on account of nonperformance risk. Such an adjustment would be contrary
22 to the purpose of subsection (a), which is to assess the risk that the debtor will not be able to
23 satisfy its liabilities. Only in unusual circumstances would the “fair valuation” for the purpose of
24 subsection (a) of a liquidated debt be other than its face amount. Examples of such
25 circumstances include discounting the face amount of a contingent debt to reflect the probability
26 that the contingency will not occur, and discounting the face amount of a non-interest-bearing
27 debt that is due in the future in order to reduce the debt to its present value.

28
29 As under the definition of the same term “insolvent” in § 2 of the Uniform Fraudulent
30 Conveyance Act, exempt property is excluded from the computation of the value of the assets.
31 See § 1(2) *supra*. For similar reasons interests in valid spendthrift trusts and interests in
32 tenancies by the entireties that cannot be severed by a creditor of only one tenant are not
33 included. See ~~the Comment to § 1(2)~~ Comment 2 to § 1 *supra*. Since ~~Because~~ a valid lien also
34 precludes an unsecured creditor from collecting the creditor’s claim from the encumbered
35 interest in a debtor’s property, both the encumbered interest and the debt secured thereby are
36 excluded from the computation of insolvency under this Act. See § 1(2) *supra* and
37 subsection ~~(e)~~ (d) of this section.

38
39 ~~(2.) Section 2(b)~~ Subsection (b) establishes a rebuttable presumption of insolvency from
40 the fact of general nonpayment of debts as they become due. Such general nonpayment is a
41 ground for the filing of an involuntary petition under Bankruptcy Code § 303(h)(1) (1978), ~~of the~~
42 ~~Bankruptcy Code~~. See also U.C.C. § 1-201(23) (1962), which declares (defining a person to be

1 “insolvent” who “has ceased to pay his debts in the ordinary course of business:”). ~~The~~
2 ~~presumption imposes on the party against whom the presumption is directed the burden of~~
3 ~~proving that the nonexistence of insolvency as defined in § 2(a) is more probable than its~~
4 ~~existence. See Uniform Rules of Evidence (1974 Act), Rule 301(a). The 2014 amendments to~~
5 ~~this Act clarify that general nonpayment of debts does not count nonpayment as a result of a~~
6 ~~bona fide dispute. That was the intended meaning of the language before 2014, as stated in the~~
7 ~~official comments, and the cited provisions of the Bankruptcy Code and the Uniform~~
8 ~~Commercial Code have been similarly clarified. See Bankruptcy Code § 303(h)(1) (2014);~~
9 ~~U.C.C. § 1-203(b)(23) (2014) (defining “insolvent” to include “having generally ceased to pay~~
10 ~~debts in the ordinary course of business other than as a result of bona fide dispute”).~~

11
12 Subsection (b) defines the effect of the presumption to be (in paraphrase) that the burden
13 of persuasion on the issue of insolvency shifts to the defendant. That conforms to the default
14 definition of the effect of a presumption in civil cases set forth in Uniform Rules of Evidence
15 (1974 Act), Rule 301(a) (later Rule 302(a) (1999 Act as amended 2005)). It also ~~The 1974~~
16 ~~Uniform Rule 301(a)~~ conforms to the Final Draft of Federal Rule 301 as submitted to the United
17 States Supreme Court by the Advisory Committee on Federal Rules of Evidence in 1973. “The
18 so-called ‘bursting bubble’ theory, under which a presumption vanishes upon the introduction of
19 evidence which would support a finding of the nonexistence of the presumed fact, even though
20 not believed, is rejected as according presumptions too ‘slight and evanescent’ an effect.”
21 Advisory Committee’s Note to Rule 301, 56 F.R.D. 183, 208 (1973). See also 1 J. Weinstein &
22 M. Berger, Evidence ¶ 301[01] (1982). It should be noted that the Federal Rule of Evidence as
23 finally enacted gave by default a different effect to presumptions in civil cases, in effect adopting
24 the “bursting bubble” definition. See Fed. R. Evid. 301 (1975) (carried forward in the 2011
25 revision). The statement of the effect of the presumption in subsection (b) was added by the 2014
26 amendments to this Act, but subsection (b) was intended to have the same meaning before 2014,
27 as stated in the official comments.

28
29 The presumption is established in recognition of the difficulties typically imposed on a
30 creditor in proving insolvency in the bankruptcy sense, as provided in subsection (a). See
31 generally Levit, *The Archaic Concept of Balance-Sheet Insolvency*, 47 Am.Bankr.L.J. 215
32 (1973). Not only is the relevant information in the possession of a ~~noncooperative~~ debtor that is
33 apt to be noncooperative, but the debtor’s records are ~~more often than not~~ apt to be incomplete
34 and inaccurate. As a practical matter, insolvency is most cogently evidenced by a general
35 cessation of payment of debts, as has long been recognized by the laws of other countries and is
36 now reflected in the Bankruptcy Code. See Honsberger, *Failure to Pay One’s Debts Generally*
37 *as They Become Due: The Experience of France and Canada*, 54 Am.Bankr.L.J. 153 (1980); J.
38 MacLachlan, *Bankruptcy* 13, 63-64, 436 (1956). In determining whether a debtor is paying its
39 debts generally as they become due, the court should look at more than the amount and due dates
40 of the indebtedness. The court should also take into account such factors as the number of the
41 debtor’s debts, the proportion of those debts not being paid, the duration of the nonpayment, and
42 the existence of bona fide disputes or other special circumstances alleged to constitute an
43 explanation for the stoppage of payments. The court’s determination may be affected by a
44 consideration of the debtor’s payment practices prior to the period of alleged nonpayment and
45 the payment practices of the trade or industry in which the debtor is engaged. The case law that
46 has developed under Bankruptcy Code § 303(h)(1) (1984) ~~of the Bankruptcy Code~~ has not

1 required a showing that a debtor has failed or refused to pay a majority in number and amount of
2 ~~his or her~~ the debtor's debts in order to prove general nonpayment of debts as they become due.
3 See, e.g., *Hill v. Cargill, Inc. (In re Hill)*, 8 B.R. 779, 3 C.B.C.2d 920 (Bankr. D.Minn. 1981)
4 (nonpayment of three largest debts held to constitute general nonpayment, although small debts
5 were being paid); *In re All Media Properties, Inc.*, 5 B.R. 126, 6 B.C.D. 586, 2 C.B.C.2d 449
6 (Bankr. S.D.Tex. 1980) (missing significant number of payments or regularly missing payments
7 significant in amount said to constitute general nonpayment; missing payments on more than
8 50% of aggregate of claims said not to be required to show general nonpayment; nonpayment for
9 more than 30 days after billing held to establish nonpayment of a debt when it is due); *In re*
10 *Kreidler Import Corp.*, 4 B.R. 256, 6 B.C.D. 608, 2 C.B.C.2d 159 (Bankr. D.Md. 1980)
11 (nonpayment of one debt constituting 97% of debtor's total indebtedness held to constitute
12 general nonpayment). ~~A presumption of insolvency does not arise from nonpayment of a debt as~~
13 ~~to which there is a genuine bona fide dispute, even though the debt is a substantial part of the~~
14 ~~debtor's indebtedness. Cf. 11 U.S.C. § 303(h)(1), as amended by § 426(b) of Public Law No. 98-~~
15 ~~882, the Bankruptcy Amendments and Federal Judgeship Act of 1984.~~

16
17 (3) ~~Subsection (e) is derived from the definition of partnership insolvency in~~
18 ~~§ 101(29)(B) of the Bankruptcy Code. The definition conforms generally to the definition of the~~
19 ~~same term in § 2(2) of the Uniform Fraudulent Conveyance Act.~~

20
21 (4) ~~3.~~ Subsection ~~(d)~~ (c) follows the approach of the definition of "insolvency" in
22 ~~Bankruptcy Code § 101(29) (1984) of the Bankruptcy Code~~ by excluding from the computation
23 of the value of the debtor's assets any value that can be realized only by avoiding a transfer of an
24 interest formerly held by the debtor or by discovery or pursuit of property that has been
25 fraudulently concealed or removed with intent to hinder, delay, or defraud creditors.

26
27 (5) ~~4.~~ Subsection ~~(e)~~ (d) ~~is new~~ has no analogue in Bankruptcy Code § 101(29) (1984).
28 It makes clear ~~the purpose not to render~~ that a person is not rendered insolvent under this section
29 by counting as a debt an obligation secured by property of the debtor that is not counted as an
30 asset. See also ~~Comments to §§ 1(2) and 2(a) supra~~ Comment 2 to § 1 and Comment 1 to § 2.

31 **SECTION 3. VALUE.**

32
33 (a) Value is given for a transfer or an obligation if, in exchange for the transfer or
34 obligation, property is transferred or an antecedent debt is secured or satisfied, but value does not
35 include an unperformed promise made otherwise than in the ordinary course of the promisor's
36 business to furnish support to the debtor or another person.

37 (b) For the purposes of ~~Sections~~ Section 4(a)(2) and Section 5, a person gives a
38 reasonably equivalent value if the person acquires an interest of the debtor in an asset pursuant to
39 a regularly conducted, noncollusive foreclosure sale or execution of a power of sale for the

1 acquisition or disposition of the interest of the debtor upon default under a mortgage, deed of
2 trust, or security agreement.

3 (c) A transfer is made for present value if the exchange between the debtor and the
4 transferee is intended by them to be contemporaneous and is in fact substantially
5 contemporaneous.

6 Official Comment

7
8 ~~(1) This section defines “value” as used in various contexts in this Act, frequently with a~~
9 ~~qualifying adjective. The word appears in the following sections:~~

10
11 4(a)(2) (“reasonably equivalent value”);
12 4(b)(8) (“value ... reasonably equivalent”);
13 5(a) (“reasonably equivalent value”);
14 5(b) (“present, reasonably equivalent value”);
15 8(a) (“reasonably equivalent value”);
16 8(b), (c), (d), and (e) (“value”);
17 8(f)(1) (“new value”); and
18 8(f)(3) (“present value”).
19

20 1. This section defines when “value” is given for a transfer or an obligation. “Value” is
21 used in that sense in various contexts in this Act, frequently with a qualifying adjective. Used in
22 that sense the word appears in the following provisions:
23

24 4(a)(2) (“reasonably equivalent value”);
25 4(b)(8) (“value ... reasonably equivalent”);
26 5(a) (“reasonably equivalent value”);
27 8(a) (“reasonably equivalent value”);
28 8(b)(1)(ii)(A) and (d) (“value”);
29 8(f)(1) (“new value”); and
30 8(f)(3) (“present value”).
31

32 “Value” is also used in other senses in this Act, to which this section is not relevant. See, e.g.,
33 §§ 8(b)(1), 8(c) (“value” in the sense of the value of a transferred asset).
34

35 (2.) Section 3(a) is adapted from Bankruptcy Code § 548(d)(2)(A) (1984). ~~of the~~
36 ~~Bankruptcy Code.~~ See also § 3(a) of the Uniform Fraudulent Conveyance Act. The definition in
37 Section 3 is not exclusive. “Value” is to be determined in light of the purpose of the Act to
38 protect a debtor’s estate from being depleted to the prejudice of the debtor’s unsecured creditors.
39 Consideration having no utility from a creditor’s viewpoint does not satisfy the statutory
40 definition. The definition does not specify all the kinds of consideration that do not constitute
41 value for the purposes of this Act—e.g., love and affection. See, e.g., *United States v. West*, 299

1 F.Supp. 661, 666 (D.Del. 1969).

2
3 (3.) Section 3(a) does not indicate what is “reasonably equivalent value” for a transfer or
4 obligation. Under this Act, as under Bankruptcy Code § 548(a)(2) (1984), ~~of the Bankruptcy~~
5 ~~Code~~, a transfer for security is ordinarily for a reasonably equivalent value notwithstanding a
6 discrepancy between the value of the asset transferred and the debt secured, ~~since~~ because the
7 amount of the debt is the measure of the value of the interest in the asset that is transferred. See,
8 *e.g.*, *Peoples-Pittsburgh Trust Co. v. Holy Family Polish Nat’l Catholic Church, Carnegie, Pa.*,
9 341 Pa. 390, 19 A.2d 360 (1941). ~~If, however, a transfer purports to secure more than the debt~~
10 ~~actually incurred or to be incurred, it may be found to be for less than a reasonably equivalent~~
11 ~~value. See, e.g., *In re Peoria Braumeister Co.*, 138 F.2d 520, 523 (7th Cir. 1943) (chattel~~
12 ~~mortgage securing a \$3,000 note held to be fraudulent when the debt secured was only \$2,500);~~
13 ~~*Hartford Acc. & Indemnity Co. v. Jirasek*, 254 Mich. 131, 140, 235 N.W. 836, 839 (1931)~~
14 ~~(quitclaim deed given as mortgage held to be fraudulent to the extent the value of the property~~
15 ~~transferred exceeded the indebtedness secured). If the debt is a fraudulent voidable obligation~~
16 under this Act, a transfer to secure it as well as the obligation would be vulnerable to attack as
17 ~~fraudulent voidable~~. A transfer to satisfy or secure an antecedent debt owed an insider is also
18 subject to avoidance under the conditions specified in Section 5(b).

19
20 (4.) Section 3(a) of the Uniform Fraudulent Conveyance Act has been thought not to
21 recognize that an unperformed promise could constitute fair consideration. See McLaughlin,
22 *Application of the Uniform Fraudulent Conveyance Act*, 46 Harv.L.Rev. 404, 414 (1933).
23 Courts construing these provisions of the prior law nevertheless have held unperformed promises
24 to constitute value in a variety of circumstances. See, *e.g.*, *Harper v. Lloyd’s Factors, Inc.*, 214
25 F.2d 662 (2d Cir. 1954) (transfer of money for promise of factor to discount transferor’s
26 purchase-money notes given to fur dealer); *Schlecht v. Schlecht*, 168 Minn. 168, 176-77, 209
27 N.W. 883, 886-87 (1926) (transfer for promise to make repairs and improvements on transferor’s
28 homestead); *Farmer’s Exchange Bank v. Oneida Motor Truck Co.*, 202 Wis. 266, 232 N.W. 536
29 (1930) (transfer in consideration of assumption of certain of transferor’s liabilities); see also
30 *Hummel v. Cernocky*, 161 F.2d 685 (7th Cir. 1947) (transfer in consideration of cash, assumption
31 of a mortgage, payment of certain debts, and agreement to pay other debts). Likewise a transfer
32 in consideration of a negotiable note discountable at a commercial bank, or the purchase from an
33 established, solvent institution of an insurance policy, annuity, or contract to provide care and
34 accommodations clearly appears to be for value. On the other hand, ~~a transfer for an~~
35 ~~unperformed promise by an individual to support a parent or other transferor has generally been~~
36 ~~held not to constitute value voidable as a fraud on creditors of the transferor. See, e.g.,~~
37 ~~*Springfield Ins. Co. v. Fry*, 267 F.Supp. 693 (N.D.Okla. 1967); *Sandler v. Parlapiano*, 236~~
38 ~~App.Div. 70, 258 N.Y.Supp. 88 (1st Dep’t 1932); *Warwick Municipal Employees Credit Union*~~
39 ~~*v. Higham*, 106 R.I. 363, 259 A.2d 852 (1969); *Hulsether v. Sanders*, 54 S.D. 412, 223 N.W. 335~~
40 ~~(1929); *Cooper v. Cooper*, 22 Tenn.App. 473, 477, 124 S.W.2d 264, 267 (1939); Note, *Rights of*~~
41 ~~*Creditors in Property Conveyed in Consideration of Future Support*, 45 Iowa L.Rev. 546, 550-~~
42 ~~62 (1960). This Act adopts the view taken in the cases cited in determining whether an~~
43 ~~unperformed promise is value.~~

44
45 (5.) Subsection (b) rejects the rule of such cases as *Durrett v. Washington Nat. Ins. Co.*,
46 621 F.2d 201 (5th Cir. 1980) (nonjudicial foreclosure of a mortgage avoided as a ~~fraudulent~~

1 voidable transfer when the property of an insolvent mortgagor was sold for less than 70% of its
2 fair value); and *Abramson v. Lakewood Bank & Trust Co.*, 647 F.2d 547 (5th Cir. 1981), *cert.*
3 *denied*, 454 U.S. 1164 (1982) (nonjudicial foreclosure held to be ~~fraudulent~~ voidable transfer if
4 made without fair consideration). Subsection (b) adopts the view taken in *Lawyers Title Ins.*
5 *Corp. v. Madrid (In re Madrid)*, 21 B.R. 424 (B.A.P. 9th Cir. 1982), *aff'd on another ground*,
6 725 F.2d 1197 (9th Cir. 1984), that the price bid at a ~~public~~ regularly conducted and noncollusive
7 foreclosure sale determines the fair value of the property sold for purposes of voidable transfer
8 law. See also *BFP v. Resolution Trust Corp.*, 511 U.S. 531, 537 n.3 (1994) (similarly construing
9 Bankruptcy Code § 548; opinion expressly limited to foreclosure of real estate mortgages).

10
11 _____ Subsection (b) prescribes the effect of a sale meeting its requirements, whether the asset
12 sold is personal or real property. It applies only to a sale under a mortgage, deed of trust, or
13 security agreement. Subsection (b) thus does not apply to a sale foreclosing a nonconsensual
14 lien, such as a tax lien. However, the subsection does apply ~~The rule of this subsection applies to~~
15 a foreclosure by sale of the interest of a vendee under an installment land contract in accordance
16 with applicable law that requires or permits the foreclosure to be effected by a sale in the same
17 manner as the foreclosure of a mortgage. See G. Osborne, G. Nelson, & D. Whitman, *Real*
18 *Estate Finance Law* 83-84, 95-97 (1979). ~~The premise of the subsection is that “a sale of the~~
19 ~~collateral by the secured party as the normal consequence of default . . . [is] the safest way of~~
20 ~~establishing the fair value of the collateral . . .”~~ 2 G. Gilmore, *Security Interests in Personal*
21 *Property* 1227 (1965).

22
23 If a lien given an insider for a present consideration is not perfected as against a
24 subsequent bona fide purchaser or is so perfected after a delay following an extension of credit
25 secured by the lien, foreclosure of the lien may result in a transfer for an antecedent debt that is
26 voidable under Section 5(b) *infra*. Subsection (b) does not apply to an action under
27 Section 4(a)(1) to avoid a transfer or obligation because made or incurred with actual intent to
28 hinder, delay, or defraud any creditor.

29
30 ~~(6.)~~ Subsection (c) is an adaptation of Bankruptcy Code § 547(c)(1) (1984). ~~of the~~
31 ~~Bankruptcy Code~~. A transfer to an insider for an antecedent debt may be voidable under § 5(b)
32 *infra*.

33
34 **SECTION 4. TRANSFERS AND OBLIGATIONS FRAUDULENT VOIDABLE**
35 **AS TO PRESENT AND FUTURE CREDITORS.**

36 (a) A transfer made or obligation incurred by a debtor is ~~fraudulent~~ voidable as to a
37 creditor, whether the creditor’s claim arose before or after the transfer was made or the
38 obligation was incurred, if the debtor made the transfer or incurred the obligation:

39 (1) with actual intent to hinder, delay, or defraud any creditor of the debtor; or

40 (2) without receiving a reasonably equivalent value in exchange for the transfer or

1 obligation, and the debtor:

2 (i) was engaged or was about to engage in a business or a transaction for
3 which the remaining assets of the debtor were unreasonably small in relation to the business or
4 transaction; or

5 (ii) intended to incur, or believed or reasonably should have believed that
6 ~~he [or she]~~ the debtor would incur, debts beyond ~~his [or her]~~ the debtor's ability to pay as they
7 became due.

8 (b) In determining actual intent under subsection (a)(1), consideration may be given,
9 among other factors, to whether:

10 (1) the transfer or obligation was to an insider;

11 (2) the debtor retained possession or control of the property transferred after the
12 transfer;

13 (3) the transfer or obligation was disclosed or concealed;

14 (4) before the transfer was made or obligation was incurred, the debtor had been
15 sued or threatened with suit;

16 (5) the transfer was of substantially all the debtor's assets;

17 (6) the debtor absconded;

18 (7) the debtor removed or concealed assets;

19 (8) the value of the consideration received by the debtor was reasonably
20 equivalent to the value of the asset transferred or the amount of the obligation incurred;

21 (9) the debtor was insolvent or became insolvent shortly after the transfer was
22 made or the obligation was incurred;

23 (10) the transfer occurred shortly before or shortly after a substantial debt was

1 incurred; and

2 (11) the debtor transferred the essential assets of the business to a lienor ~~who~~ that
3 transferred the assets to an insider of the debtor.

4 (c) A creditor making a claim under subsection (a) has the burden of proving the
5 elements of the claim by a preponderance of the evidence.

6 **Official Comment**

7
8 (1.) Section 4(a)(1) is derived from § 7 of the Uniform Fraudulent Conveyance Act,
9 which in turn was derived from the Statute of 13 Elizabeth, c. 5 (1571). Factors appropriate for
10 consideration in determining actual intent under ~~paragraph (1)~~ Section 4(a)(1) are specified in
11 subsection (b).

12
13 2. Section 4, unlike § 5, protects creditors of a debtor whose claims arise after as well as
14 before the debtor made or incurred the challenged transfer or obligation. Similarly, there is no
15 requirement in § 4(a)(1) that the intent referred to be directed at a creditor existing or identified
16 at the time of transfer or incurrence. For example, promptly after the invention in Pennsylvania
17 of the spendthrift trust, the assets and beneficial interest of which are immune from attachment
18 by the beneficiary's creditors, courts held that a debtor's establishment of a spendthrift trust for
19 the debtor's own benefit is a voidable transfer *per se* under the Statute of 13 Elizabeth.
20 *Mackason's Appeal*, 42 Pa. 330, 338-39 (1862); see also, e.g., *Ghormley v. Smith*, 139 Pa. 584,
21 591-94 (1891); *Patrick v. Smith*, 2 Pa. Super. 113, 119 (1896). Likewise, for centuries § 4(a)(1)
22 and its predecessors have been employed to invalidate nonpossessory property interests that are
23 thought to be potentially deceptive, without regard to whether the deception is directed at an
24 existing or identified creditor. See, e.g., *McGann v. Capital Sav. Bank & Trust Co.*, 89 A.2d
25 123, 183-84 (Vt. 1952) (seller's retention of possession of goods after sale held voidable *per se*
26 as to creditors of the seller); *Superior Partners v. Prof'l Educ. Network, Inc.*, 485 N.E.2d 1218,
27 1221 (Ill. App. Ct. 1985) (similar); *Clow v. Woods*, 5 Serg. & Rawle 275 (Pa. 1819) (holding that
28 a nonpossessory chattel mortgage is voidable *per se*, in the absence of a system for giving public
29 notice of such interests such as is today supplied by Article 9 of the Uniform Commercial Code).

30
31 Section 4(a)(1) has the meaning elaborated in the preceding paragraph, but it is of course
32 possible that a jurisdiction in which this Act is in force might enact other legislation that
33 modifies the results of particular examples given to illustrate that meaning. For example, some
34 states have enacted legislation authorizing the establishment and funding of self-settled
35 spendthrift trusts, subject to specified conditions. In such a state, such legislation will supersede
36 the historical *per se* rule referred to in the preceding paragraph, either expressly or by necessary
37 implication, with respect to allowed transfers to such a statutorily-validated trust. See, e.g., Del.
38 Code. Ann. tit. 12, § 3572(a), (b) (2014). See also Comment 8. Likewise, the historical
39 skepticism of nonpossessory property interests has been superseded as to security interests in
40 personal property by the Uniform Commercial Code. See Comment 9.

1 (2) 3. Section 4(a)(2) is derived from §§ 5 and 6 of the Uniform Fraudulent Conveyance
2 Act but substitutes “reasonably equivalent value” for “fair consideration.” The transferee’s good
3 faith was an element of “fair consideration” as defined in § 3 of the Uniform Fraudulent
4 Conveyance Act, and lack of fair consideration was one of the elements of a fraudulent transfer
5 as defined in four sections of the Uniform Fraudulent Conveyance Act. The transferee’s good
6 faith is irrelevant to a determination of the adequacy of the consideration under this Act, but lack
7 of good faith may be a basis for withholding protection of a transferee or obligee under § 8 *infra*.

8
9 (3) 4. Unlike the Uniform Fraudulent Conveyance Act, ~~as originally promulgated,~~ this
10 Act does not prescribe different tests ~~when a transfer~~ for voidability of a transfer that is made for
11 the purpose of security and ~~when it a transfer that~~ is intended to be absolute. The premise of this
12 Act is that when a transfer is for security only, the equity or value of the asset that exceeds the
13 amount of the debt secured remains available to unsecured creditors and thus cannot be regarded
14 as the subject of a voidable transfer merely because of the encumbrance resulting from an
15 otherwise valid security transfer. Disproportion between the value of the asset securing the debt
16 and the size of the debt secured does not, in the absence of circumstances indicating a purpose to
17 hinder, delay, or defraud creditors, constitute an impermissible hindrance to the enforcement of
18 other creditors’ rights against the debtor-transferor. *Cf. U.C.C. § 9-311. U.C.C. § 9-401(b)*
19 (2014) (providing that a debtor’s interest in collateral subject to a security interest is transferable
20 notwithstanding an agreement with the secured party prohibiting transfer).

21
22 (4) 5. Subparagraph (i) of § 4(a)(2) is an adaptation of § 5 of the Uniform Fraudulent
23 Conveyance Act but substitutes “unreasonably small [assets] in relation to the business or
24 transaction” for “unreasonably small capital.” The reference to “capital” in the Uniform
25 Fraudulent Conveyance Act is ambiguous in that it may ~~might be interpreted, incorrectly, to refer~~
26 ~~to net worth or~~ to the par value of stock or to the consideration received for stock issued. The
27 special meanings of “capital” in corporation law have no relevance in the law of ~~fraudulent~~
28 voidable transfers. The subparagraph focuses attention on whether the amount of all the assets
29 retained by the debtor was inadequate, *i.e.*, unreasonably small, in light of the needs of the
30 business or transaction in which the debtor was engaged or about to engage.

31
32 (5) 6. Subsection (b) is a nonexclusive catalogue of factors appropriate for consideration
33 by the court in determining whether the debtor had an actual intent to hinder, delay, or defraud
34 one or more creditors. Proof of the existence of any one or more of the factors enumerated in
35 subsection (b) may be relevant evidence as to the debtor’s actual intent but does not create a
36 presumption that the debtor has made a ~~fraudulent~~ voidable transfer or incurred a ~~fraudulent~~
37 voidable obligation. The list of factors includes most of the so-called “badges of fraud” that
38 have been recognized by the courts in construing and applying the Statute of 13 Elizabeth and
39 § 7 of the Uniform Fraudulent Conveyance Act. Proof of the presence of certain badges in
40 combination establishes ~~fraud~~ voidability conclusively—*i.e.*, without regard to the actual intent
41 of the ~~parties~~ debtor—when they concur as provided in § 4(a)(2) or in § 5. The fact that a
42 transfer has been made to a relative or to an affiliated corporation has not been regarded as a
43 badge of fraud sufficient to warrant avoidance when unaccompanied by any other evidence of
44 ~~fraud~~ intent to hinder, delay, or defraud creditors. The courts have uniformly recognized,
45 however, that a transfer to a closely related person warrants close scrutiny of the other
46 circumstances, including the nature and extent of the consideration exchanged. See 1 G. Glenn,

1 Fraudulent Conveyances and Preferences § 307 (Rev. ed. 1940). The second, third, fourth, and
2 fifth factors listed are all adapted from the classic catalogue of badges of fraud provided by Lord
3 Coke in *Twyne's Case*, 3 Coke 80b, 76 Eng.Rep. 809 (Star Chamber 1601). Lord Coke also
4 included the use of a trust and the recitation in the instrument of transfer that it “was made
5 honestly, truly, and bona fide,” but the use of the trust is ~~fraudulent~~ voidable only when
6 accompanied by elements or badges specified in this Act, and recitals of “good faith” can no
7 longer be regarded as significant evidence of a ~~fraudulent~~ intent to hinder, delay, or defraud
8 creditors.

9
10 ¶ 7. In considering the factors listed in § 4(b) a court should evaluate all the relevant
11 circumstances involving a challenged transfer or obligation. Thus the court may appropriately
12 take into account all indicia negating as well as those suggesting ~~fraud~~ intent to hinder, delay,
13 or defraud creditors, as illustrated in the following reported cases:

14
15 (a) Whether the transfer or obligation was to an insider: *Salomon v. Kaiser (In re*
16 *Kaiser)*, 722 F.2d 1574, 1582-83 (2d Cir. 1983) (insolvent debtor’s purchase of two
17 residences in the name of his spouse and the creation of a dummy corporation for the
18 purpose of concealing assets held to evidence ~~fraudulent~~ intent to hinder, delay, or defraud
19 creditors); *Banner Construction Corp. v. Arnold*, 128 So.2d 893 (Fla.Dist.App. 1961)
20 (assignment by one corporation to another having identical directors and stockholders
21 constituted a badge of fraud); *Travelers Indemnity Co. v. Cormaney*, 258 Iowa 237, 138
22 N.W.2d 50 (1965) (transfer between spouses said to be a circumstance that shed suspicion
23 on the transfer and that with other circumstances warranted avoidance); *Hatheway v.*
24 *Hanson*, 230 Iowa 386, 297 N.W. 824 (1941) (transfer from parent to child said to require a
25 critical examination of surrounding circumstances, which, together with other indicia of
26 ~~fraud~~ intent to hinder, delay, or defraud creditors, warranted avoidance); *Lumpkins v.*
27 *McPhee*, 59 N.M. 442, 286 P.2d 299 (1955) (transfer from daughter to mother said to be
28 indicative of ~~fraud~~ intent to hinder, delay, or defraud creditors, but transfer held not to be
29 ~~fraudulent~~ voidable due to adequacy of consideration and delivery of possession by
30 transferor).

31
32 (b) Whether the transferor retained possession or control of the property after the
33 transfer: *Harris v. Shaw*, 224 Ark. 150, 272 S.W.2d 53 (1954) (retention of property by
34 transferor said to be a badge of fraud and, together with other badges, to warrant avoidance
35 of transfer); *Stephens v. Reginstein*, 89 Ala. 561, 8 So. 68 (1890) (transferor’s retention of
36 control and management of property and business after transfer held material in determining
37 transfer to be ~~fraudulent~~ voidable); *Allen v. Massey*, 84 U.S. (17 Wall.) 351 (1872) (joint
38 possession of furniture by transferor and transferee considered in holding transfer to be
39 ~~fraudulent~~ voidable); *Warner v. Norton*, 61 U.S. (20 How.) 448 (1857) (surrender of
40 possession by transferor deemed to negate allegations of ~~fraud~~ intent to hinder, delay, or
41 defraud creditors).

42
43 (c) Whether the transfer or obligation was concealed or disclosed: *Walton v. First*
44 *National Bank*, 13 Colo. 265, 22 P. 440 (1889) (agreement between parties to conceal the
45 transfer from the public said to be one of the strongest badges of fraud); *Warner v. Norton*,
46 61 U.S. (20 How.) 448 (1857) (although secrecy said to be a circumstance from which,

1 when coupled with other badges, fraud intent to hinder, delay, or defraud creditors may be
2 inferred, transfer was held not to be fraudulent voidable when made in good faith and
3 transferor surrendered possession); *W.T. Raleigh Co. v. Barnett*, 253 Ala. 433, 44 So.2d 585
4 (1950) (failure to record a deed in itself said not to evidence fraud intent to hinder, delay, or
5 defraud creditors, and transfer held not to be fraudulent voidable).

6
7 (d) Whether, before the transfer was made or obligation was incurred, a creditor sued or
8 threatened to sue the debtor: *Harris v. Shaw*, 224 Ark. 150, 272 S.W.2d 53 (1954) (transfer
9 held to be fraudulent voidable when causally connected to pendency of litigation and
10 accompanied by other badges of fraud); *Pergrem v. Smith*, 255 S.W.2d 42 (Ky.App. 1953)
11 (transfer in anticipation of suit deemed to be a badge of fraud; transfer held fraudulent
12 voidable when accompanied by insolvency of transferor who was related to transferee);
13 *Bank of Sun Prairie v. Hovig*, 218 F.Supp. 769 (W.D.Ark. 1963) (although threat or
14 pendency of litigation said to be an indicator of fraud intent to hinder, delay, or defraud
15 creditors, transfer was held not to be fraudulent voidable when adequate consideration and
16 good faith were shown).

17
18 (e) Whether the transfer was of substantially all the debtor's assets: *Walbrun v. Babbitt*,
19 83 U.S. (16 Wall.) 577 (1872) (sale by insolvent retail shop owner of all of his inventory in a
20 single transaction held to be fraudulent voidable); *Cole v. Mercantile Trust Co.*, 133 N.Y.
21 164, 30 N.E. 847 (1892) (transfer of all property before plaintiff could obtain a judgment
22 held to be fraudulent voidable); *Lumpkins v. McPhee*, 59 N.M. 442, 286 P.2d 299 (1955)
23 (although transfer of all assets said to indicate fraud intent to hinder, delay, or defraud
24 creditors, transfer held not to be fraudulent voidable because full consideration was paid and
25 transferor surrendered possession).

26
27 (f) Whether the debtor had absconded: *In re Thomas*, 199 F. 214 (N.D.N.Y. 1912)
28 (when debtor collected all of his money and property with the intent to abscond, fraudulent
29 intent to hinder, delay, or defraud creditors was held to be shown).

30
31 (g) Whether the debtor had removed or concealed assets: *Bentley v. Young*, 210 F. 202
32 (S.D.N.Y. 1914), *aff'd*, 223 F. 536 (2d Cir. 1915) (debtor's removal of goods from store to
33 conceal their whereabouts and to sell them held to render sale fraudulent voidable); *Cioli v.*
34 *Kenourgios*, 59 Cal.App. 690, 211 P. 838 (1922) (debtor's sale of all assets and shipment of
35 proceeds out of the country held to be fraudulent voidable notwithstanding adequacy of
36 consideration).

37
38 (h) Whether the value of the consideration received by the debtor was reasonably
39 equivalent to the value of the asset transferred or the amount of the obligation incurred:
40 *Toomay v. Graham*, 151 S.W.2d 119 (Mo.App. 1941) (although mere inadequacy of
41 consideration said not to be a badge of fraud unless it is grossly inadequate, transfer held to
42 be fraudulent voidable when accompanied by other badges of fraud); *Texas Sand Co. v.*
43 *Shield*, 381 S.W.2d 48 (Tex. 1964) (inadequate consideration said to be an indicator of fraud
44 intent to hinder, delay, or defraud creditors, and transfer held to be fraudulent voidable
45 because of inadequate consideration, pendency of suit, family relationship of transferee, and
46 fact that all nonexempt property was transferred); *Weigel v. Wood*, 355 Mo. 11, 194 S.W.2d

1 40 (1946) (although inadequate consideration said to be a badge of fraud, transfer held not to
2 be ~~fraudulent~~ voidable when inadequacy not gross and not accompanied by any other badge;
3 fact that transfer was from father to son held not sufficient to establish ~~fraud~~ intent to hinder,
4 delay, or defraud creditors).

5
6 (i) Whether the debtor was insolvent or became insolvent shortly after the transfer was
7 made or obligation was incurred: *Harris v. Shaw*, 224 Ark. 150, 272 S.W.2d 53 (1954)
8 (insolvency of transferor said to be a badge of fraud and transfer held ~~fraudulent~~ voidable
9 when accompanied by other badges of fraud); *Bank of Sun Prairie v. Hovig*, 218 F.Supp.
10 769 (W.D. Ark. 1963) (although the insolvency of the debtor said to be a badge of fraud,
11 transfer held not ~~fraudulent~~ voidable when debtor was shown to be solvent, adequate
12 consideration was paid, and good faith was shown, despite the pendency of suit); *Wareheim*
13 *v. Bayliss*, 149 Md. 103, 131 A. 27 (1925) (although insolvency of debtor acknowledged to
14 be an indicator of ~~fraud~~ intent to hinder, delay, or defraud creditors, transfer held not to be
15 ~~fraudulent~~ voidable when adequate consideration was paid and whether debtor was insolvent
16 in fact was doubtful).

17
18 (j) Whether the transfer occurred shortly before or shortly after a substantial debt was
19 incurred: *Commerce Bank of Lebanon v. Halladale A Corp.*, 618 S.W.2d 288, 292
20 (Mo.App. 1981) (when transferors incurred substantial debts near in time to the transfer,
21 transfer was held to be ~~fraudulent~~ voidable due to inadequate consideration, close family
22 relationship, the debtor's retention of possession, and the fact that almost all the debtor's
23 property was transferred).

24
25 (↯) (k) Whether the debtor transferred the essential assets of the business to a lienor that
26 transferred the assets to an insider of the debtor: The wrong addressed by § 4(b)(11) is
27 collusive and abusive use of a lienor's superior position to eliminate junior creditors while
28 leaving equity holders in place, perhaps unaffected. The effect of the two transfers
29 described in § 4(b)(11), if not avoided, may be to permit a debtor and a lienor to deprive the
30 debtor's unsecured creditors of access to the debtor's assets for the purpose of collecting
31 their claims while the debtor, the debtor's affiliate or insider, and the lienor arrange for the
32 beneficial use or disposition of the assets in accordance with their interests. The kind of
33 disposition sought to be reached here is exemplified by that found in *Northern Pacific Co. v.*
34 *Boyd*, 228 U.S. 482, 502-05 (1913), the leading case in establishing the absolute priority
35 doctrine in reorganization law. There the Court held that a reorganization whereby the
36 secured creditors and the management-owners retained their economic interests in a railroad
37 through a foreclosure that cut off claims of unsecured creditors against its assets was in
38 effect a ~~fraudulent~~ voidable disposition. (*id.* at 502-05). See Frank, *Some Realistic*
39 *Reflections on Some Aspects of Corporate Reorganization*, 19 Va.L.Rev. 541, 693 (1933).
40 See Bruce A. Markell, *Owners, Auctions and Absolute Priority in Bankruptcy*
41 *Reorganizations*, 44 Stan.L.Rev. 69, 74-83 (1991). For cases in which an analogous injury
42 to unsecured creditors was inflicted by a lienor and a debtor, see *Voest-Alpine Trading USA*
43 *Corp. v. Vantage Steel Corp.*, 919 F.2d 206 (3d Cir. 1990) (lender foreclosed on assets of
44 steel company at 5:00 p.m. on a Friday, then transferred the assets to an affiliate of the
45 debtor; lender made a loan to the affiliate to enable it to purchase at the foreclosure sale on
46 almost the same terms as the old loan; new business opened Monday morning); *Jackson v.*

1 *Star Sprinkler Corp. of Florida*, 575 F.2d 1223, 1231-34 (8th Cir. 1978); *Heath v. Helmick*,
2 173 F.2d 157, 161-62 (9th Cir. 1949); *Toner v. Nuss*, 234 F.Supp. 457, 461-62 (E.D.Pa.
3 1964); and see *In re Spotless Tavern Co., Inc.*, 4 F.Supp. 752, 753, 755 (D.Md. 1933).
4

5 8. The phrase “hinder, delay, or defraud” in § 4(a)(1), carried forward from the
6 primordial Statute of 13 Elizabeth, is potentially applicable to any transaction that unacceptably
7 contravenes norms of creditors’ rights. Section 4(a)(1) is sometimes said to require “actual
8 fraud,” by contrast to § 4(a)(2) and § 5(a), which are said to require “constructive fraud.” That
9 shorthand is highly misleading. Fraud is not a necessary element of a claim under any of those
10 provisions. By its terms, § 4(a)(1) applies to a transaction that “hinders” or “delays” a creditor,
11 even if it does not “defraud” the creditor. See, e.g., *Shapiro v. Wilgus*, 287 U.S. 348, 354 (1932);
12 *Means v. Dowd*, 128 U.S. 273, 288-89 (1888); *Consove v. Cohen (In re Roco Corp.)*, 701 F.2d
13 978, 984 (1st Cir. 1983); *Empire Lighting Fixture Co. v. Practical Lighting Fixture Co.*, 20 F.2d
14 295, 297 (2d Cir. 1927); *Lippe v. Bairnco Corp.*, 249 F. Supp. 2d 357, 374 (S.D.N.Y. 2003).
15 “Hinder, delay, or defraud” is best considered to be a single term of art describing a transaction
16 that unacceptably contravenes norms of creditors’ rights. Such a transaction need not bear any
17 resemblance to common-law fraud. Thus, the Supreme Court held a given transfer voidable
18 because made with intent to “hinder, delay, or defraud” creditors, but emphasized: “We have no
19 thought in so holding to impute to [the debtor] a willingness to participate in conduct known to
20 be fraudulent.... [He] acted in the genuine belief that what [he] planned was fair and lawful.
21 Genuine the belief was, but mistaken it was also. Conduct and purpose have a quality imprinted
22 on them by the law.” *Shapiro v. Wilgus*. 287 U.S. 348, 357 (1932).
23

24 Diminution of the assets available to the debtor’s creditors is not necessarily required to
25 “hinder, delay, or defraud” creditors. For example, the age-old legal skepticism of
26 nonpossessory property interests, which stems from their potential for deception, has often
27 resulted in their avoidance under § 4(a)(1) or its predecessors. See Comments 2 and 7(b); cf.
28 Comment 9. A transaction may “hinder, delay, or defraud” creditors although it neither reduces
29 the assets available to the debtor’s creditors nor involves any potential deception. See, e.g.,
30 *Shapiro v. Wilgus*, 287 U.S. 348 (1932) (holding voidable a solvent individual debtor’s
31 conveyance of his assets to a wholly-owned corporation for the purpose of instituting a
32 receivership proceeding not available to an individual).
33

34 A transaction that does not place an asset entirely beyond the reach of creditors may
35 nevertheless “hinder, delay, or defraud” creditors if it makes the asset more difficult for creditors
36 to reach. Simple exchange by a debtor of an asset for a less liquid asset, or disposition of liquid
37 assets while retaining illiquid assets, may be voidable for that reason. See, e.g., *Empire Lighting*
38 *Fixture Co. v. Practical Lighting Fixture Co.*, 20 F.2d 295, 297 (2d Cir. 1927) (L. Hand, J.)
39 (credit sale by a corporation to an affiliate of its plant, leaving the seller solvent with ample
40 accounts receivable, held voidable because made for the purpose of hindering creditors of the
41 seller, due to the comparative difficulty of creditors realizing on accounts receivable under then-
42 current collection practice). Overcollateralization of a debt for the purpose of making the
43 debtor’s equity in the collateral more difficult for creditors to reach is similarly voidable. See
44 Comment 4. Likewise, it is voidable for a debtor intentionally to hinder creditors by transferring
45 assets to a wholly-owned corporation or other organization, as may be the case if the equity
46 interest in the organization is more difficult to realize upon than the assets (either because the

1 equity interest is less liquid, or because the applicable procedural rules are more demanding).
2 See, e.g., Addison v. Tessier, 335 P.2d 554, 557 (N.M. 1959); First Nat'l Bank. v. F. C. Trebein
3 Co., 52 N.E. 834, 837-38 (Ohio 1898); Anno., 85 A.L.R. 133 (1933).
4

5 Under the same principle, § 4(a)(1) would render voidable an attempt by the owners of a
6 corporation to convert it to a different legal form (e.g., limited liability company or partnership)
7 for the purpose of hindering the owners' creditors, as may be the case if an owner's interest in
8 the alternative organization would be subject only to a charging order, and not to execution
9 (which would typically be available against stock in a corporation). See, e.g., Firmani v.
10 Firmani, 752 A.2d 854, 857 (N.J. Super. Ct. App. Div. 2000); cf. Interpool Ltd. v. Patterson, 890
11 F. Supp. 259, 266-68 (S.D.N.Y. 1995) (similar, but relying on a "good faith" requirement of the
12 former Uniform Fraudulent Conveyance Act rather than its equivalent of § 4(a)(1)). If such a
13 conversion is done with intent to hinder creditors, it contravenes § 4(a)(1) regardless of whether
14 it is effected by conveyance of the corporation's assets to a new entity or by conversion of the
15 corporation to the alternative form. In both cases the owner begins with the stock of the
16 corporation and ends with an ownership interest in the alternative organization, a property right
17 with different attributes. Either is a "transfer" under the designedly sweeping language of
18 § 1(16), which encompasses "every mode...of...parting with an asset or an interest in an asset."
19 Cf., e.g., United States v. Sims (In re Feiler), 218 F.3d 948 (9th Cir. 2000) (debtor's irrevocable
20 election under the Internal Revenue Code to waive carryback of net operating losses is a
21 "transfer" under the substantially similar definition in the Bankruptcy Code); Weaver v. Kellogg,
22 216 B.R. 563, 573-74 (S.D. Tex. 1997) (exchange of notes owed to the debtor for new notes
23 having different terms is a "transfer" by the debtor under that definition).
24

25 The phrase "hinder, delay, or defraud" in § 4(a)(1) is a term of art whose words do not
26 have their dictionary meanings. For example, every grant of a security interest "hinders" the
27 debtor's unsecured creditors in the dictionary sense of that word. Yet it would be absurd to
28 suggest that every grant of a security interest contravenes § 4(a)(1). The line between
29 permissible and impermissible grants cannot coherently be drawn by reference to the debtor's
30 mental state, for a rational person knows the natural consequences of his actions, and that
31 includes the adverse consequences to unsecured creditors of any grant of a security interest. See,
32 e.g., Dean v. Davis, 242 U.S. 438, 444 (1917) (equating an act whose "obviously necessary
33 effect" is to hinder, delay, or defraud creditors with an act intended to hinder, delay, or defraud
34 creditors); United States v. Tabor Court Realty Corp., 803 F.3d 1288, 1305 (3rd Cir. 1986)
35 (holding that the trial court's finding of intent to hinder, delay, or defraud creditors properly
36 followed from its finding that the debtor could have foreseen the effect of its act on its creditors,
37 because "a party is deemed to have intended the natural consequences of his acts"); In re Sentinel
38 Management Group Inc., 728 F.3d 660, 667 (7th Cir. 2013). Whether a transaction is captured
39 by § 4(a)(1) ultimately depends upon whether the transaction unacceptably contravenes norms of
40 creditors' rights, given the devices legislators and courts have allowed debtors that may interfere
41 with those rights. Section 4(a)(1) is the regulatory tool of last resort that restrains debtor
42 ingenuity to decent limits.
43

44 Thus, for example, suppose that entrepreneurs organize a business as a limited liability
45 company, contributing assets to capitalize it, in the ordinary situation in which none of the
46 owners has particular reason to anticipate personal liability or financial distress and no other

1 unusual facts are present. Assume that the LLC statute has the creditor-thwarting feature of
2 precluding execution upon equity interests in the LLC and providing only for charging orders
3 against such interests. Notwithstanding that feature, the owners' transfers of assets to capitalize
4 the LLC is not voidable under § 4(a)(1) as in force in the same state. The legislature in that state,
5 having created the LLC vehicle having that feature, must have expected it to be used in such
6 ordinary circumstances. By contrast, if owners of an existing business were to reorganize it as an
7 LLC under such a statute when the clouds of personal liability or financial distress have gathered
8 over some of them, and with the intention of gaining the benefit of that creditor-thwarting
9 feature, the transfer effecting the reorganization should be voidable under § 4(a)(1), at least
10 absent a clear indication that the legislature truly intended the LLC form, with its creditor-
11 thwarting feature, to be available even in such circumstances.

12
13 Because the laws of different jurisdictions differ in their tolerance of particular creditor-
14 thwarting devices, choice of law considerations may be important in interpreting § 4(a)(1) as in
15 force in a given jurisdiction. For example, as noted in Comment 2, the language of § 4(a)(1)
16 historically has been interpreted to render voidable *per se* a transfer to a self-settled spendthrift
17 trust. Suppose that jurisdiction X, in which this Act is in force, also has in force a statute
18 permitting an individual to establish a self-settled spendthrift trust and transfer assets thereto,
19 subject to stated conditions. If an individual Debtor whose principal residence is in X establishes
20 such a trust and transfers assets thereto, then under § 10 of this Act the voidable transfer law of X
21 applies to that transfer. That transfer cannot be considered voidable *per se* under § 4(a)(1) as in
22 force in X, for the legislature of X, having authorized the establishment of such trusts, must have
23 expected them to be used. (Other facts might still render the transfer voidable under X's
24 enactment of § 4(a)(1), even though it is not voidable *per se*.) By contrast, if Debtor's principal
25 residence is in jurisdiction Y, which also has enacted this Act but has no legislation validating
26 such trusts, and if Debtor establishes such a trust under the law of X and transfers assets to it,
27 then the result would be different. Under § 10 of this Act, the voidable transfer law of Y would
28 apply to the transfer. The transfer would be voidable *per se* under § 4(a)(1) as in force in Y, as
29 there is no reason to deviate from the established interpretation of that provision in Y.

30
31 (8) Nothing in § 4(b) is intended to affect the application of § 2-402(2), 9-205, 9-301, or
32 6-105 of the Uniform Commercial Code. Section 2-402(2) recognizes the generally prevailing
33 rule that retention of possession of goods by a seller may be fraudulent but limits the application
34 of the rule by negating any imputation of fraud from "retention of possession in good faith and
35 current course of trade by a merchant-seller for a commercially reasonable time after a sale or
36 identification." Section 9-205 explicitly negates any imputation of fraud from the grant of
37 liberty by a secured creditor to a debtor to use, commingle, or dispose of personal property
38 collateral or to account for its proceeds. The section recognizes that it does not relax prevailing
39 requirements for delivery of possession by a pledgor. Moreover, the section does not mitigate
40 the general requirement of § 9-301(1)(b) that a nonpossessory security interest in personal
41 property must be accompanied by notice filing to be effective against a levying creditor. Finally,
42 like the Uniform Fraudulent Conveyance Act this Act does not pre-empt the statutes governing
43 bulk transfers, such as Article 6 of the Uniform Commercial Code. Compliance with the cited
44 sections of the Uniform Commercial Code does not, however, insulate a transfer or obligation
45 from avoidance. Thus a sale by an insolvent debtor for less than a reasonably equivalent value
46 would be voidable under this Act notwithstanding compliance with the Uniform Commercial

1 Code.

2
3 9. This Act is not an exclusive law on the subject of voidable transfers and obligations.
4 See § 1, Comment 2. For example, the Uniform Commercial Code supplements or modifies the
5 operation of this Act in numerous ways. Instances include the following:

6
7 (a) U.C.C. § 2-402(2) (2014) recognizes the generally prevailing rule that retention of
8 possession of goods by a seller may be voidable, but limits the application of the rule by
9 negating any imputation of voidability from “retention of possession in good faith and
10 current course of trade by a merchant-seller for a commercially reasonable time after a sale
11 or identification.” (Indeed, independently of § 2-402(2), retention of possession of goods in
12 good faith and current course of trade by a merchant-seller for a commercially reasonable
13 time after a sale or identification should not in itself be considered to “hinder, delay, or
14 defraud” any creditor of the merchant-seller under § 4(a)(1).)

15
16 (b) Section 2A-308(1) provides a rule analogous to § 2-402(2) for situations in which a
17 lessor retains possession of goods that are subject to a lease contract. Section 2A-308(3)
18 provides that retention of possession of goods by the seller-lessee in a sale-leaseback
19 transaction does not render the transaction voidable by a creditor of the seller-lessee if the
20 buyer bought for value and in good faith.

21
22 (c) This Act does not preempt statutes governing bulk transfers, including Article 6 of
23 the Uniform Commercial Code in jurisdictions where it remains in force.

24
25 (d) Section 9-205 precludes treating a security interest in personal property as voidable
26 on account of various enumerated features it may have. Among other things, § 9-205
27 immunizes a security interest in tangible property from being avoided on account of the
28 secured party not being in possession of the property, notwithstanding the historical
29 skepticism of nonpossessory property interests.

30
31 This Act operates independently of rules in an organic statute applicable to a business
32 organization that limit distributions by the organization to its equity owners. Compliance with
33 those rules does not insulate such a distribution from being voidable under this Act. It is
34 conceivable that such an organic statute might contain a provision preempting the application of
35 this Act to such distributions. Cf. Model Business Corporation Act § 152 (optional provision
36 added in 1979 preempting the application of “any other statutes of this state with respect to the
37 legality of distributions”; deleted 1984). Such a preemptive statute of course must be respected
38 if applicable, but choice of law considerations may well render it inapplicable. See, e.g.,
39 *Faulkner v. Kornman (In re The Heritage Organization, L.L.C.)*, 413 B.R. 438, 462-63 (Bankr.
40 N.D. Tex. 2009) (action under the Texas enactment of this Act challenging a distribution by a
41 Delaware limited liability company to its members; held, a provision of the Delaware LLC
42 statute imposing a three-year statute of repose on an action under “any applicable law” to recover
43 a distribution by a Delaware LLC did not apply, because choice of law rules directed application
44 of the voidable transfer law of Texas).

45
46 10. Subsection (c) was added in 2014. Sections 2(b), 4(c), 5(c), 8(g), and 8(h) together

1 provide uniform rules on burdens and standards of proof relating to the operation of this Act.
2

3 Pursuant to subsection (c), proof of intent to “hinder, delay, or defraud” a creditor under
4 § 4(a)(1) is sufficient if made by a preponderance of the evidence. That is the standard of proof
5 ordinarily applied in civil actions. Subsection (c) thus rejects cases that have imposed an
6 extraordinary standard, typically “clear and convincing evidence,” by analogy to the standard
7 commonly applied to proof of common-law fraud. That analogy is misguided. By its terms,
8 § 4(a)(1) applies to a transaction that “hinders” or “delays” a creditor even if it does not
9 “defraud,” and a transaction to which § 4(a)(1) applies need not bear any resemblance to
10 common-law fraud. See Comment 8. Furthermore, the extraordinary standard of proof
11 commonly applied to common-law fraud originated in cases that were thought to involve a
12 special danger that claims might be fabricated. In the earliest such cases, a court of equity was
13 asked to grant relief on claims that were unenforceable at law for failure to comply with the
14 Statute of Frauds, the Statute of Wills, or the parol evidence rule. In time, extraordinary proof
15 also came to be required in actions seeking to set aside or alter the terms of written instruments.
16 See *Herman & MacLean v. Huddleston*, 459 U.S. 375, 388-89 (1983) and sources cited therein.
17 Those reasons for extraordinary proof do not apply to claims under § 4(a)(1).
18

19 For similar reasons, a procedural rule that imposes extraordinary pleading requirements
20 on a claim of “fraud,” without further gloss, should not be applied to a claim under § 4(a)(1).
21 The elements of a claim under § 4(a)(1) are very different from the elements of a claim of
22 common-law fraud. Furthermore, the reasons for such extraordinary pleading requirements do
23 not apply to a claim under § 4(a)(1). Unlike common-law fraud, a claim under § 4(a)(1) is not
24 unusually susceptible to abusive use in a “strike suit,” nor is it apt to be of use to a plaintiff
25 seeking to discover unknown wrongs. Likewise, a claim under § 4(a)(1) is unlikely to cause
26 significant harm to the defendant’s reputation, for the defendant is the transferee or obligee, and
27 the elements of the claim do not require the defendant to have committed even an arguable
28 wrong. See *Janvey v. Alguire*, 846 F.Supp.2d 662, 675-77 (N.D. Tex. 2011); *Carter-Jones*
29 *Lumber Co. v. Benune*, 725 N.E.2d 330, 331-33 (Ohio App. 1999). Cf. Federal Rules of Civil
30 Procedure, Appendix, Form 21 (2010) (illustrative form of complaint for a claim under § 4(a)(1)
31 or similar law, which Rule 84 declares sufficient to comply with federal pleading rules).
32

33 11. Subsection (c) allocates to the party making a claim under § 4 the burden of
34 persuasion as to the elements of the claim. Courts should not apply nonstatutory presumptions
35 that reverse that allocation, and should be wary of nonstatutory presumptions that would dilute it.
36 The command of § 13—that this Act is to be applied so as to effectuate its purpose of making
37 uniform the law among states enacting it—applies with particular cogency to nonstatutory
38 presumptions. Given the elasticity of key terms of this Act (e.g., “hinder, delay, or defraud”) and
39 the potential difficulty of proving others (e.g., the financial condition tests in § 4(a)(2) and § 5),
40 employment of divergent nonstatutory presumptions by enacting jurisdictions may render the
41 law nonuniform as a practical matter. It is not the purpose of subsection (c) to forbid
42 employment of any and all nonstatutory presumptions. Indeed, in some instances a rule of
43 avoidance law applied with a judicially-crafted presumption has won such favor as to be codified
44 as a separate statutory creation, such as the bulk sales laws, the absolute priority rule applicable
45 to reorganizations under Bankruptcy Code § 1129(b)(2)(B)(ii) (2014), and the so-called
46 “constructive fraud” provisions of § 4(a)(2) and § 5(a) of this Act itself. However, subsection (c)

1 subsection adopts for general application the rule of such cases as *Jackson Sound Studios, Inc. v.*
2 *Travis*, 473 F.2d 503 (5th Cir. 1973) (security transfer of corporation's equipment to corporate
3 principal's mother perfected on eve of bankruptcy of corporation held to be ~~fraudulent~~ voidable);
4 *In re Lamie Chemical Co.*, 296 F. 24 (4th Cir. 1924) (corporate preference to corporate officers
5 and directors held voidable by receiver when corporation was insolvent or nearly so and directors
6 had already voted for liquidation); *Stuart v. Larson*, 298 F. 223 (8th Cir. 1924), noted 38
7 Harv.L.Rev. 521 (1925) (corporate preference to director held voidable). See generally 2 G.
8 Glenn, *Fraudulent Conveyances and Preferences* 386 (Rev. ed. 1940). Subsection (b) overrules
9 such cases as *Epstein v. Goldstein*, 107 F.2d 755, 757 (2d Cir. 1939) (transfer by insolvent
10 husband to wife to secure his debt to her sustained against attack by husband's trustee); *Hartford*
11 *Accident & Indemnity Co. v. Jirasek*, 254 Mich. 131, 139, 235 N.W. 836, 839 (1931) (mortgage
12 given by debtor to his brother to secure an antecedent debt owed the brother sustained as not
13 ~~fraudulent~~ voidable).

14
15 ~~(3.)~~ Subsection (b) does not extend as far as § 8(a) of the Uniform Fraudulent
16 Conveyance Act and Bankruptcy Code § 548(b) (1984) ~~of the Bankruptcy Code~~ in rendering
17 voidable a transfer ~~made or obligation incurred~~ by an insolvent partnership to a partner, ~~who is~~
18 ~~an insider of the partnership.~~ A general partner is an insider of the partnership, but a transfer
19 by the partnership to the partner nevertheless is not vulnerable to avoidance under § 4(b) § 5(b)
20 unless the transfer was is for an antecedent debt and the partner had has reasonable cause to
21 believe that the partnership was is insolvent. ~~The~~ By contrast, the cited provisions of the
22 Uniform Fraudulent Conveyance Act and the Bankruptcy ~~Act~~ Code make any transfer by an
23 insolvent partnership to a general partner voidable. Avoidance of the partnership transfer
24 without reference to the partner's state of mind and the nature of the consideration exchanged
25 would be unduly harsh treatment of the creditors of the partner and unduly favorable to the
26 creditors of the partnership.

27
28 4. Subsection (c) was added in 2014. Sections 2(b), 4(c), 5(c), 8(g), and 8(h) together
29 provide uniform rules on burdens and standards of proof relating to the operation of this Act.
30 The principles stated in Comment 11 to § 4 apply to subsection (c).

31 **SECTION 6. WHEN TRANSFER IS MADE OR OBLIGATION IS INCURRED.**

32
33 For the purposes of this [Act]:

34 (1) a transfer is made:

35 (i) with respect to an asset that is real property other than a fixture, but including
36 the interest of a seller or purchaser under a contract for the sale of the asset, when the transfer is
37 so far perfected that a good-faith purchaser of the asset from the debtor against ~~whom~~ which
38 applicable law permits the transfer to be perfected cannot acquire an interest in the asset that is
39 superior to the interest of the transferee; and

1 (ii) with respect to an asset that is not real property or that is a fixture, when the
2 transfer is so far perfected that a creditor on a simple contract cannot acquire a judicial lien
3 otherwise than under this [Act] that is superior to the interest of the transferee;

4 (2) if applicable law permits the transfer to be perfected as provided in paragraph (1) and
5 the transfer is not so perfected before the commencement of an action for relief under this [Act],
6 the transfer is deemed made immediately before the commencement of the action;

7 (3) if applicable law does not permit the transfer to be perfected as provided in
8 paragraph (1), the transfer is made when it becomes effective between the debtor and the
9 transferee;

10 (4) a transfer is not made until the debtor has acquired rights in the asset transferred;

11 (5) an obligation is incurred:

12 (i) if oral, when it becomes effective between the parties; or

13 (ii) if evidenced by a writing record, when the writing executed record signed by
14 the obligor is delivered to or for the benefit of the obligee.

15 Official Comment

16
17 ~~(1.)~~ One of the uncertainties in the law governing the avoidance of ~~fraudulent~~ transfers
18 and obligations of the nature governed by this Act is the difficulty of determining when the cause
19 of action arises. ~~Subsection (b)~~ Section 6 clarifies ~~this~~ that point in time. For transfers of real
20 ~~estate section 6(1)~~ property other than a fixture, paragraph (1)(i) fixes the time as the date of
21 perfection against a good-faith purchaser from the transferor, ~~and for~~ For transfers of fixtures and
22 assets constituting personalty, ~~the time is fixed~~ paragraph (1)(ii) fixes the time as the date of
23 perfection against a judicial lien creditor not asserting rights under this Act. Perfection under
24 paragraph (1) typically is effected by notice-filing, recordation, or delivery of unequivocal
25 possession. See U.C.C. §§ ~~9-302, 9-304, and 9-305~~ U.C.C. §§ 9-310, 9-313 (2014) (security
26 interest in personal property generally is perfected by notice-filing or delivery of possession to
27 transferee); 4 American Law of Property §§ 17.10-17.12 (1952) (recordation of transfer or
28 delivery of possession to grantee required for perfection against bona fide purchaser from
29 grantor). The provision for postponing the time a transfer is made until its perfection is an
30 adaptation of Bankruptcy Code § 548(d)(1) (1984). ~~of the Bankruptcy Code~~. When no steps are
31 taken to perfect a transfer that applicable law permits to be perfected, the transfer is deemed by
32 paragraph (2) to be perfected immediately before the filing of an action to avoid it; without such

1 a provision to cover that eventuality, an unperfected transfer ~~would~~ arguably would be immune
2 to attack. Some transfers—*e.g.*, an assignment of a bank account, creation of a security interest
3 in money, or execution of a marital or premarital agreement for the disposition of property
4 owned by the parties to the agreement— may not be amenable to perfection as against a bona
5 fide purchaser or judicial lien creditor. When a transfer ~~is not perfectible~~ may not be perfected as
6 provided in paragraph ~~(4)~~ (1), paragraph (3) provides that the transfer occurs for the purpose of
7 this Act when the transferor effectively parts with an interest in the asset as provided in ~~§ 1(12)~~
8 § 1(16) *supra*.

9
10 ¶(2.) Paragraph (4) requires the transferor to have rights in the asset transferred before the
11 transfer is made for the purpose of this section. This provision makes clear that its purpose may
12 not be circumvented by notice-filing or recordation of a document evidencing an interest in an
13 asset to be acquired in the future. *Cf.* Bankruptcy Code § 547(e) (1984); U.C.C. ~~§ 9-203(1)(e).~~
14 U.C.C. § 9-203(b)(2) (2014).

15
16 ¶(3.) Paragraph (5) ~~is new~~ had no analogue in the Uniform Fraudulent Conveyance Act.
17 It is intended to resolve uncertainty arising from *Rubin v. Manufacturers Hanover Trust Co.*, 661
18 F.2d 979, 989-91, 997 (2d Cir. 1981), insofar as that case holds that an obligation of guaranty
19 may be deemed to be incurred when advances covered by the guaranty are made rather than
20 when the guaranty first became effective between the parties. Compare Rosenberg,
21 *Intercorporate Guaranties and the Law of Fraudulent Conveyances: Lender Beware*, 125
22 U.Pa.L.Rev. 235, 256-57 (1976).

23
24 An obligation may be avoided ~~as fraudulent~~ under this Act if it is incurred under the
25 circumstances specified in § 4(a) or § 5(a). The debtor may receive reasonably equivalent value
26 in exchange for an obligation incurred even though the benefit to the debtor is indirect. See
27 *Rubin v. Manufacturers Hanover Trust Co.*, 661 F.2d at 991-92; *Williams v. Twin City Co.*, 251
28 F.2d 678, 681 (9th Cir. 1958); Rosenberg, *supra*, at 243-46.

29
30 Under paragraph (5), an oral obligation is incurred when it becomes effective between the
31 parties, and later confirmation of the oral obligation by a record does not reset the time of
32 inurrence to that later time.

33 34 **SECTION 7. REMEDIES OF CREDITORS.**

35 (a) In an action for relief against a transfer or obligation under this [Act], a creditor,
36 subject to the limitations in Section 8, may obtain:

37 (1) avoidance of the transfer or obligation to the extent necessary to satisfy the
38 creditor's claim;

39 (2) an attachment or other provisional remedy against the asset transferred or
40 other property of the transferee if available under applicable law; in accordance with the

1 ~~procedure prescribed by [];~~

2 (3) subject to applicable principles of equity and in accordance with applicable
3 rules of civil procedure,

4 (i) an injunction against further disposition by the debtor or a transferee, or
5 both, of the asset transferred or of other property;

6 (ii) appointment of a receiver to take charge of the asset transferred or of
7 other property of the transferee; or

8 (iii) any other relief the circumstances may require.

9 (b) If a creditor has obtained a judgment on a claim against the debtor, the creditor, if the
10 court so orders, may levy execution on the asset transferred or its proceeds.

11 Official Comment

12
13 (1.) This section is derived from §§ 9 and 10 of the Uniform Fraudulent Conveyance
14 Act. Section 9 of that Act specified the remedies of creditors whose claims have matured, and
15 § 10 enumerated the remedies available to creditors whose claims have not matured. A creditor
16 holding an unmatured claim may be denied the right to receive payment ~~for~~ from the proceeds of
17 a sale on execution until ~~his~~ the claim has matured, but the proceeds may be deposited in court or
18 in an interest-bearing account pending the maturity of the creditor's claim. The remedies
19 specified in this section are not exclusive.

20
21 (2.) The availability of an attachment or other provisional remedy has been restricted by
22 amendments of statutes and rules of procedure in response to ~~reflect views of the Supreme Court~~
23 ~~expressed in~~ Connecticut v. Doehr, 501 U.S. 1 (1991), Sniadach v. Family Finance Corp. of Bay
24 ~~View, 395 U.S. 337 (1969), and its~~ their progeny. This judicial development and the procedural
25 changes that followed in its wake do not preclude resort to attachment by a creditor in seeking
26 avoidance of a ~~fraudulent~~ transfer or obligation. See, e.g., *Britton v. Howard Sav. Bank*, 727
27 F.2d 315, 317-20 (3d Cir. 1984); *Computer Sciences Corp. v. Sci-Tek Inc.*, 367 A.2d 658, 661
28 (Del. Super. 1976); *Great Lakes Carbon Corp. v. Fontana*, 54 A.D.2d 548, 387 N.Y.S.2d 115
29 (1st Dep't 1976). Section 7(a)(2) continues the authorization for the use of attachment contained
30 in § 9(b) of the Uniform Fraudulent Conveyance Act, or of a similar provisional remedy, when
31 ~~the state's procedure~~ applicable law provides therefor, subject to the constraints imposed by the
32 due process clauses of the United States and state constitutions.

33
34 (3.) Subsections (a) and (b) of § 10 of the Uniform Fraudulent Conveyance Act
35 authorized the court, in an action on a ~~fraudulent~~ voidable transfer or obligation, to restrain the
36 defendant from disposing of his property, to appoint a receiver to take charge of his property, or

1 to make any order the circumstances may require. Section 10, however, applied only to a
2 creditor whose claim was unmatured. There is no reason to restrict the availability of these
3 remedies to such a creditor, and the courts have not so restricted them. See, e.g., *Lipskey v.*
4 *Voloshen*, 155 Md. 139, 143-45, 141 Atl. 402, 404-05 (1928) (judgment creditor granted
5 injunction against disposition of property by transferee, but appointment of receiver denied for
6 lack of sufficient showing of need for such relief); *Matthews v. Schusheim*, 36 Misc.2d 918, 922-
7 23, 235 N.Y.S.2d 973, 976-77, 991-92 (Sup.Ct. 1962) (injunction and appointment of receiver
8 granted to holder of claims for fraud, breach of contract, and alimony arrearages; whether
9 creditor's claim was mature said to be immaterial); *Oliphant v. Moore*, 155 Tenn. 359, 362-63,
10 293 S.W. 541, 542 (1927) (tort creditor granted injunction restraining alleged tortfeasor's
11 disposition of property).

12
13 (4.) As under the Uniform Fraudulent Conveyance Act, a creditor is not required to
14 obtain a judgment against the debtor-transferor or to have a matured claim in order to proceed
15 under subsection (a). See §§ 1(3) and (4) 1(4) *supra*; *American Surety Co. v. Conner*, 251 N.Y.
16 1, 166 N.E. 783, 65 A.L.R. 244 (1929); 1 G. Glenn, *Fraudulent Conveyances and Preferences*
17 129 (Rev. ed. 1940).

18
19 (5.) The provision in subsection (b) for a creditor to levy execution on a ~~fraudulently~~
20 transferred asset continues the availability of a remedy provided in § 9(b) of the Uniform
21 Fraudulent Conveyance Act. See, e.g., *Doland v. Burns Lbr. Co.*, 156 Minn. 238, 194 N.W. 636
22 (1923); *Montana Ass'n of Credit Management v. Hergert*, 181 Mont. 442, 449, 453, 593 P.2d
23 1059, 1063, 1065 (1979); *Corbett v. Hunter*, 292 Pa.Super. 123, 128, 436 A.2d 1036, 1038
24 (1981); see also *American Surety Co. v. Conner*, 251 N.Y. 1, 6, 166 N.E. 783, 784, 65 A.L.R.
25 244, 247 (1929) (“In such circumstances he [the creditor] might find it necessary to indemnify
26 the sheriff and, when the seizure was erroneous, assumed the risk of error”); McLaughlin,
27 *Application of the Uniform Fraudulent Conveyance Act*, 46 Harv.L.Rev. 404, 441-42 (1933).

28
29 (6.) The remedies specified in § 7, like those enumerated in §§ 9 and 10 of the Uniform
30 Fraudulent Conveyance Act, are cumulative. *Lind v. O. N. Johnson Co.*, 204 Minn. 30, 40, 282
31 N.W. 661, 667, 119 A.L.R. 940 (1939) (Uniform Fraudulent Conveyance Act held not to impair
32 or limit availability of the “old practice” of obtaining judgment and execution returned
33 unsatisfied before proceeding in equity to set aside a transfer); *Conemaugh Iron Works Co. v.*
34 *Delano Coal Co., Inc.*, 298 Pa. 182, 186, 148 A. 94, 95 (1929) (Uniform Fraudulent Conveyance
35 Act held to give an “additional optional remedy” and not to “deprive a creditor of the right, as
36 formerly, to work out his remedy at law”); 1 G. Glenn, *Fraudulent Conveyances and Preferences*
37 120, 130, 150 (Rev. ed. 1940).

38
39 7. If a transfer or obligation is voidable under § 4 or § 5, the basic remedy provided by
40 this Act is its avoidance under subsection (a)(1). “Avoidance” is a term of art in this Act, for it
41 does not mean that the transfer or obligation is simply rendered void. It has long been
42 established that a transfer avoided by a creditor under this Act or its predecessors is nevertheless
43 valid as between the debtor and the transferee. For example, in the case of a transfer of property
44 worth \$100 by Debtor to Transferee, held voidable in a suit by Creditor-1 who is owed \$80 by
45 Debtor, “avoidance” of the transfer leaves the \$20 surplus with Transferee. Debtor is not entitled
46 to recover the surplus. Nor is Debtor’s Creditor-2 entitled to pursue the surplus by reason of

1 Creditor-1’s action (though Creditor-2 may be entitled to bring its own avoidance action to
2 pursue the surplus). The foregoing principle is embedded in the language of subsection (a)(1),
3 which prescribes “avoidance” only “to the extent necessary to satisfy the creditor’s claim.”
4 Section 9(a) of the Uniform Fraudulent Conveyance Act was similarly limited. See, e.g., *Becker*
5 *v. Becker*, 416 A.2d 156, 162 (Vt. 1980); *De Martini v. De Martini*, 52 N.E.2d 138, 141 (Ill.
6 1943); *Markward v. Murrah*, 156 S.W.2d 971, 974 (Tex. 1941); *Society Milion Athena, Inc. v.*
7 *National Bank of Greece*, 22 N.E.2d 374, 377 (N.Y. 1939); *National Radiator Corp. v. Parad*, 8
8 N.E.2d 794, 796-97 (Mass. 1937); 1 G. Glenn, *Fraudulent Conveyances and Preferences* § 114,
9 at 225 (Rev. ed. 1940). The transferee’s mental state is irrelevant to the foregoing, but a good-
10 faith transferee may also be afforded protection by § 8.

11
12 It follows that “avoidance” of an obligation under subsection (a)(1) likewise should not
13 mean its cancellation, but rather a remedy that recognizes the existence of the obligation and the
14 superiority of the plaintiff creditor’s interest over the obligee’s interest. Ordinarily that should
15 mean subordination of the obligation to the plaintiff creditor’s claim against the debtor. That
16 would entail disgorgement by the obligee of any payments received or receivable on the
17 obligation, to the extent necessary to satisfy the plaintiff creditor’s claim, with the obligee being
18 subrogated to the plaintiff creditor when the latter’s claim is paid. Of course, if the obligation is
19 unenforceable for reasons other than contravention of this Act, contravention of this Act does not
20 render the obligation enforceable.

21
22 This Comment relates to the meaning of subsection (a)(1). If this Act is invoked in a
23 bankruptcy proceeding, the remedial entitlements provided by the Bankruptcy Code may differ
24 from those provided by this Act.

25 **SECTION 8. DEFENSES, LIABILITY, AND PROTECTION OF TRANSFEREE**

26 **OR OBLIGEE.**

27
28 (a) A transfer or obligation is not voidable under Section 4(a)(1) against a person ~~who~~
29 that took in good faith and for a reasonably equivalent value given the debtor or against any
30 subsequent transferee or obligee.

31 (b) To the extent a transfer is avoidable in an action by a creditor under Section 7(a)(1),
32 the following rules apply:

33 (1) Except as otherwise provided in this section, ~~to the extent a transfer is~~
34 ~~voidable in an action by a creditor under Section 7(a)(1),~~ the creditor may recover judgment for
35 the value of the asset transferred, as adjusted under subsection (c), or the amount necessary to
36 satisfy the creditor’s claim, whichever is less. The judgment may be entered against:

1 (1) (i) the first transferee of the asset or the person for whose benefit the
2 transfer was made; or

3 (2) ~~(ii) any subsequent transferee~~ an immediate or mediate transferee of
4 such first transferee, other than

5 (A) a good-faith transferee ~~who~~ that took for value, or ~~from~~

6 (B) ~~any subsequent transferee~~ an immediate or mediate good-faith
7 transferee of a person described in clause (A).

8 (2) Recovery pursuant to Section 7(a)(1) or (b) of or from the asset transferred or
9 its proceeds, by levy or otherwise, is available only against a person described in paragraph (1)(i)
10 or (ii) of this subsection.

11 (c) If the judgment under subsection (b) is based upon the value of the asset transferred,
12 the judgment must be for an amount equal to the value of the asset at the time of the transfer,
13 subject to adjustment as the equities may require.

14 (d) Notwithstanding voidability of a transfer or an obligation under this [Act], a good-
15 faith transferee or obligee is entitled, to the extent of the value given the debtor for the transfer or
16 obligation, to

17 (1) a lien on or a right to retain any interest in the asset transferred;

18 (2) enforcement of any obligation incurred; or

19 (3) a reduction in the amount of the liability on the judgment.

20 (e) A transfer is not voidable under Section 4(a)(2) or Section 5 if the transfer results
21 from:

22 (1) termination of a lease upon default by the debtor when the termination is
23 pursuant to the lease and applicable law; or

1 (2) enforcement of a security interest in compliance with Article 9 of the Uniform
2 Commercial Code, other than acceptance of collateral in full or partial satisfaction of the
3 obligations it secures.

4 (f) A transfer is not voidable under Section 5(b):

5 (1) to the extent the insider gave new value to or for the benefit of the debtor after
6 the transfer was made ~~unless~~, except to the extent the new value was secured by a valid lien;

7 (2) if made in the ordinary course of business or financial affairs of the debtor and
8 the insider; or

9 (3) if made pursuant to a good-faith effort to rehabilitate the debtor and the
10 transfer secured present value given for that purpose as well as an antecedent debt of the debtor.

11 (g) The following rules determine the burden of proving matters referred to in this
12 section:

13 (1) A party that seeks to invoke subsection (a), (d), (e) or (f) has the burden of
14 proving the applicability of that subsection.

15 (2) Except as otherwise provided in paragraphs (3) and (4), the creditor has the
16 burden of proving each applicable element of subsection (b) or (c).

17 (3) The transferee has the burden of proving the applicability to the transferee of
18 subsection (b)(1)(ii)(A) or (B).

19 (4) A party that seeks adjustment under subsection (c) has the burden of proving
20 the adjustment.

21 (h) Proof of matters referred to in this section is sufficient if established by a
22 preponderance of the evidence.

1 **Official Comment**

2
3 (1.) Subsection (a) ~~states the rule that applies when the transferee establishes~~ sets forth a
4 complete defense to ~~the an~~ action for avoidance ~~based on Section~~ under § 4(a)(1). The
5 subsection is an adaptation of the exception stated in § 9 of the Uniform Fraudulent Conveyance
6 Act. ~~The Pursuant to subsection (g), the person who invokes~~ invoking this defense carries the
7 burden of establishing good faith and the reasonable equivalence of the consideration exchanged.
8 *Chorost v. Grand Rapids Factory Showrooms, Inc.*, 77 F. Supp. 276, 280 (D.N.J. 1948), *aff'd*,
9 172 F.2d 327, 329 (3d Cir. 1949).

10
11 (2.) Subsection (b) is derived from Bankruptcy Code §§ 550(a), (b) (1984). ~~of the~~
12 ~~Bankruptcy Code~~. The value of the asset transferred is limited to the value of the levyable
13 interest ~~on~~ of the transferor, exclusive of any interest encumbered by a valid lien. See § 1(2)
14 *supra*.

15
16 The requirement of Bankruptcy Code § 550(b)(1) (1984) ~~of the Bankruptcy Code~~ that a
17 transferee be “without knowledge of the voidability of the transfer” in order to be protected has
18 been omitted as inappropriate. Knowledge of the facts rendering the transfer voidable would be
19 inconsistent with the good faith that is required of a protected transferee. Knowledge of the
20 voidability of a transfer would seem to involve a legal conclusion. Determination of the
21 voidability of the transfer ought not to require the court to inquire into the legal sophistication of
22 the transferee.

23
24 (3.) Subsection (c) ~~is new~~ has no analogue in Bankruptcy Code § 550(a), (b) (1984). The
25 measure of the recovery of a ~~defrauded~~ creditor against a ~~fraudulent~~ transferee is usually limited
26 to the value of the asset transferred at the time of the transfer. See, e.g., *United States v. Fernon*,
27 640 F.2d 609, 611 (5th Cir. 1981); *Hamilton Nat’l Bank of Boston v. Halstead*, 134 N.Y. 520, 31
28 N.E. 900 (1892); cf. *Buffum v. Peter Barceloux Co.*, 289 U.S. 227 (1932) (transferee’s objection
29 to trial court’s award of highest value of asset between the date of the transfer and the date of the
30 decree of avoidance rejected because an award measured by value as of time of the transfer plus
31 interest from that date would have been larger). The premise of § 8(c) is that changes in value of
32 the asset transferred that occur after the transfer should ordinarily not affect the amount of the
33 creditor’s recovery. Circumstances may require a departure from that measure of the recovery,
34 however, as the cases decided under the Uniform Fraudulent Conveyance Act and other laws
35 derived from the Statute of 13 Elizabeth illustrate. Thus, if the value of the asset at the time of
36 levy and sale to enforce the judgment of the creditor has been enhanced by improvements of the
37 asset transferred or discharge of liens on the property, a good-faith transferee should be
38 reimbursed for the outlay for such a purpose to the extent the sale proceeds were increased
39 thereby. See Bankruptcy Code § 550(d) (1984); *Janson v. Schier*, 375 A.2d 1159, 1160 (N.H.
40 1977); Anno., 8 A.L.R. 527 (1920). If the value of the asset at the time of the transfer has been
41 diminished by severance and disposition of timber or minerals or fixtures, the transferee should
42 be liable for the amount of the resulting reduction. See *Damazo v. Wahby*, 269 Md. 252, 257,
43 305 A.2d 138, 142 (1973). If the transferee has collected rents, harvested crops, or derived other
44 income from the use or occupancy of the asset after the transfer, the liability of the transferee
45 should be limited in any event to the net income after deduction of the expense incurred in
46 earning the income. Anno., 60 A.L.R.2d 593 (1958). On the other hand, adjustment for the

1 equities does not warrant an award to the creditor of consequential damages alleged to accrue
2 from mismanagement of the asset after the transfer.

3
4 (4.) Subsection (d) is an adaptation of Bankruptcy Code § 548(c) (1984). ~~of the~~
5 ~~Bankruptcy Code~~. An insider ~~who~~ that receives property or an obligation from an insolvent
6 debtor as security for or in satisfaction of an antecedent debt of the transferor or obligor is not a
7 good-faith transferee or obligee if the insider has reasonable cause to believe that the debtor was
8 insolvent at the time the transfer was made or the obligation was incurred. If a foreclosure sale is
9 voidable and does not qualify for the benefit of § 3(b) or § 8(e)(2) because it was not conducted
10 in accordance with the requirements of applicable law, the buyer, if in good faith, will still be
11 entitled to the benefit of subsection (d) to the extent of the price paid by the buyer.

12
13 (5.) Subsection (e)(1) rejects the rule adopted in *Darby v. Atkinson (In re Farris)*, 415
14 F.Supp. 33, 39-41 (W.D.Okla. 1976), that termination of a lease on default in accordance with its
15 terms and applicable law may constitute a ~~fraudulent~~ voidable transfer.

16
17 _____ Subsection (e)(2) protects a transferee ~~who~~ that acquires a debtor's interest in an asset as
18 a result of the enforcement ~~of a secured creditor's~~ by a secured party (which may but need not be
19 the transferee) of rights pursuant to and in compliance with the provisions of Part 5 Part 6 of
20 Article 9 of the Uniform Commercial Code. *Cf. Calaiaro v. Pittsburgh Nat'l Bank (In re*
21 *Ewing)*, 33 B.R. 288, 9 C.B.C.2d 526, CCH B.L.R. ¶ 69,460 (Bankr. W.D.Pa. 1983) (sale of
22 pledged stock held subject to avoidance as ~~fraudulent transfer in~~ under § 548 of the Bankruptcy
23 Code), *rev'd*, 36 B.R. 476 (W.D.Pa. 1984) (transfer held not voidable because deemed to have
24 occurred more than one year before bankruptcy petition filed). ~~Although a secured creditor may~~
25 ~~enforce rights in collateral without a sale under § 9-502 or § 9-505 of the Code, the creditor must~~
26 ~~proceed in good faith (U.C.C. § 9-103) and in a "commercially reasonable" manner. The~~
27 ~~"commercially reasonable" constraint is explicit in U.C.C. § 9-502(2) and is implicit in § 9-505.~~
28 ~~See 2 G. Gilmore, Security Interests in Personal Property 1224-27 (1965).~~ The global
29 requirement of Article 9 that the secured party enforce its rights in good faith, and the further
30 requirement of Article 9 that certain remedies be conducted in a commercially reasonable
31 manner, provide substantial protection to the other creditors of the debtor. See U.C.C. §§ 1-304,
32 9-607(b), 9-610(b) (2014). The exemption afforded by subsection (e)(2) does not extend to
33 acceptance of collateral in full or partial satisfaction of the obligations it secures. That remedy,
34 contemplated by U.C.C. §§ 9-620-9-622 (2014), is sometimes referred to as "strict foreclosure."
35 An exemption for strict foreclosure is inappropriate because compliance with the rules of
36 Article 9 relating to strict foreclosure may not sufficiently protect the interests of the debtor's
37 other creditors if the debtor does not act to protect equity the debtor may have in the asset.

38
39 (6.) Subsection (f) provides additional defenses against the avoidance of a preferential
40 transfer to an insider under § 5(b).

41
42 Paragraph (1) is adapted from Bankruptcy Code § 547(c)(4) (1984), ~~of the Bankruptcy~~
43 ~~Code~~, which permits a preferred creditor to set off the amount of new value subsequently
44 advanced against the recovery of a voidable preference by a trustee in bankruptcy to the debtor
45 without security. The new value may consist not only of money, goods, or services delivered on
46 unsecured credit but also of the release of a valid lien. See, e.g., *In re Ira Haupt & Co.*, 424 F.2d

1 722, 724 (2d Cir. 1970); *Baranow v. Gibraltar Factors Corp. (In re Hygrade Envelope Co.)*, 393
2 F.2d 60, 65-67 (2d Cir.), *cert. denied*, 393 U.S. 837 (1968); *In re John Morrow & Co.*, 134 F.
3 686, 688 (S.D.Ohio 1901). It does not include an obligation substituted for a prior obligation. If
4 the insider receiving the preference thereafter extends new credit to the debtor but also takes
5 security from the debtor, the injury to the other creditors resulting from the preference remains
6 undiminished by the new credit. On the other hand, if a lien taken to secure the new credit is
7 itself voidable by a judicial lien creditor of the debtor, the new value received by the debtor may
8 appropriately be treated as unsecured and applied to reduce the liability of the insider for the
9 preferential transfer.

10
11 Paragraph (2) is derived from ~~§ 546(e)(2) of the Bankruptcy Code~~, Bankruptcy Code
12 § 547(c)(2) (1984), which excepts certain payments made in the ordinary course of business or
13 financial affairs from avoidance by the trustee in bankruptcy as preferential transfers. Whether a
14 transfer was in the “ordinary course” requires a consideration of the pattern of payments or
15 secured transactions engaged in by the debtor and the insider prior to the transfer challenged
16 under § 5(b). See Tait & Williams, *Bankruptcy Preference Laws: The Scope of Section*
17 *547(c)(2)*, 99 Banking L.J. 55, 63-66 (1982). The defense provided by paragraph (2) is
18 available, irrespective of whether the debtor or the insider or both are engaged in business, but
19 the prior conduct or practice of both the debtor and the insider-transferee ~~is~~ are relevant.

20
21 Paragraph (3) ~~is new and~~ has no analogue in Bankruptcy Code § 547 (1984). It reflects a
22 policy judgment that an insider who has previously extended credit to a debtor should not be
23 deterred from extending further credit to the debtor in a good-faith effort to save the debtor from
24 a forced liquidation in bankruptcy or otherwise. A similar rationale has sustained the taking of
25 security from an insolvent debtor for an advance to enable the debtor to stave off bankruptcy and
26 extricate itself from financial stringency. *Blackman v. Bechtel*, 80 F.2d 505, 508-09 (8th Cir.
27 1935); *Olive v. Tyler (In re Chelan Land Co.)*, 257 F. 497, 5 A.L.R. 561 (9th Cir. 1919); *In re*
28 *Robin Bros. Bakeries, Inc.*, 22 F.Supp. 662, 663-64 (N.D.Ill. 1937); see *Dean v. Davis*, 242 U.S.
29 438, 444 (1917). The amount of the present value given, the size of the antecedent debt secured,
30 and the likelihood of success for the rehabilitative effort are relevant considerations in
31 determining whether the transfer was in good faith.

32
33 7. Subsections (g) and (h) were added in 2014. Sections 2(b), 4(c), 5(c), 8(g), and 8(h)
34 together provide uniform rules on burdens and standards of proof relating to the operation of this
35 Act. The principles stated in Comment 11 to § 4 apply to subsections (g) and (h).

36
37 8. The provisions of § 8 are integral elements of the rights created by this Act.
38 Accordingly, they should apply if this Act is invoked in a bankruptcy proceeding pursuant to
39 Bankruptcy Code § 544(b) (2014). That follows from the fundamental principle that property
40 rights in bankruptcy should be the same as outside bankruptcy, unless a federal interest compels
41 a different result. See *Butner v. United States*, 440 U.S. 48, 55 (1979). Section 8(b) limits
42 damages under this Act to the amount of the plaintiff creditor’s claim, and that limitation is
43 overridden in bankruptcy by the rule of *Moore v. Bay*, 284 U.S. 4 (1931), which Congress
44 unmistakably maintained when it enacted the Bankruptcy Code. In the absence of a clear
45 override by the Bankruptcy Code or other federal law, however, other aspects of § 8 should
46 apply if this Act is invoked in bankruptcy. See, e.g., *Decker v. Tramiel (In re JTS Corp.)*, 617

1 F.3d 1102, 1110-16 (9th Cir. 2010) (holding that § 8(d) applies to a claim brought under this Act
2 in a bankruptcy proceeding pursuant to Bankruptcy Code § 544(b)).
3

4 **SECTION 9. EXTINGUISHMENT OF [CLAIM FOR RELIEF] [CAUSE OF**

5 **ACTION].** A [claim for relief] [cause of action] with respect to a ~~fraudulent~~ transfer or
6 obligation under this [Act] is extinguished unless action is brought:

7 (a) under Section 4(a)(1), ~~within~~ not later than 4 years after the transfer was made or the
8 obligation was incurred or, if later, ~~within~~ not later than one year after the transfer or obligation
9 was or could reasonably have been discovered by the claimant;

10 (b) under Section 4(a)(2) or 5(a), ~~within~~ not later than 4 years after the transfer was made
11 or the obligation was incurred; or

12 (c) under Section 5(b), ~~within~~ not later than one year after the transfer was made ~~or the~~
13 ~~obligation was incurred.~~

14 **Official Comment**

15
16 (1.) This section ~~is new~~ had no analogue in the Uniform Fraudulent Conveyance Act. Its
17 purpose is to make clear that lapse of the statutory periods prescribed by the section bars the
18 right and not merely the remedy. ~~See Restatement of Conflict of Laws 2d § 143 Comments (b)~~
19 ~~& (c) (1971).~~ The section rejects the rule applied in *United States v. Gleneagles Inv. Co.*, 565
20 F.Supp. 556, 583 (M.D.Pa. 1983) (state statute of limitations held not to apply to action by
21 United States based on Uniform Fraudulent Conveyance Act). Another consequence of barring
22 the right and not merely the remedy is that, under *Restatement (Second) of Conflict of Laws*
23 § 143 (1971), if an action is brought in jurisdiction A and the action is determined to be governed
24 by this Act as enacted in jurisdiction B, the action cannot be maintained if it is time-barred in
25 jurisdiction B. The 1988 revision of §§ 142 and 143 of the *Restatement (Second) of Conflict of*
26 *Laws*, which eliminated the right/remedy distinction, should not be applied to this Act. Because
27 a voidable transfer or obligation may injure all of a debtor's many creditors, there is need for a
28 uniform and predictable cutoff time.

29
30 (2.) Statutes of limitations applicable to the avoidance of ~~fraudulent~~ transfers and
31 obligations vary widely from state to state and are frequently subject to uncertainties in their
32 application. See Hesson, *The Statute of Limitations in Actions to Set Aside Fraudulent*
33 *Conveyances and in Actions Against Directors by Creditors of Corporations*, 32 Cornell L.Q.
34 222 (1946); Annos., 76 A.L.R. 864 (1932), 128 A.L.R. 1289 (1940), 133 A.L.R. 1311 (1941), 14
35 A.L.R.2d 598 (1950), and 100 A.L.R.2d 1094 (1965). Together with § 6, this section should
36 mitigate the uncertainty and diversity that have characterized the decisions applying statutes of

1 limitations to actions to ~~fraudulent~~ avoid transfers and obligations. The periods prescribed apply,
2 whether the action under this Act is brought by ~~the a creditor defrauded~~ or by a purchaser at a
3 sale on execution levied pursuant to § 7(b) and whether the action is brought against the original
4 transferee or subsequent transferee. The prescription of statutory periods of limitation does not
5 preclude the barring of an avoidance action for laches. See ~~§ 10~~ § 12 and the accompanying
6 Comment *infra*.

7
8 3. Subsection (a) provides that the four-year period ordinarily applicable to a claim under
9 § 4(a)(1) is extended to “one year after the transfer or obligation was or could reasonably have
10 been discovered by the claimant.” Antecedents to that “discovery rule” have long existed in
11 common law and in other statutes, and courts may take different approaches to filling out the
12 meaning of subsection (a) by reference to such precedents. Thus, subsection (a) literally starts
13 the one-year period when the transfer was or could reasonably have been discovered by the
14 claimant, but cases applying subsection (a) have held that the period starts only when the transfer
15 and its wrongful nature were or could reasonably have been discovered. See, e.g., *Freitag v.*
16 *McGhie*, 947 P.2d 1186 (Wash. 1997); *State Farm Mut. Auto. Ins. Co. v. Cordua*, 834 F.Supp.2d
17 301, 306-08 (E.D. Pa. 2011). A recurring situation to which that distinction may be relevant is
18 Spouse X’s transfer of assets beyond the reach of creditors, made in anticipation of divorcing
19 Spouse Y after the four-year period has elapsed and made for the purpose of thwarting
20 Spouse Y’s economic interests in the divorce. Spouse Y may well know of the transfer long
21 before Spouse Y learns its wrongful purpose. Of course, even if the period specified in
22 subsection (a) is held to have lapsed in a given case, law other than this Act might allow the
23 transferred assets to be considered in making a division of assets in the ensuing divorce case.
24

25 **SECTION 10. GOVERNING LAW.**

26 (a) In this section, the following rules determine a debtor’s location:

27 (1) A debtor who is an individual is located at the individual’s principal residence.

28 (2) A debtor that is an organization and has only one place of business is located
29 at its place of business.

30 (3) A debtor that is an organization and has more than one place of business is
31 located at its chief executive office.

32 (b) A claim in the nature of a claim under this [Act] is governed by the local law of the
33 jurisdiction in which the debtor is located when the transfer is made or the obligation is incurred.

34 **Official Comment**

35
36 1. Section 10, added in 2014, is a simple and predictable choice of law rule for claims of
37 the nature governed by the Act. It provides that a claim in the nature of a claim under the Act is

1 governed by the local law of the jurisdiction in which the debtor is “located” at the time the
2 challenged transfer is made or the challenged obligation is incurred. “Local” law means the
3 substantive law of the referenced jurisdiction, and not its choice of law rules. Section 6
4 determines the time at which a transfer is made or obligation is incurred for purposes of the Act,
5 including this section.

6
7 Basing choice of law on the location of the debtor is analogous to the rule set forth in
8 U.C.C. § 9-301 (2014), which provides that the priority of a security interest in intangible
9 property is generally governed by the local law of the jurisdiction in which the debtor is located.
10 The analogy is apt, because the substantive rules of this Act are a species of priority rule, in that
11 they determine the circumstances in which a debtor’s creditors, rather than the debtor’s
12 transferee, have superior rights in property transferred by the debtor. In keeping with that
13 analogy, the definition of the debtor’s “location” in subsection (a) is identical to the baseline
14 definition of that term in U.C.C. § 9-307(b) (2014). Subsection (a) does not include any of the
15 exceptions to the baseline definition that are set forth in Article 9 of the Uniform Commercial
16 Code, such as U.C.C. § 9-307(e) (2014) (providing that the location of a domestic corporation or
17 other “registered organization” is its jurisdiction of organization), and U.C.C. § 9-307(c) (2014)
18 (providing in effect that if the baseline definition would locate a debtor in a jurisdiction that lacks
19 an Article 9-style filing system, then the debtor is instead located in the District of Columbia).
20 Those exceptions are not included in subsection (a) because their primary purpose relates to the
21 operation of Article 9’s perfection rules, which have no analogue in this Act.

22
23 2. The choice of law rule set forth in § 10(b) applies to any claim in the nature of a claim
24 under this Act—in other words, any claim sufficiently similar to a claim under this Act as to
25 warrant the application of this Act’s choice of law rule. “This Act” of course refers to the
26 enactment of this Act that is in force in the jurisdiction whose enactment of § 10(b) is being
27 applied. Section 10(b) could not properly have been written to apply merely to “a claim under
28 this Act,” for such a formulation would presuppose the applicability of the substantive provisions
29 of this Act as in force in that jurisdiction. If a question should arise as to whether a given claim
30 is sufficiently similar to a claim under this Act that § 10(b) should apply to it, the answer is left
31 to judicial determination.

32
33 3. As used in subsection (a), the terms “principal residence,” “place of business,” and
34 “chief executive office” are to be evaluated on the basis of authentic and sustained activity, not
35 on the basis of manipulations employed to establish a location artificially (e.g., by such means as
36 establishing a notional “chief executive office” by use of straw-man officers or directors in a
37 jurisdiction in which creditors’ rights are substantially debased, or establishing a notional
38 “principal residence” for a short term in such a jurisdiction for the purpose of making an asset
39 transfer while there). Notwithstanding the adaptation of subsection (a) from U.C.C. § 9-307(b)
40 (2014), the foregoing terms need not necessarily have the same meanings in both statutes.
41 Debtors are likely to have greater incentive and ability to employ “asset tourism” for the purpose
42 of seeking to evade the substantive rules of this Act than for the purpose of seeking to
43 manipulate the perfection and priority rules of secured transactions law. Interpretation and
44 application of this Act should so recognize.

45
46 4. “Location” under this Act is completely independent from the concept of “center of

1 main interests” (“COMI”), as that term is used in Chapter 15 of the Bankruptcy Code.
2 Chapter 15, which applies to transnational insolvency proceedings, requires United States courts
3 to defer in various ways to a foreign proceeding in the jurisdiction of the debtor’s COMI. Those
4 consequences are quite different from the consequences of “location” under this Act.
5 Furthermore, if the debtor is an organization, the debtor’s jurisdiction of organization has no
6 bearing on the debtor’s “location” under subsection (a), by contrast to the presumption in
7 Bankruptcy Code § 1516(c) (2014) that the jurisdiction in which the debtor has its registered
8 office (i.e., its jurisdiction of organization) is its COMI.

9
10 **SECTION 11. APPLICATION TO SERIES ORGANIZATION.**

11 (a) In this section:

12 (1) “Protected series” means an arrangement, however denominated, by a series
13 organization that, pursuant to the law under which the series organization is organized, has the
14 characteristics set forth in paragraphs (2)(i), (2)(ii), and (2)(iii).

15 (2) “Series organization” means an organization that, pursuant to the law under
16 which it is organized, has the following characteristics:

17 (i) The organic record of the organization provides for creation by the
18 organization of one or more protected series, however denominated, with respect to specified
19 property of the organization and for records to be maintained for each protected series that
20 identify the property of or associated with the protected series.

21 (ii) Debt incurred or existing with respect to the activities of, or property
22 of or associated with, a particular protected series is enforceable against the property of or
23 associated with the protected series only, and not against the property of or associated with the
24 organization or other protected series of the organization.

25 (iii) Debt incurred or existing with respect to the activities or property of
26 the organization is enforceable against the property of the organization only, and not against the
27 property of or associated with any protected series of the organization.

1 (b) A series organization and each protected series of the organization is a separate
2 person for purposes of this [Act], even if for other purposes a protected series is not a person
3 separate from the organization or other protected series of the organization.

4 **Official Comment**

5
6 This section, added in 2014, accommodates developments in business organization
7 statutes exemplified by the Uniform Statutory Trust Entity Act §§ 401-404 (2009) and Del. Code
8 Ann. tit. 6, § 18-215 (2012) (pertaining to Delaware limited liability companies). The definition
9 of “series organization” in subsection (a)(2) is adapted from §§ 401-402 of the Uniform Statutory
10 Trust Entity Act. If the statute under which an organization is organized permits it to divide its
11 assets and debts among “protected series” (however denominated), such that assets and debts of,
12 or associated with, each “protected series” are separated in accordance with subsections (a)(2)(ii)
13 and (iii), and if the organization does so, then the provisions of this Act apply to each “protected
14 series” as if it were a legal entity, regardless of whether it is considered to be a legal entity for
15 other purposes. The conditions referred to in subsections (a)(2)(ii) and (iii) are satisfied if the
16 law under which the organization is organized so provides. It does not matter whether the
17 separation of assets and debts described in subsections (a)(2)(ii) and (iii) would be respected by
18 another jurisdiction in which the organization does business, or would be given effect by the
19 Bankruptcy Code in the bankruptcy of the organization. An organization may be a “series
20 organization” having “protected series,” as those terms are used in this section, even though the
21 statute under which the organization is organized uses different terminology. This section uses
22 the term “protected series,” which is not used in either the Uniform Statutory Trust Entity Act or
23 the Delaware provisions cited above, to emphasize that the application of this section does not
24 depend upon the terminology used by the applicable statute.

25
26 **SECTION ~~10~~ 12. SUPPLEMENTARY PROVISIONS.** Unless displaced by the
27 provisions of this [Act], the principles of law and equity, including the law merchant and the law
28 relating to principal and agent, estoppel, laches, fraud, misrepresentation, duress, coercion,
29 mistake, insolvency, or other validating or invalidating cause, supplement its provisions.

30 **Official Comment**

31
32 This section is derived from § 11 of the Uniform Fraudulent Conveyance Act and ~~§ 1-103~~
33 ~~of the~~ Uniform Commercial Code § 1-103 (1984) (later § 1-103(b) (2014)). The section adds a
34 reference to “laches” in recognition of the particular appropriateness of the application of this
35 equitable doctrine to an untimely action to avoid a ~~fraudulent~~ transfer under this Act. See *Louis*
36 *Dreyfus Corp. v. Butler*, 496 F.2d 806, 808 (6th Cir. 1974) (action to avoid transfers to debtor’s
37 wife when debtor was engaged in speculative business held to be barred by laches or applicable
38 statutes of limitations); *Cooch v. Grier*, 30 Del.Ch. 255, 265-66, 59 A.2d 282, 287-88 (1948)
39 (action under the Uniform Fraudulent Conveyance Act held barred by laches when the creditor

1 was chargeable with inexcusable delay and the defendant was prejudiced by the delay).

2 **SECTION ~~11~~ 13. UNIFORMITY OF APPLICATION AND CONSTRUCTION.**

3 This [Act] shall be applied and construed to effectuate its general purpose to make uniform the
4 law with respect to the subject of this [Act] among states enacting it.

5 **SECTION ~~12~~ 14. SHORT TITLE.** This [Act], which was formerly cited as the
6 Uniform Fraudulent Transfer Act, may be cited as the ~~Uniform Fraudulent Transfer Act~~ Uniform
7 Voidable Transactions Act.

8 **Official Comment**

9
10 1. The 2014 amendments change the short title of the Act from “Uniform Fraudulent
11 Transfer Act” to “Uniform Voidable Transactions Act.” The change of title is not intended to
12 effect any change in the meaning of the Act. The retitling is not motivated by the substantive
13 revisions made by the 2014 amendments, which are relatively minor. Rather, the word
14 “Fraudulent” in the original title, though sanctioned by historical usage, was a misleading
15 description of the Act as it was originally written. Fraud is not, and never has been, a necessary
16 element of a claim under the Act. The misleading intimation to the contrary in the original title
17 of the Act led to confusion in the courts. See, e.g., § 4, Comment 10. The misleading insistence
18 on “fraud” in the original title also contributed to the evolution of widely-used shorthand
19 terminology that further tends to distort understanding of the provisions of the Act. Thus,
20 several theories of recovery under the Act that have nothing whatever to do with fraud (or with
21 intent of any sort) came to be widely known by the oxymoronic and confusing shorthand tag
22 “constructive fraud.” See §§ 4(a)(2), 5(a). Likewise, the primordial theory of recovery under the
23 Act, set forth in § 4(a)(1), came to be widely known by the shorthand tag “actual fraud.” That
24 shorthand is misleading, because that provision does not in fact require proof of fraudulent
25 intent. See § 4, Comment 8.

26
27 In addition, the word “Transfer” in the original title of the Act was underinclusive,
28 because the Act applies to incurrence of obligations as well as to transfers of property.

29
30 2. The Act, like the earlier Uniform Fraudulent Conveyance Act, has never purported to
31 be an exclusive law on the subject of voidable transfers and obligations. See Prefatory Note
32 (1984), ¶5; § 1, Comment 2, ¶6; § 4, Comment 9, ¶1. It remains the case that the Act is not the
33 exclusive law on the subject of voidable transfers and obligations.

34
35 3. The retitling of the Act should not be construed to affect references to the Act in other
36 statutes or international instruments that use the former terminology. See, e.g., Convention on
37 International Interests in Mobile Equipment, art. 30(a)(3), opened for signature Nov. 16, 2001, S.
38 Treaty Doc. No. 108-10 (referring to “any rules of law applicable in insolvency proceedings
39 relating to the avoidance of a transaction as a ... transfer in fraud of creditors”).

