

DRAFT
FOR DISCUSSION ONLY

UNIFORM VOIDABLE TRANSACTIONS ACT
(Formerly Uniform Fraudulent Transfer Act)
(As Amended in 2014)

NATIONAL CONFERENCE OF COMMISSIONERS
ON UNIFORM STATE LAWS

BLACKLINE OF FEBRUARY 2014 DRAFT VS. APRIL 2014 DRAFT

With Prefatory Notes and Official Comments

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ON UNIFORM STATE LAWS

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February 18 April 9, 2014

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UNIFORM VOIDABLE TRANSACTIONS ACT

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1 **UNIFORM VOIDABLE TRANSACTIONS ACT**
2 *(Formerly Uniform Fraudulent Transfer Act)*

3
4 **PREFATORY NOTE (1984)**
5

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

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

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

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

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

41 (2) The Committee on Corporate Laws of the Section of Corporations, Banking
42 & Business Law of the American Bar Association, engaged in revising the Model
43 Corporation Act, suggested that the Conference review provisions of the Uniform Fraudulent
44 Conveyance Act with a view to determining whether the Acts are consistent in respect to the
45 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 name the new Act the Uniform Fraudulent Transfer Act in
32 recognition of its applicability to transfers of personal property as well as real property,
33 "conveyance" having a connotation restricting it to a transfer of real property. As noted in
34 Comment-(2) accompanying § 1 and Comment-(9) accompanying § 4, however, the new Act,
35 like the Uniform Fraudulent Conveyance Act, does not purport to cover the whole law of
36 voidable transfers and obligations. The limited scope of the Uniform Fraudulent Conveyance
37 Act did not impair its effectiveness in achieving uniformity in the areas covered. See
38 McLaughlin, *Application of the Uniform Fraudulent Conveyance Act*, 46 Harv.L.Rev. 404, 405
39 (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
46 to be redundant in part and in part susceptible of inequitable application. Both Acts declare a

1 transfer made or an obligation incurred with actual intent to hinder, delay, or defraud creditors to
2 be fraudulent. Provisions of the new Act, similar to ~~those provisions~~ of the Uniform Fraudulent
3 Conveyance Act, render a transfer made or obligation incurred without adequate consideration to
4 be constructively fraudulent—*i.e.*, without regard to the actual intent of the debtor—under one of
5 the following conditions:

6
7 (1) the debtor was left by the transfer or obligation with unreasonably small assets
8 for a transaction or business in which the debtor was engaged or was about to engage;

9
10 (2) the debtor intended to incur, or believed or reasonably should have believed
11 that the debtor would incur, more debts than the debtor would be able to pay as they become
12 due; or

13
14 (3) the debtor was insolvent at the time or as a result of the transfer or obligation.
15

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

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

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

43 The definition of insolvency under the new Act is adapted from the definition of the term
44 in the Bankruptcy Code. Insolvency is presumed from proof of a failure generally to pay debts
45 as they become due.

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

9
10 The new Act omits any provision directed particularly at transfers or obligations of
11 insolvent partnership debtors. Under § 8 of the Uniform Fraudulent Conveyance Act any
12 transfer made or obligation incurred by an insolvent partnership to a partner is fraudulent without
13 regard to intent or adequacy of consideration. So categorical a condemnation of a partnership
14 transaction with a partner may unfairly prejudice the interests of a partner's separate creditors.
15 The new Act also omits as redundant a provision in the Uniform Fraudulent Conveyance Act that
16 makes fraudulent a transfer made or obligation incurred by an insolvent partnership for less than
17 a fair consideration to the partnership.

18
19 Section 7 lists the remedies available to creditors under the new Act. It eliminates as
20 unnecessary and confusing a differentiation made in the Uniform Fraudulent Conveyance Act
21 between the remedies available to holders of matured claims and those holding unmatured
22 claims. Since promulgation of the Uniform Fraudulent Conveyance Act the Supreme Court has
23 imposed restrictions on the availability and use of prejudgment remedies. As a result many
24 states have amended their statutes and rules applicable to such remedies, and it is frequently
25 unclear whether a state's procedures include a prejudgment remedy against a fraudulent transfer
26 or obligation. A bracketed paragraph is included in § 7 for adoption by those states that elect to
27 make such a remedy available.

28
29 Section 8 prescribes the measure of liability of a transferee or obligee under the new Act
30 and enumerates defenses. Defenses against avoidance of a preferential transfer to an insider
31 under § 5(b) include an adaptation of defenses available under § 547(c)(2) and (4) of the
32 Bankruptcy Code when such a transfer is sought to be avoided as a preference by the trustee in
33 bankruptcy. In addition, a preferential transfer may be justified when shown to be made
34 pursuant to a good-faith effort to stave off forced liquidation and rehabilitate the debtor.
35 Section 8 also precludes avoidance, as a constructively fraudulent transfer, of the termination of
36 a lease on default or the enforcement of a security interest in compliance with Article 9 of the
37 Uniform Commercial Code.

38
39 The new Act includes a new section specifying when a transfer is made or an obligation
40 is incurred. The section specifying the time when a transfer occurs is adapted from § 548(d) of
41 the Bankruptcy Code. Its premise is that if the law prescribes a mode for making the transfer a
42 matter of public record or notice, it is not deemed to be made for any purpose under the new Act
43 until it has become such a matter of record or notice.

44
45 The new Act also includes a statute of limitations that bars the right rather than the
46 remedy on expiration of the statutory periods prescribed. The law governing limitations on

1 actions to avoid fraudulent transfers among the states is unclear and full of diversity. The new
2 Act recognizes that laches and estoppel may operate to preclude a particular creditor from
3 pursuing a remedy against a fraudulent transfer or obligation even though the statutory period of
4 limitations has not run.

5
6 **PREFATORY NOTE (2014)**
7

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

14
15 *Choice of Law.* The amendments add a new § 10, which sets forth a choice of law rule
16 for claims of the nature governed by the Act.

17
18 *Evidentiary Matters.* New §§ 4(c), 5(c), 8(g), and 8(h) add uniform rules allocating the
19 burden of proof and defining the standard of proof with respect to claims and defenses under the
20 Act. Language in the former comments to § 2 relating to the presumption of insolvency created
21 by § 2(b) has been moved to the text of that provision, the better to assure its uniform
22 application.

23
24 *Deletion of the Special Definition of “Insolvency” for Partnerships.* Section 2(c) of the
25 Act as originally written set forth a special definition of “insolvency” applicable to partnerships.
26 The amendments delete original § 2(c), with the result that the general definition of “insolvency”
27 in § 2(a) now applies to partnerships. One reason for this change is that original § 2(c) gave a
28 partnership full credit for the net worth of each of its general partners. That makes sense only if
29 each general partner is liable for all debts of the partnership, but such is not necessarily the case
30 under modern partnership statutes. A more fundamental reason is that the general definition of
31 “insolvency” in § 2(a) does not credit a non-partnership debtor with any part of the net worth of
32 its guarantors. To the extent that a general partner is liable for the debts of the partnership, that
33 liability is analogous to that of a guarantor. There is no good reason to define “insolvency” ~~more~~
34 generously differently for a partnership debtor than for a non-partnership debtor whose debts are
35 guaranteed by contract.

36
37 *Defenses.* The amendments refine in relatively minor respects several provisions relating
38 to defenses available to a transferee or obligee, as follows:

39
40 (1) As originally written, § 8(a) created a complete defense to an action under § 4(a)(1)
41 (which renders voidable a transfer made or obligation incurred with actual intent to hinder,
42 delay, or defraud any creditor of the debtor) if the transferee or obligee takes in good faith
43 and for a reasonably equivalent value. The amendments add to § 8(a) the further requirement
44 that the reasonably equivalent value must be given the debtor.

45
46 (2) Section 8(b), derived from Bankruptcy Code §§ 550(a), (b) (1984), creates a

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

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

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

20 *Medium Neutrality.* In order to accommodate modern technology, the
21 | ~~reference~~~~references~~ in the Act to a “writing” ~~has~~~~have~~ been replaced with “record,” and related
22 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 VOIDABLE TRANSACTIONS ACT**

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

3 (1) “Affiliate” means:

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

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

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

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

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

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

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

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

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

- 1 (i) property to the extent it is encumbered by a valid lien;
2 (ii) property to the extent it is generally exempt under nonbankruptcy law; or
3 (iii) an interest in property held in tenancy by the entirety to the extent it is not
4 subject to process by a creditor holding a claim against only one tenant.

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

8 (4) "Creditor" means a person that has a claim.

9 (5) "Debt" means liability on a claim.

10 (6) "Debtor" means a person that is liable on a claim.

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

13 (8) "Insider" includes:

14 (i) if the debtor is an individual,

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

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

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

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

20 (ii) if the debtor is a corporation,

21 (A) a director of the debtor;

22 (B) an officer of the debtor;

23 (C) a person in control of the debtor;

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

5 (iii) if the debtor is a partnership,

6 (A) a general partner in the debtor;

7 (B) a relative of a general partner in, a general partner of, or a person in
8 control of the debtor;

9 (C) another partnership in which the debtor is a general partner;

10 (D) a general partner in a partnership described in clause (C); or

11 (E) a person in control of the debtor;

12 (iv) an affiliate, or an insider of an affiliate as if the affiliate were the debtor; and

13 (v) a managing agent of the debtor.

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

18 (10) "Organization" means a person other than an individual.

19 (11) "Person" means an individual, estate, business or nonprofit entity, public
20 corporation, government or governmental subdivision, agency, or instrumentality, or other legal
21 entity.

22 (12) "Property" means anything that may be the subject of ownership.

23 (13) "Record" means information that is inscribed on a tangible medium or that is stored

1 in an electronic or other medium and is retrievable in perceivable form.

2 (14) “Relative” means an individual related by consanguinity within the third degree as
3 determined by the common law, a spouse, or an individual related to a spouse within the third
4 degree as so determined, and includes an individual in an adoptive relationship within the third
5 degree.

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

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

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

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

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

15 Official Comment

16
17 | ~~(1)~~. The definition of “affiliate” is derived from Bankruptcy Code § 101(2) (1984).

18
19 | ~~(2)~~. The definition of “asset” is substantially to the same effect as the definition of
20 “assets” in § 1 of the Uniform Fraudulent Conveyance Act. The definition in this Act, unlike
21 that in the earlier Act, does not, however, require a determination that the property is liable for
22 the debts of the debtor. Thus, for example, an unliquidated claim for damages resulting from
23 personal injury or a contingent claim of a surety for reimbursement, subrogation, restitution,
24 contribution, or the like may be counted as an asset for the purpose of determining whether the
25 holder of the claim is solvent as a debtor under § 2 of this Act, even if applicable law may not
26 allow such an asset to be levied on and sold by a creditor. *Cf. Manufacturers & Traders Trust*
27 *Co. v. Goldman (In re Ollag Construction Equipment Corp.)*, 578 F.2d 904, 907-09 (2d Cir.
28 1978).

29
30 Subparagraphs (i), (ii), and (iii) provide clarification by excluding from the term not only
31 generally exempt property but also an interest in a tenancy by the entirety in many states and an
32 interest that is generally beyond reach by unsecured creditors because subject to a valid lien.

1 This Act, like the Uniform Fraudulent Conveyance Act and the Statute of 13 Elizabeth, declares
2 rights and provides remedies for unsecured creditors against transfers that impede them in the
3 collection of their claims. The laws protecting valid liens against impairment by levying
4 creditors, exemption statutes, and the rules restricting levyability of interest in entireties property
5 are limitations on the rights and remedies of unsecured creditors, and it is therefore appropriate
6 to exclude property interests that are beyond the reach of unsecured creditors from the definition
7 of “asset” for the purposes of this Act.
8

9 A creditor of a joint tenant or tenant in common may ordinarily collect a judgment by
10 process against the tenant’s interest, and in some states a creditor of a tenant by the entirety may
11 likewise collect a judgment by process against the tenant’s interest. See 2 American Law of
12 Property 10, 22, 28-32 (1952); Craig, *An Analysis of Estates by the Entirety in Bankruptcy*, 48
13 Am.Bankr.L.J. 255, 258-59 (1974). The levyable interest of such a tenant is included as an asset
14 under this Act.
15

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

27 The reference to “generally exempt” property in § 1(2)(ii) recognizes that all exemptions
28 are subject to exceptions. Creditors having special rights against generally exempt property
29 typically include claimants for alimony, taxes, wages, the purchase price of the property, and
30 labor or materials that improve the property. See Uniform Exemptions Act § 10 (1979) and the
31 accompanying Comment. The fact that a particular creditor may reach generally exempt
32 property by resorting to judicial process does not warrant its inclusion as an asset in determining
33 whether the debtor is insolvent.
34

35 Because this Act is not an exclusive law on the subject of voidable transfers and
36 obligations (see Comment ~~(9)~~ to § 4 *infra*), it does not preclude the holder of a claim that may
37 be collected by process against property generally exempt as to other creditors from obtaining
38 relief from a transfer of such property that hinders, delays, or defrauds the holder of such a claim.
39 Likewise the holder of an unsecured claim enforceable against tenants by the entirety is not
40 precluded by the Act from pursuing a remedy against a transfer of property held by the entirety
41 that hinders, delays, or defrauds the holder of such a claim.
42

43 Nonbankruptcy law is the law of a state or federal law that is not part of the Bankruptcy
44 Code, Title 11 of the United States Code. The definition of an “asset” thus does not include
45 property that would be subject to administration for the benefit of creditors under the Bankruptcy
46 Code unless it is subject under other applicable law, state or federal, to process for the collection

1 of a creditor’s claim against a single debtor.

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

7
8 | ~~(4)~~ The definition of “creditor” in combination with the definition of “claim” has
9 substantially the same effect as the definition of “creditor” under § 1 of the Uniform Fraudulent
10 Conveyance Act. As under that Act, the holder of an unliquidated tort claim or a contingent
11 claim may be a creditor protected by this Act.

12
13 | ~~(5)~~ The definition of “debt” is derived from Bankruptcy Code § 101(11) (1984).

14
15 | ~~(6)~~ The definition of “debtor” had no analogue in the Uniform Fraudulent Conveyance
16 Act.

17
18 | ~~(7)~~ The definition of “electronic” is the standard definition of that term used in acts
19 prepared by the Uniform Law Commission as of 2014.

20
21 | ~~(8)~~ The definition of “insider” is derived from Bankruptcy Code § 101(28) (1984). In
22 this Act, as in the Bankruptcy Code, the definition states that the term “includes” certain listed
23 persons; it does not state that the term “means” the listed persons. Hence the definition is not
24 exclusive, and the statutory list is merely exemplary. See also Bankruptcy Code § 102(3) (1984).
25 Accordingly, a person may be an “insider” of a debtor that is an individual, corporation or
26 partnership even though the person is not designated as such by the statutory list. ~~Thus, for~~ **For**
27 example, a trust may be found to be an “insider” of a beneficiary. Similarly, a court may find a
28 person living with an individual debtor for an extended time in the same household or as a
29 permanent companion to have the kind of close relationship intended to be covered by the term
30 “insider.” See also, *e.g.*, *Browning Interests v. Allison (In re Holloway)*, 955 F.2d 1008 (5th
31 Cir.1992) (former spouse of debtor was an “insider” because of their **close and** continued
32 personal relationship, even though they had long ago divorced and remarried others). Likewise,
33 a person may be an “insider” of a debtor that is not an individual, corporation or partnership.
34 See, *e.g.*, *In re Longview Aluminum, L.L.C.*, 657 F.3d 507 (7th Cir. 2011) (holding, under the
35 Bankruptcy Code definition, that an individual serving on the Board of Managers of, and having
36 a 12% membership interest in, a limited liability company was an “insider” of the company; the
37 company’s organic documents vested management authority “in the Board of Managers and the
38 Members”).

39
40 The differences between the definition in this Act and that in the Bankruptcy Code are
41 slight. In this Act, the definition has been restricted in clauses (i)(C), (ii)(E), and (iii)(D) to make
42 clear that a partner is not an insider of an individual, corporation, or partnership if any of these
43 latter three persons is only a limited partner. The definition of “insider” in the Bankruptcy Code
44 does not purport to make a limited partner an insider of the partners or of the partnership with
45 which the limited partner is associated, but it is susceptible of a contrary interpretation and one

1 which would extend unduly the scope of the defined relationship when the limited partner is not
2 a person in control of the partnership. The definition of “insider” in this Act also differs from the
3 definition in the Bankruptcy Code in omitting the reference in § 101(28)(D) to an elected official
4 or relative of such an official as an insider of a municipality.

5
6 | ~~(9)~~. The definition of “lien” is derived from paragraphs (30), (31), (43), and (45) of
7 Bankruptcy Code § 101 (1984), which define “judicial lien,” “lien,” “security interest,” and
8 “statutory lien” respectively.

9
10 | ~~(10)~~. The definition of “organization” is derived from Uniform Commercial Code
11 § 1-201(b)(25) (2014).

12
13 | ~~(11)~~. The definition of “person” is the standard definition of that term used in acts
14 prepared by the Uniform Law Commission as of 2014. Section ~~11~~ ~~may have the effect of~~
15 ~~rendering renders~~ a “protected series” of a “series organization” a “person” for purposes of this
16 Act, even though the “protected series” may not qualify as a “person” under paragraph (11) of
17 this section.

18
19 | ~~(12)~~. The definition of “property” is derived from Uniform Probate Code § 1-201(33)
20 (1969). Property includes both real and personal property, whether tangible or intangible, and
21 any interest in property, whether legal or equitable.

22
23 | ~~(13)~~. The definition of “record” is the standard definition of that term used in acts
24 prepared by the Uniform Law Commission as of 2014.

25
26 | ~~(14)~~. The definition of “relative” is derived from Bankruptcy Code § 101(37) (1984) but
27 is explicit in its references to the spouse of a debtor in view of uncertainty as to whether the
28 common law determines degrees of relationship by affinity.

29 | ~~(15)~~. The definition of “sign” is the standard definition of that term used in acts prepared
30 by the Uniform Law Commission as of 2014.

31
32 | ~~(16)~~. The definition of “transfer” is derived principally from Bankruptcy Code
33 § 101(48) (1984). The definition of “conveyance” in § 1 of the Uniform Fraudulent Conveyance
34 Act was similarly comprehensive, and the references in this Act to “payment of money, release,
35 lease, and the creation of a lien or encumbrance” are derived from the Uniform Fraudulent
36 Conveyance Act. While the definition in the Uniform Fraudulent Conveyance Act did not
37 explicitly refer to an involuntary transfer, the decisions under that Act were generally consistent
38 with an interpretation that covered such a transfer. See, e.g., *Hearn 45 St. Corp. v. Jano*, 283
39 N.Y. 139, 27 N.E.2d 814, 128 A.L.R. 1285 (1940) (execution and foreclosure sales); *Lefkowitz v.*
40 *Finkelstein Trading Corp.*, 14 F.Supp. 898, 899 (S.D.N.Y. 1936) (execution sale); *Langan v.*
41 *First Trust & Deposit Co.*, 277 App.Div. 1090, 101 N.Y.S.2d 36 (4th Dept. 1950), *aff’d*, 302
42 N.Y. 932, 100 N.E.2d 189 (1951) (mortgage foreclosure); *Catabene v. Wallner*, 16 N.J.Super.
43 597, 602, 85 A.2d 300, 302 (1951) (mortgage foreclosure). The 2014 amendments add a
44 reference to transfer by “license,” which is derived from the definition of “proceeds” in Uniform
45 Commercial Code § 9-102(a)(64)(A) (2014).

1 | ~~(17)~~. The definition of “valid lien” had no analogue in the Uniform Fraudulent
2 Conveyance Act. A valid lien includes an equitable lien that may not be defeated by a judicial
3 lien creditor. See, e.g., *Pearlman v. Reliance Insurance Co.*, 371 U.S. 132, 136 (1962)
4 (upholding a surety’s equitable lien in respect to a fund owing a bankrupt contractor).
5

6 SECTION 2. INSOLVENCY.

7 (a) A debtor is insolvent if, at fair valuations, the sum of the debtor’s debts is greater
8 than the sum of the debtor’s assets .

9 (b) A debtor that is generally not paying the debtor’s debts as they become due other
10 than as a result of bona fide dispute is presumed to be insolvent. The presumption imposes on
11 the party against which the presumption is directed the burden of proving that the nonexistence
12 of insolvency is more probable than its existence.

13 (c) Assets under this section do not include property that has been transferred, concealed,
14 or removed with intent to hinder, delay, or defraud creditors or that has been transferred in a
15 manner making the transfer voidable under this [Act].

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

18 Official Comment

19
20 | ~~(1)~~. Subsection (a) is derived from the definition of “insolvent” in Bankruptcy Code
21 § 101(29)(A) (1984). The definition in subsection (a) contemplates a fair valuation of the debts
22 as well as the assets of the debtor. The 2014 amendments reword subsection (a) in order to
23 (i) eliminate the elegant variation in the original text between “the sum of” debts and “all of”
24 assets, and (ii) make clearer that “fair valuation” applies to debts as well as to assets. No change
25 in meaning is intended.
26

27 “Fair valuation” of an asset or a debt for financial accounting purposes may be based on
28 standards different from those appropriate for use in subsection (a). For example, Fin.
29 Accounting Standards Bd., *Statement of Financial Accounting Standards No. 157: Fair Value*
30 *Measurements* (2006) requires for financial accounting purposes that the “fair value” of a
31 liability reflect nonperformance risk (*i.e.*, the risk that the debtor will not pay the liability as and
32 when due). By contrast, proper application of subsection (a) excludes any adjustment to the face
33 amount of a liability on account of nonperformance risk. Such an adjustment would be contrary

1 to the purpose of subsection (a), which is to assess the risk that the debtor will not be able to
2 satisfy its liabilities. Only in unusual circumstances would the “fair valuation” for the purpose of
3 subsection (a) of a liquidated debt be other than its face amount. Examples of such
4 circumstances include discounting the face amount of a contingent debt to reflect the probability
5 that the contingency will not occur, and discounting the face amount of a non-interest-bearing
6 debt that is due in the future in order to reduce the debt to its present value.

7
8 As under the definition of the term “insolvent” in § 2 of the Uniform Fraudulent
9 Conveyance Act, exempt property is excluded from the computation of the value of the assets.
10 | See § 1(2) *supra*. For similar reasons interests in valid spendthrift trusts and interests in
11 tenancies by the entireties that cannot be severed by a creditor of only one tenant are not
12 | included. See Comment ~~(2)~~ to § 1 *supra*. Because a valid lien also precludes an unsecured
13 creditor from collecting the creditor’s claim from the encumbered interest in a debtor’s property,
14 both the encumbered interest and the debt secured thereby are excluded from the computation of
15 | insolvency under this Act. See § 1(2) *supra* and subsection ~~(d)~~ of this section.

16
17 | ~~(2)~~. Subsection ~~(b)~~ establishes a rebuttable presumption of insolvency from the fact of
18 general nonpayment of debts as they become due. Such general nonpayment is a ground for the
19 filing of an involuntary petition under Bankruptcy Code § 303(h)(1) (1978). See also U.C.C.
20 § 1-201(23) (1962) (defining a person to be “insolvent” who “has ceased to pay his debts in the
21 ordinary course of business”). The 2014 amendments to this Act clarify that general
22 nonpayment of debts does not count nonpayment as a result of a bona fide dispute. That was the
23 intended meaning of the language before 2014, as stated in the official comments, and the cited
24 provisions of the Bankruptcy Code and the Uniform Commercial Code have been similarly
25 clarified. See Bankruptcy Code § 303(h)(1) (2014); U.C.C. § 1-203(b)(23) (2014) (defining
26 “insolvent” to include “having generally ceased to pay debts in the ordinary course of business
27 other than as a result of bona fide dispute”).

28
29 Subsection (b) defines the effect of the presumption to be (in paraphrase) that the burden
30 of persuasion on the issue of insolvency shifts to the defendant. That conforms to the default
31 definition of the effect of a presumption in civil cases set forth in Uniform Rules of Evidence
32 (1974 Act), Rule 301(a) (later Rule 302(a) (1999 Act as amended 2005)). It also conforms to the
33 Final Draft of Federal Rule 301 as submitted to the United States Supreme Court by the
34 Advisory Committee on Federal Rules of Evidence in 1973. “The so-called ‘bursting bubble’
35 theory, under which a presumption vanishes upon the introduction of evidence which would
36 support a finding of the nonexistence of the presumed fact, even though not believed, is rejected
37 as according presumptions too ‘slight and evanescent’ an effect.” Advisory Committee’s Note to
38 | Rule 301, 56 F.R.D. 183, 208 (1973). See also 1 J. Weinstein & M. Berger, Evidence ¶ 301-[01]
39 (1982). It should be noted that the Federal Rule of Evidence as finally enacted gave by default a
40 different effect to presumptions in civil cases, in effect adopting the “bursting bubble” definition.
41 See Fed. R. Evid. 301 (1975) (carried forward in the 2011 revision). The statement of the effect
42 of the presumption in subsection (b) was added by the 2014 amendments to this Act, but
43 subsection (b) was intended to have the same meaning before 2014, as stated in the official
44 comments.

45
46 The presumption is established in recognition of the difficulties typically imposed on a

1 creditor in proving insolvency in the bankruptcy sense, as provided in subsection (a). See
2 generally Levit, *The Archaic Concept of Balance-Sheet Insolvency*, 47 Am.Bankr.L.J. 215
3 (1973). Not only is the relevant information in the possession of a debtor ~~whothat~~ is apt to be
4 noncooperative, but the debtor's records are apt to be incomplete and inaccurate. As a practical
5 matter, insolvency is most cogently evidenced by a general cessation of payment of debts, as has
6 long been recognized by the laws of other countries and is now reflected in the Bankruptcy
7 Code. See Honsberger, *Failure to Pay One's Debts Generally as They Become Due: The*
8 *Experience of France and Canada*, 54 Am.Bankr.L.J. 153 (1980); J. MacLachlan, Bankruptcy
9 13, 63-64, 436 (1956). In determining whether a debtor is paying its debts generally as they
10 become due, the court should look at more than the amount and due dates of the indebtedness.
11 The court should also take into account such factors as the number of the debtor's debts, the
12 proportion of those debts not being paid, the duration of the nonpayment, and the existence of
13 bona fide disputes or other special circumstances alleged to constitute an explanation for the
14 stoppage of payments. The court's determination may be affected by a consideration of the
15 debtor's payment practices prior to the period of alleged nonpayment and the payment practices
16 of the trade or industry in which the debtor is engaged. The case law that has developed under
17 Bankruptcy Code § 303(h)(1) (1984) has not required a showing that a debtor has failed or
18 refused to pay a majority in number and amount of the debtor's debts in order to prove general
19 nonpayment of debts as they become due. See, e.g., *Hill v. Cargill, Inc. (In re Hill)*, 8 B.R. 779,
20 3 C.B.C.2d 920 (Bankr. D.Minn. 1981) (nonpayment of three largest debts held to constitute
21 general nonpayment, although small debts were being paid); *In re All Media Properties, Inc.*, 5
22 B.R. 126, 6 B.C.D. 586, 2 C.B.C.2d 449 (Bankr. S.D.Tex. 1980) (missing significant number of
23 payments or regularly missing payments significant in amount said to constitute general
24 nonpayment; missing payments on more than 50% of aggregate of claims said not to be required
25 to show general nonpayment; nonpayment for more than 30 days after billing held to establish
26 nonpayment of a debt when it is due); *In re Kreidler Import Corp.*, 4 B.R. 256, 6 B.C.D. 608, 2
27 C.B.C.2d 159 (Bankr. D.Md. 1980) (nonpayment of one debt constituting 97% of debtor's total
28 indebtedness held to constitute general nonpayment). .

29
30 ~~(3)~~₂. Subsection (c) follows the approach of the definition of "insolvency" in Bankruptcy
31 Code § 101(29) (1984) by excluding from the computation of the value of the debtor's assets any
32 value that can be realized only by avoiding a transfer of an interest formerly held by the debtor or
33 by discovery or pursuit of property that has been concealed or removed with intent to hinder,
34 delay, or defraud creditors.

35
36 ~~(4)~~₂. Subsection (d) has no analogue in Bankruptcy Code § 101(29) (1984). It makes
37 clear that a person is not rendered insolvent under this section by counting as a debt an obligation
38 secured by property of the debtor that is not counted as an asset. See also Comment~~(2)~~ to § 1
39 and Comment~~(1)~~ to § 2~~-supra~~.

40 41 SECTION 3. VALUE.

42 (a) Value is given for a transfer or an obligation if, in exchange for the transfer or
43 obligation, property is transferred or an antecedent debt is secured or satisfied, but value does not

1 include an unperformed promise made otherwise than in the ordinary course of the promisor's
2 business to furnish support to the debtor or another person.

3 (b) For the purposes of Section 4(a)(2) and Section 5, a person gives a reasonably
4 equivalent value if the person acquires an interest of the debtor in an asset pursuant to a regularly
5 conducted, noncollusive foreclosure sale or execution of a power of sale for the acquisition or
6 disposition of the interest of the debtor upon default under a mortgage, deed of trust, or security
7 agreement.

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

11 Official Comment

12
13 ~~(1)~~ This section defines when “value” is given for a transfer or an obligation. “Value” is
14 used in that sense in various contexts in this Act, frequently with a qualifying adjective. Used in
15 that sense the word appears in the following provisions:

16
17 4(a)(2) (“reasonably equivalent value”);
18 4(b)(8) (“value ... reasonably equivalent”);
19 5(a) (“reasonably equivalent value”);
20 8(a) (“reasonably equivalent value”);
21 8(b)(1)(ii)(A) and (d) (“value”);
22 8(f)(1) (“new value”); and
23 8(f)(3) (“present value”).
24

25 “Value” is also used in other senses in this Act, to which this section is not relevant. See, *e.g.*,
26 §§ 8(b)(1), 8(c) (“value” in the sense of the value of a transferred asset).
27

28 ~~(2)~~ Section 3(a) is adapted from Bankruptcy Code § 548(d)(2)(A) (1984). See also
29 § 3(a) of the Uniform Fraudulent Conveyance Act. The definition in Section 3 is not exclusive.
30 “Value” is to be determined in light of the purpose of the Act to protect a debtor’s estate from
31 being depleted to the prejudice of the debtor’s unsecured creditors. Consideration having no
32 utility from a creditor’s viewpoint does not satisfy the statutory definition. The definition does
33 not specify all the kinds of consideration that do not constitute value for the purposes of this
34 Act—*e.g.*, love and affection. See, *e.g.*, *United States v. West*, 299 F.Supp. 661, 666 (D.Del.
35 1969).

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

17 |
18 | ~~(4)~~ Section 3(a) of the Uniform Fraudulent Conveyance Act has been thought not to
19 | recognize that an unperformed promise could constitute fair consideration. See McLaughlin,
20 | *Application of the Uniform Fraudulent Conveyance Act*, 46 Harv.L.Rev. 404, 414 (1933).
21 | Courts construing these provisions of the prior law nevertheless have held unperformed promises
22 | to constitute value in a variety of circumstances. See, e.g., *Harper v. Lloyd’s Factors, Inc.*, 214
23 | F.2d 662 (2d Cir. 1954) (transfer of money for promise of factor to discount transferor’s
24 | purchase-money notes given to fur dealer); *Schlecht v. Schlecht*, 168 Minn. 168, 176-77, 209
25 | N.W. 883, 886-87 (1926) (transfer for promise to make repairs and improvements on transferor’s
26 | homestead); *Farmer’s Exchange Bank v. Oneida Motor Truck Co.*, 202 Wis. 266, 232 N.W. 536
27 | (1930) (transfer in consideration of assumption of certain of transferor’s liabilities); see also
28 | *Hummel v. Cernocky*, 161 F.2d 685 (7th Cir. 1947) (transfer in consideration of cash, assumption
29 | of a mortgage, payment of certain debts, and agreement to pay other debts). Likewise a transfer
30 | in consideration of a negotiable note discountable at a commercial bank, or the purchase from an
31 | established, solvent institution of an insurance policy, annuity, or contract to provide care and
32 | accommodations clearly appears to be for value. On the other hand, ~~a transfer for~~ an
33 | unperformed promise by an individual to support a parent or other transferor has generally been
34 | held not to constitute value. See, e.g., *Springfield Ins. Co. v. Fry*, 267 F.Supp. 693 (N.D.Okla.
35 | 1967); *Sandler v. Parlapiano*, 236 App.Div. 70, 258 N.Y.Supp. 88 (1st Dep’t 1932); *Warwick*
36 | *Municipal Employees Credit Union v. Higham*, 106 R.I. 363, 259 A.2d 852 (1969); *Hulsether v.*
37 | *Sanders*, 54 S.D. 412, 223 N.W. 335 (1929); *Cooper v. Cooper*, 22 Tenn.App. 473, 477, 124
38 | S.W.2d 264, 267 (1939); Note, *Rights of Creditors in Property Conveyed in Consideration of*
39 | *Future Support*, 45 Iowa L.Rev. 546, 550-62 (1960). This Act adopts the view taken in the cases
40 | cited in determining whether an unperformed promise is value.

41 |
42 | ~~(5)~~ Subsection (b) rejects the rule of such cases as *Durrett v. Washington Nat. Ins. Co.*,
43 | 621 F.2d 201 (5th Cir. 1980) (nonjudicial foreclosure of a mortgage avoided as a voidable
44 | transfer when the property of an insolvent mortgagor was sold for less than 70% of its fair
45 | value); and *Abramson v. Lakewood Bank & Trust Co.*, 647 F.2d 547 (5th Cir. 1981), *cert. denied*,
46 | 454 U.S. 1164 (1982) (nonjudicial foreclosure held to be voidable transfer if made without fair

1 consideration). Subsection (b) adopts the view taken in *Lawyers Title Ins. Corp. v. Madrid (In re*
2 *Madrid)*, 21 B.R. 424 (B.A.P. 9th Cir. 1982), *aff'd on another ground*, 725 F.2d 1197 (9th Cir.
3 1984), that the price bid at a regularly conducted and noncollusive foreclosure sale determines
4 the fair value of the property sold. for purposes of voidable transfer law. See also *BFP v.*
5 *Resolution Trust Corp.*, 511 U.S. 531, 537 n.3 (1994) (similarly construing Bankruptcy Code
6 § 548; opinion expressly limited to foreclosure of real estate mortgages).

7
8 Subsection (b) prescribes the effect of a sale meeting its requirements, whether the asset
9 sold is personal or real property. It applies only to a sale under a mortgage, deed of trust, or
10 security agreement. Subsection (b) thus does not apply to a sale foreclosing a nonconsensual
11 lien, such as a tax lien. However, the subsection does apply to a foreclosure by sale of the
12 interest of a vendee under an installment land contract in accordance with applicable law that
13 requires or permits the foreclosure to be effected by a sale in the same manner as the foreclosure
14 of a mortgage. See G. Osborne, G. Nelson, & D. Whitman, *Real Estate Finance Law* 83-84, 95-
15 97 (1979).

16
17 If a lien given an insider for a present consideration is not perfected as against a
18 subsequent bona fide purchaser or is so perfected after a delay following an extension of credit
19 secured by the lien, foreclosure of the lien may result in a transfer for an antecedent debt that is
20 voidable under Section 5(b) *infra*. Subsection (b) does not apply to an action under
21 Section- 4(a)(1) to avoid a transfer or obligation because made or incurred with actual intent to
22 hinder, delay, or defraud any creditor.

23
24 ~~(6)~~. Subsection (c) is an adaptation of Bankruptcy Code § 547(c)(1) (1984). A transfer
25 to an insider for an antecedent debt may be voidable under § 5(b) *infra*.

26
27 **SECTION 4. TRANSFERS AND OBLIGATIONS VOIDABLE AS TO PRESENT**
28 **AND FUTURE CREDITORS.**

29 (a) A transfer made or obligation incurred by a debtor is voidable as to a creditor,
30 whether the creditor's claim arose before or after the transfer was made or the obligation was
31 incurred, if the debtor made the transfer or incurred the obligation:

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

33 (2) without receiving a reasonably equivalent value in exchange for the transfer or
34 obligation, and the debtor:

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

1 transaction; or

2 (ii) intended to incur, or believed or reasonably should have believed that
3 the debtor would incur, debts beyond the debtor's ability to pay as they became due.

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

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

7 (2) the debtor retained possession or control of the property transferred after the
8 transfer;

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

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

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

13 (6) the debtor absconded;

14 (7) the debtor removed or concealed assets;

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

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

19 (10) the transfer occurred shortly before or shortly after a substantial debt was
20 incurred; and

21 (11) the debtor transferred the essential assets of the business to a lienor that
22 transferred the assets to an insider of the debtor.

23 (c) A creditor making a claim under subsection (a) has the burden of proving the

1 elements of the claim by a preponderance of the evidence.

2 Official Comment

3
4 ~~(1).~~ Section 4(a)(1) is derived from § 7 of the Uniform Fraudulent Conveyance Act,
5 which in turn was derived from the Statute of 13 Elizabeth, c. 5 (1571). Factors appropriate for
6 consideration in determining actual intent under ~~paragraph (Section 4(a)(1))~~ are specified in
7 subsection ~~(b)~~.

8
9 ~~(2).~~ Section ~~4~~, unlike § 5, protects creditors of a debtor whose claims arise after as well
10 as before the debtor made or incurred the challenged transfer or obligation. Similarly, there is no
11 requirement in § 4(a)(1) that the intent referred to be directed at a creditor existing or identified
12 at the time of transfer or incurrence. For example, promptly after the invention in Pennsylvania
13 of the spendthrift trust, the assets and beneficial interest of which are immune from attachment
14 by the beneficiary's creditors, courts held that a debtor's establishment of a spendthrift trust for
15 the debtor's own benefit is a voidable transfer *per se* under the Statute of 13 Elizabeth.
16 *Mackason's Appeal*, 42 Pa. 330, 338-39 (1862); see also, *e.g.*, *Ghormley v. Smith*, 139 Pa. 584,
17 591-94 (1891); *Patrick v. Smith*, 2 Pa. Super. 113, 119 (1896). Likewise, for centuries § 4(a)(1)
18 and its predecessors have been employed to invalidate nonpossessory property interests that are
19 thought to be potentially deceptive, without regard to whether the deception is directed at an
20 existing or identified creditor. See, *e.g.*, *McGann v. Capital Sav. Bank & Trust Co.*, 89 A.2d
21 123, 183-84 (Vt. 1952) (seller's retention of possession of goods after sale held voidable *per se*
22 as to creditors of the seller); *Superior Partners v. Prof'l Educ. Network, Inc.*, 485 N.E.2d 1218,
23 1221 (Ill. App. Ct. 1985) (similar); *Clow v. Woods*, 5 Serg. & Rawle 275 (Pa. 1819) (holding that
24 a nonpossessory chattel mortgage is voidable *per se*, in the absence of a system for giving public
25 notice of such interests such as is today supplied by Article ~~9~~ of the Uniform Commercial
26 Code). ~~Cf. Comment (9) infra.~~

27
28 Section 4(a)(1) has the meaning elaborated in the preceding paragraph, but it is of course
29 possible that a jurisdiction in which this Act is in force might enact other legislation that
30 modifies the results of particular examples given to illustrate that meaning. For example, some
31 states have enacted legislation authorizing the establishment and funding of self-settled
32 spendthrift trusts, subject to specified conditions. In such a state, such legislation will supersede
33 the historical *per se* rule referred to in the preceding paragraph, either expressly or by necessary
34 implication, with respect to allowed transfers to such a statutorily-validated trust. See, *e.g.*, Del.
35 Code. Ann. tit. 12, § 3572(a), (b) (2014). See also Comment 8. Likewise, the historical
36 skepticism of nonpossessory property interests has been superseded as to security interests in
37 personal property by the Uniform Commercial Code. See Comment 9.

38
39 ~~(3).~~ Section ~~4~~(a)(2) is derived from §§ 5 and 6 of the Uniform Fraudulent Conveyance
40 Act but substitutes "reasonably equivalent value" for "fair consideration." The transferee's good
41 faith was an element of "fair consideration" as defined in § 3 of the Uniform Fraudulent
42 Conveyance Act, and lack of fair consideration was one of the elements of a fraudulent transfer
43 as defined in four sections of the Uniform Fraudulent Conveyance Act. The transferee's good
44 faith is irrelevant to a determination of the adequacy of the consideration under this Act, but lack
45 of good faith may be a basis for withholding protection of a transferee or obligee under § 8 *infra*.

1
2 | (4). Unlike the Uniform Fraudulent Conveyance Act, this Act does not prescribe
3 different tests for voidability of a transfer that is made for the purpose of security and a transfer
4 that is intended to be absolute. The premise of this Act is that when a transfer is for security
5 only, the equity or value of the asset that exceeds the amount of the debt secured remains
6 available to unsecured creditors and thus cannot be regarded as the subject of a voidable transfer
7 merely because of the encumbrance resulting from an otherwise valid security transfer.
8 Disproportion between the value of the asset securing the debt and the size of the debt secured
9 does not, in the absence of circumstances indicating a purpose to hinder, delay, or defraud
10 creditors, constitute an impermissible hindrance to the enforcement of other creditors' rights
11 | against the debtor-transferor. Cf. U.C.C. § 9-401(b) (2014) (providing that a debtor's interest in
12 collateral subject to a security interest is transferable notwithstanding an agreement with the
13 | secured party prohibiting transfer, ~~thereby rendering the debtor's equity in the collateral~~
14 ~~available to other creditors unless a special rule of Article 9 or other law renders the debtor's~~
15 ~~interest inalienable).~~

16
17 | (5). Subparagraph (i) of § 4(a)(2) is an adaptation of § 5 of the Uniform Fraudulent
18 Conveyance Act but substitutes “unreasonably small [assets] in relation to the business or
19 transaction” for “unreasonably small capital.” The reference to “capital” in the Uniform
20 | Fraudulent Conveyance Act ~~is ambiguous in that it may refer to net worth or might be interpreted,~~
21 ~~incorrectly, to refer~~ to the par value of stock or to the consideration received for stock issued.
22 The special meanings of “capital” in corporation law have no relevance in the law of voidable
23 transfers. The subparagraph focuses attention on whether the amount of all the assets retained by
24 the debtor was inadequate, *i.e.*, unreasonably small, in light of the needs of the business or
25 transaction in which the debtor was engaged or about to engage.

26
27 | (6). Subsection (b) is a nonexclusive catalogue of factors appropriate for consideration
28 by the court in determining whether the debtor had an actual intent to hinder, delay, or defraud
29 one or more creditors. Proof of the existence of any one or more of the factors enumerated in
30 subsection (b) may be relevant evidence as to the debtor's actual intent but does not create a
31 presumption that the debtor has made a voidable transfer or incurred a voidable obligation. The
32 list of factors includes most of the so-called “badges of fraud” that have been recognized by the
33 courts in construing and applying the Statute of 13 Elizabeth and § 7 of the Uniform Fraudulent
34 Conveyance Act. Proof of the presence of certain badges in combination establishes voidability
35 | conclusively—*i.e.*, without regard to the actual intent of the ~~parties debtor~~—when they concur as
36 provided in § 4(a)(2) or in § 5. The fact that a transfer has been made to a relative or to an
37 affiliated corporation has not been regarded as a badge of fraud sufficient to warrant avoidance
38 when unaccompanied by any other evidence of intent to hinder, delay, or defraud creditors. The
39 courts have uniformly recognized, however, that a transfer to a closely related person warrants
40 close scrutiny of the other circumstances, including the nature and extent of the consideration
41 exchanged. See 1 G. Glenn, *Fraudulent Conveyances and Preferences* § 307 (Rev. ed. 1940).
42 The second, third, fourth, and fifth factors listed are all adapted from the classic catalogue of
43 badges of fraud provided by Lord Coke in *Twyne's Case*, 3 Coke 80b, 76 Eng.Rep. 809 (Star
44 Chamber 1601). Lord Coke also included the use of a trust and the recitation in the instrument
45 of transfer that it “was made honestly, truly, and bona fide,” but the use of the trust is voidable
46 only when accompanied by elements or badges specified in this Act, and recitals of “good faith”

1 can no longer be regarded as significant evidence of intent to hinder, delay, or defraud creditors.

2
3 | ~~(7).~~ In considering the factors listed in § 4(b) a court should evaluate all the relevant
4 circumstances involving a challenged transfer or obligation. Thus the court may appropriately
5 take into account all indicia negating as well as those suggesting intent to hinder, delay, or
6 defraud creditors, as illustrated in the following reported cases:

7
8 (a) Whether the transfer or obligation was to an insider: *Salomon v. Kaiser (In re*
9 *Kaiser)*, 722 F.2d 1574, 1582-83 (2d Cir. 1983) (insolvent debtor's purchase of two
10 residences in the name of his spouse and the creation of a dummy corporation for the
11 purpose of concealing assets held to evidence intent to hinder, delay, or defraud creditors);
12 *Banner Construction Corp. v. Arnold*, 128 So.2d 893 (Fla. Dist. App. 1961) (assignment by
13 one corporation to another having identical directors and stockholders constituted a badge of
14 fraud); *Travelers Indemnity Co. v. Cormaney*, 258 Iowa 237, 138 N.W.2d 50 (1965)
15 (transfer between spouses said to be a circumstance that shed suspicion on the transfer and
16 that with other circumstances warranted avoidance); *Hatheway v. Hanson*, 230 Iowa 386,
17 297 N.W. 824 (1941) (transfer from parent to child said to require a critical examination of
18 surrounding circumstances, which, together with other indicia of intent to hinder, delay, or
19 defraud creditors, warranted avoidance); *Lumpkins v. McPhee*, 59 N.M. 442, 286 P.2d 299
20 (1955) (transfer from daughter to mother said to be indicative of intent to hinder, delay, or
21 defraud creditors, but transfer held not to be voidable due to adequacy of consideration and
22 delivery of possession by transferor).

23
24 (b) Whether the transferor retained possession or control of the property after the
25 transfer: *Harris v. Shaw*, 224 Ark. 150, 272 S.W.2d 53 (1954) (retention of property by
26 transferor said to be a badge of fraud and, together with other badges, to warrant avoidance
27 of transfer); *Stephens v. Regenstein*, 89 Ala. 561, 8 So. 68 (1890) (transferor's retention of
28 control and management of property and business after transfer held material in determining
29 transfer to be voidable); *Allen v. Massey*, 84 U.S. (17 Wall.) 351 (1872) (joint possession of
30 furniture by transferor and transferee considered in holding transfer to be
31 | ~~fraudulent voidable~~); *Warner v. Norton*, 61 U.S. (20 How.) 448 (1857) (surrender of
32 possession by transferor deemed to negate allegations of intent to hinder, delay, or defraud
33 creditors).

34
35 (c) Whether the transfer or obligation was concealed or disclosed: *Walton v. First*
36 *National Bank*, 13 Colo. 265, 22 P. 440 (1889) (agreement between parties to conceal the
37 transfer from the public said to be one of the strongest badges of fraud); *Warner v. Norton*,
38 61 U.S. (20 How.) 448 (1857) (although secrecy said to be a circumstance from which,
39 when coupled with other badges, intent to hinder, delay, or defraud creditors may be
40 inferred, transfer was held not to be voidable when made in good faith and transferor
41 surrendered possession); *W.T. Raleigh Co. v. Barnett*, 253 Ala. 433, 44 So.2d 585 (1950)
42 (failure to record a deed in itself said not to evidence intent to hinder, delay, or defraud
43 creditors, and transfer held not to be voidable).

44
45 (d) Whether, before the transfer was made or obligation was incurred, a creditor sued or
46 threatened to sue the debtor: *Harris v. Shaw*, 224 Ark. 150, 272 S.W.2d 53 (1954) (transfer

1 held to be voidable when causally connected to pendency of litigation and accompanied by
2 other badges of fraud); *Pergrem v. Smith*, 255 S.W.2d 42 (Ky.App. 1953) (transfer in
3 anticipation of suit deemed to be a badge of fraud; transfer held voidable when accompanied
4 by insolvency of transferor who was related to transferee); *Bank of Sun Prairie v. Hovig*,
5 218 F.Supp. 769 (W.D.Ark. 1963) (although threat or pendency of litigation said to be an
6 indicator of intent to hinder, delay, or defraud creditors, transfer was held not to be voidable
7 when adequate consideration and good faith were shown).
8

9 (e) Whether the transfer was of substantially all the debtor's assets: *Walbrun v. Babbitt*,
10 83 U.S. (16 Wall.) 577 (1872) (sale by insolvent retail shop owner of all of his inventory in a
11 single transaction held to be voidable); *Cole v. Mercantile Trust Co.*, 133 N.Y. 164, 30 N.E.
12 847 (1892) (transfer of all property before plaintiff could obtain a judgment held to be
13 voidable); *Lumpkins v. McPhee*, 59 N.M. 442, 286 P.2d 299 (1955) (although transfer of all
14 assets said to indicate intent to hinder, delay, or defraud creditors, transfer held not to be
15 voidable because full consideration was paid and transferor surrendered possession).
16

17 (f) Whether the debtor had absconded: *In re Thomas*, 199 F. 214 (N.D.N.Y. 1912)
18 (when debtor collected all of his money and property with the intent to abscond, intent to
19 hinder, delay, or defraud creditors was held to be shown).
20

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

26 (h) Whether the value of the consideration received by the debtor was reasonably
27 equivalent to the value of the asset transferred or the amount of the obligation incurred:
28 *Toomay v. Graham*, 151 S.W.2d 119 (Mo.App. 1941) (although mere inadequacy of
29 consideration said not to be a badge of fraud unless it is grossly inadequate, transfer held to
30 be voidable when accompanied by other badges of fraud); *Texas Sand Co. v. Shield*, 381
31 S.W.2d 48 (Tex. 1964) (inadequate consideration said to be an indicator of intent to hinder,
32 delay, or defraud creditors, and transfer held to be voidable because of inadequate
33 consideration, pendency of suit, family relationship of transferee, and fact that all
34 nonexempt property was transferred); *Weigel v. Wood*, 355 Mo. 11, 194 S.W.2d 40 (1946)
35 (although inadequate consideration said to be a badge of fraud, transfer held not to be
36 voidable when inadequacy not gross and not accompanied by any other badge; fact that
37 transfer was from father to son held not sufficient to establish intent to hinder, delay, or
38 defraud creditors).
39

40 (i) Whether the debtor was insolvent or became insolvent shortly after the transfer was
41 made or obligation was incurred: *Harris v. Shaw*, 224 Ark. 150, 272 S.W.2d 53 (1954)
42 (insolvency of transferor said to be a badge of fraud and transfer held voidable when
43 accompanied by other badges of fraud); *Bank of Sun Prairie v. Hovig*, 218 F.Supp. 769
44 (W.D. Ark. 1963) (although the insolvency of the debtor said to be a badge of fraud, transfer
45 held not voidable when debtor was shown to be solvent, adequate consideration was paid,

1 and good faith was shown, despite the pendency of suit); *Wareheim v. Bayliss*, 149 Md. 103,
2 131 A. 27 (1925) (although insolvency of debtor acknowledged to be an indicator of intent
3 to hinder, delay, or defraud creditors, transfer held not to be voidable when adequate
4 consideration was paid and whether debtor was insolvent in fact was doubtful).

5
6 (j) Whether the transfer occurred shortly before or shortly after a substantial debt was
7 incurred: *Commerce Bank of Lebanon v. Halladale A Corp.*, 618 S.W.2d 288, 292
8 (Mo.App. 1981) (when transferors incurred substantial debts near in time to the transfer,
9 transfer was held to be voidable due to inadequate consideration, close family relationship,
10 the debtor's retention of possession, and the fact that almost all the debtor's property was
11 transferred).

12
13 (k) Whether the debtor transferred the essential assets of the business to a lienor that
14 transferred the assets to an insider of the debtor: The wrong addressed by § 4(b)(11) is
15 collusive and abusive use of a lienor's superior position to eliminate junior creditors while
16 leaving equity holders in place, perhaps unaffected. The kind of disposition sought to be
17 reached is exemplified by that found in *Northern Pacific Co. v. Boyd*, 228 U.S. 482, 502-05
18 (1913), the leading case in establishing the absolute priority doctrine in reorganization law.
19 There the Court held that a reorganization whereby the secured creditors and the
20 management-owners retained their economic interests in a railroad through a foreclosure
21 that cut off claims of unsecured creditors against its assets was in effect a voidable
22 disposition. See Bruce A. Markell, *Owners, Auctions and Absolute Priority in Bankruptcy*
23 *Reorganizations*, 44 Stan.L.Rev. 69, 74-83 (1991). For cases in which an analogous injury
24 to unsecured creditors was inflicted by a lienor and a debtor, see *Voest-Alpine Trading USA*
25 *Corp. v. Vantage Steel Corp.*, 919 F.2d 206 (3d Cir. 1990) (lender foreclosed on assets of
26 steel company at 5:00 p.m. on a Friday, then transferred the assets to an affiliate of the
27 debtor; lender made a loan to the affiliate to enable it to purchase at the foreclosure sale on
28 almost the same terms as the old loan; new business opened Monday morning); *Jackson v.*
29 *Star Sprinkler Corp. of Florida*, 575 F.2d 1223, 1231-34 (8th Cir. 1978); *Heath v. Helmick*,
30 173 F.2d 157, 161-62 (9th Cir. 1949); *Toner v. Nuss*, 234 F.Supp. 457, 461-62 (E.D.Pa.
31 1964); and see *In re Spotless Tavern Co., Inc.*, 4 F.Supp. 752, 753, 755 (D.Md. 1933).

32
33 | (8). The phrase “hinder, delay, or defraud” in § 4(a)(1), carried forward from the
34 primordial Statute of 13 Elizabeth, is potentially applicable to any transaction that unacceptably
35 contravenes norms of creditors' rights. Section 4(a)(1) is sometimes said to require “actual
36 fraud,” by contrast to § 4(a)(2) and § 5(a), which are said to require “constructive fraud.” That
37 shorthand is highly misleading. Fraud is not a necessary element of a claim under any of those
38 provisions. By its terms, § 4(a)(1) applies to a transaction that “hinders” or “delays” a creditor,
39 even if it does not “defraud” the creditor. See, e.g., *Shapiro v. Wilgus*, 287 U.S. 348, 354 (1932);
40 *Means v. Dowd*, 128 U.S. 273, 288-89 (1888); *Consove v. Cohen (In re Roco Corp.)*, 701 F.2d
41 978, 984 (1st Cir. 1983); *Empire Lighting Fixture Co. v. Practical Lighting Fixture Co.*, 20 F.2d
42 295, 297 (2d Cir. 1927); *Lippe v. Bairnco Corp.*, 249 F. Supp. 2d 357, 374 (S.D.N.Y. 2003).
43 “Hinder, delay, or defraud” is best considered to be a single term of art describing a transaction
44 that unacceptably contravenes norms of creditors' rights. Such a transaction need not bear any
45 resemblance to common-law fraud. Thus, the Supreme Court held a given transfer voidable
46 because made with intent to “hinder, delay, or defraud” creditors, but emphasized: “We have no

1 thought in so holding to impute to [the debtor] a willingness to participate in conduct known to
2 be fraudulent.... [He] acted in the genuine belief that what [he] planned was fair and lawful.
3 Genuine the belief was, but mistaken it was also. Conduct and purpose have a quality imprinted
4 on them by the law.” *Shapiro v. Wilgus*. 287 U.S. 348, 357 (1932).

5
6 Diminution of the assets available to the debtor’s creditors is not necessarily required to
7 “hinder, delay, or defraud” creditors. For example, the age-old legal skepticism of
8 nonpossessory property interests, which stems from their potential for deception, has often
9 resulted in their avoidance under § 4(a)(1) or its predecessors. See Comments ~~(2)~~ and ~~(7(b));~~
10 *cf.* Comment ~~(9)~~. A transaction may “hinder, delay, or defraud” creditors although it neither
11 reduces the assets available to the debtor’s creditors nor involves any potential deception. See,
12 *e.g.*, *Shapiro v. Wilgus*, 287 U.S. 348 (1932) (holding voidable a solvent individual debtor’s
13 conveyance of his assets to a wholly-owned corporation for the purpose of instituting a
14 receivership proceeding not available to an individual).

15
16 A transaction that does not place an asset entirely beyond the reach of creditors may
17 nevertheless “hinder, delay, or defraud” creditors if it makes the asset more difficult for creditors
18 to reach. Simple exchange by a debtor of an asset for a less liquid asset, or disposition of liquid
19 assets while retaining illiquid assets, may be voidable for that reason. See, *e.g.*, *Empire Lighting*
20 *Fixture Co. v. Practical Lighting Fixture Co.*, 20 F.2d 295, 297 (2d Cir. 1927) (L. Hand, J.)
21 (credit sale by a corporation to an affiliate of its plant, leaving the seller solvent with ample
22 accounts receivable, held voidable because made for the purpose of hindering creditors of the
23 seller, due to the comparative difficulty of creditors realizing on accounts receivable under then-
24 current collection practice). Overcollateralization of a debt for the purpose of making the
25 debtor’s equity in the collateral more difficult for creditors to reach is similarly voidable. See
26 Comment ~~(4)~~ *supra*. Likewise, it is voidable for a debtor intentionally to hinder creditors by
27 transferring assets to a wholly-owned corporation or other organization, as may be the case if the
28 equity interest in the organization is more difficult to realize upon than the assets (either because
29 the equity interest is less liquid, or because the applicable procedural rules are more demanding).
30 See, *e.g.*, *Addison v. Tessier*, 335 P.2d 554, 557 (N.M. 1959); *First Nat’l Bank v. F. C. Trebein*
31 *Co.*, 52 N.E. 834, 837-38 (Ohio 1898); Anno., 85 A.L.R. 133 (1933).

32
33 Under the same principle, § 4(a)(1) would render voidable an attempt by the owners of a
34 corporation to convert it to a different legal form (*e.g.*, limited liability company or partnership)
35 for the purpose of hindering the owners’ creditors, as may be the case if an owner’s interest in
36 the alternative organization would be subject only to a charging order, and not to execution
37 (which would typically be available against stock in a corporation). See, *e.g.*, *Firmani v.*
38 *Firmani*, 752 A.2d 854, 857 (N.J. Super. Ct. App. Div. 2000); *cf. Interpool Ltd. v. Patterson*, 890
39 F. Supp. 259, 266-68 (S.D.N.Y. 1995) (similar, but relying on a “good faith” requirement of the
40 former Uniform Fraudulent Conveyance Act rather than its equivalent of § 4(a)(1)). If such a
41 conversion is done with intent to hinder creditors, it contravenes § 4(a)(1) regardless of whether
42 it is effected by conveyance of the corporation’s assets to a new entity or by conversion of the
43 corporation to the alternative form. In both cases the owner begins with the stock of the
44 corporation and ends with an ownership interest in the alternative organization, a property right
45 with different attributes. Either is a “transfer” under the designedly sweeping language of
46 § 1(16), which encompasses “every mode...of...parting with an asset or an interest in an asset.”

1 Cf., e.g., *United States v. Sims (In re Feiler)*, 218 F.3d 948 (9th Cir. 2000) (debtor’s irrevocable
2 election under the Internal Revenue Code to waive carryback of net operating losses is a
3 “transfer” under the substantially similar definition in the Bankruptcy Code); *Weaver v. Kellogg*,
4 | 216 B.R. 563, 573-74 (S.D. Tex. 1997) (exchange of notes owed to the debtor ~~by its shareholders~~
5 for new notes having different terms is a “transfer” by the debtor under that definition).
6

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

26 Thus, for example, suppose that entrepreneurs organize a business as a limited liability
27 company, contributing assets to capitalize it, in the ordinary situation in which none of the
28 owners has particular reason to anticipate personal liability or financial distress and no other
29 unusual facts are present. Assume that the LLC statute has the creditor-thwarting feature of
30 precluding execution upon equity interests in the LLC and providing only for charging orders
31 against such interests. Notwithstanding that feature, the owners’ transfers of assets to capitalize
32 the LLC is not voidable under § 4(a)(1) as in force in the same state. The legislature in that state,
33 having created the LLC vehicle having that feature, must have expected it to be used in such
34 ordinary circumstances. By contrast, if owners of an existing business were to reorganize it as an
35 LLC under such a statute when the clouds of personal liability or financial distress have gathered
36 over some of them, and with the intention of gaining the benefit of that creditor-thwarting
37 feature, the transfer effecting the reorganization should be voidable under § 4(a)(1), at least
38 absent a clear indication that the legislature truly intended the LLC form, with its creditor-
39 thwarting feature, to be available even in such circumstances.
40

41 Because the laws of different jurisdictions differ in their tolerance of particular creditor-
42 thwarting devices, choice of law considerations may be important in interpreting § 4(a)(1) as in
43 | force in a given jurisdiction. For example, as noted in Comment ~~(2)~~ *supra*, the language of
44 § 4(a)(1) historically has been interpreted to render voidable *per se* a transfer to a self-settled
45 spendthrift trust. Suppose that jurisdiction X, in which this Act is in force, also has in force a
46 statute permitting an individual to establish a self-settled spendthrift trust and transfer assets

1 thereto, subject to stated conditions. If an individual Debtor whose principal residence is in X
2 establishes such a trust and transfers assets thereto, then under § 10 of this Act the voidable
3 transfer law of X applies to that transfer. That transfer cannot be considered voidable *per se*
4 under § 4(a)(1) as in force in X, for the legislature of X, having authorized the establishment of
5 such trusts, must have expected them to be used. (Other facts might still render the transfer
6 voidable under X’s enactment of § 4(a)(1), even though it is not voidable *per se*.) By contrast, if
7 Debtor’s principal residence is in jurisdiction Y, which also has enacted this Act but has no
8 legislation validating such trusts, and if Debtor establishes such a trust under the law of X and
9 transfers assets to it, then the result would be different. Under § 10 of this Act, the voidable
10 transfer law of Y would apply to the transfer. The transfer would be voidable *per se* under
11 § 4(a)(1) as in force in Y, as there is no reason to deviate from the established interpretation of
12 that provision in Y.

13
14 ~~(9)~~. This Act is not an exclusive law on the subject of voidable transfers and obligations.
15 See § 1, Comment ~~(2)~~. For example, the Uniform Commercial Code supplements or modifies
16 the operation of this Act in numerous ways. Instances include the following:

17
18 ~~(i)~~ U.C.C. § 2-402(2) (2014) recognizes the generally prevailing rule that retention of
19 possession of goods by a seller may be voidable, but limits the application of the rule by
20 negating any imputation of voidability from “retention of possession in good faith and
21 current course of trade by a merchant-seller for a commercially reasonable time after a sale
22 or identification.” (Indeed, independently of § 2-402(2), retention of possession of goods in
23 good faith and current course of trade by a merchant-seller for a commercially reasonable
24 time after a sale or identification should not in itself be considered to “hinder, delay, or
25 defraud” any creditor of the merchant-seller under § 4(a)(1).)

26 ~~(ii)~~ Section ~~2A-308~~(1) provides a rule analogous to § 2-402(2) for situations in which a
27 lessor retains possession of goods that are subject to a lease contract. Section 2A-308(3)
28 provides that retention of possession of goods by the seller-lessee in a sale-leaseback
29 transaction does not render the transaction voidable by a creditor of the seller-lessee if the
30 buyer bought for value and in good faith.

31
32 ~~(iii)~~ This Act does not preempt statutes governing bulk transfers, including Article 6 of
33 the Uniform Commercial Code in jurisdictions where it remains in force.

34
35 ~~(iv)~~ Section ~~9-205~~ precludes treating a security interest in personal property as
36 voidable on account of various enumerated features it may have. Among other things, § 9-
37 205 immunizes a security interest in tangible property from being avoided on account of the
38 secured party not being in possession of the property, notwithstanding the historical
39 skepticism of nonpossessory property interests.

40
41 This Act operates independently of rules in an organic statute applicable to a business
42 organization that limit distributions by the organization to its equity owners. Compliance with
43 those rules does not insulate such a distribution from being voidable under this Act. It is
44 conceivable that such an organic statute might contain a provision preempting the application of
45 this Act to such distributions. *Cf.* Model Business Corporation Act § 152 (optional provision

1 added in 1979 preempting the application of “any other statutes of this state with respect to the
2 legality of distributions”; deleted 1984). Such a preemptive statute of course must be respected
3 if applicable, but choice of law considerations may well render it inapplicable. See, e.g.,
4 *Faulkner v. Kornman (In re The Heritage Organization, L.L.C.)*, 413 B.R. 438, 462-63 (Bankr.
5 N.D. Tex. 2009) (action under the Texas enactment of this Act challenging a distribution by a
6 Delaware limited liability company to its members; held, a provision of the Delaware LLC
7 statute imposing a three-year statute of repose on an action under “any applicable law” to recover
8 a distribution by a Delaware LLC did not apply, because choice of law rules directed application
9 of the voidable transfer law of Texas).

10 | ~~(10)~~₂. Subsection (c) was added in 2014. Sections 2(b), 4(c), 5(c), 8(g), and 8(h) together
11 provide uniform rules on burdens and standards of proof relating to the operation of this Act.
12

13 Pursuant to subsection (c), proof of intent to “hinder, delay, or defraud” a creditor under
14 § 4(a)(1) is sufficient if made by a preponderance of the evidence. That is the standard of proof
15 ordinarily applied in civil actions. Subsection (c) thus rejects cases that have imposed an
16 extraordinary standard, typically “clear and convincing evidence,” by analogy to the standard
17 commonly applied to proof of common-law fraud. That analogy is misguided. By its terms,
18 § 4(a)(1) applies to a transaction that “hinders” or “delays” a creditor even if it does not
19 “defraud,” and a transaction to which § 4(a)(1) applies need not bear any resemblance to
20 | common-law fraud. See Comment ~~(8)~~_{supra}. Furthermore, the extraordinary standard of proof
21 commonly applied to common-law fraud originated in cases that were thought to involve a
22 special danger that claims might be fabricated. In the earliest such cases, a court of equity was
23 asked to grant relief on claims that were unenforceable at law for failure to comply with the
24 Statute of Frauds, the Statute of Wills, or the parol evidence rule. In time, extraordinary proof
25 also came to be required in actions seeking to set aside or alter the terms of written instruments.
26 See *Herman & MacLean v. Huddleston*, 459 U.S. 375, 388-89 (1983) and sources cited therein.
27 Those reasons for extraordinary proof do not apply to claims under § 4(a)(1).
28

29 For similar reasons, a procedural rule that imposes extraordinary pleading requirements
30 on a claim of “fraud,” without further gloss, should not be applied to a claim under § 4(a)(1).
31 The elements of a claim under § 4(a)(1) are very different from the elements of a claim of
32 common-law fraud. Furthermore, the reasons for such extraordinary pleading requirements do
33 not apply to a claim under § 4(a)(1). Unlike common-law fraud, a claim under § 4(a)(1) is not
34 unusually susceptible to abusive use in a “strike suit,” nor is it apt to be of use to a plaintiff
35 seeking to discover unknown wrongs. Likewise, a claim under § 4(a)(1) is unlikely to cause
36 significant harm to the defendant’s reputation, for the defendant is the transferee or obligee, and
37 the elements of the claim do not require the defendant to have committed even an arguable
38 wrong. See *Janvey v. Alguire*, 846 F.Supp.2d 662, 675-77 (N.D. Tex. 2011); *Carter-Jones*
39 *Lumber Co. v. Benune*, 725 N.E.2d 330, 331-33 (Ohio App. 1999). Cf. Federal Rules of Civil
40 Procedure, Appendix, Form 21 (2010) (illustrative form of complaint for a claim under § 4(a)(1)
41 or similar law, which Rule 84 declares sufficient to comply with federal pleading rules).
42

43 | ~~(11)~~₂. Subsection ~~(c)~~₂ allocates to the party making a claim under § 4 the burden of
44 persuasion as to the elements of the claim. Courts should not apply nonstatutory presumptions
45 that reverse that allocation, and should be wary of nonstatutory presumptions that would dilute it.

1 The command of § 13—that this Act is to be applied so as to effectuate its purpose of making
2 uniform the law among states enacting it—applies with particular cogency to nonstatutory
3 presumptions. Given the elasticity of key terms of this Act (*e.g.*, “hinder, delay, or defraud”) and
4 the potential difficulty of proving others (*e.g.*, the financial condition tests in § 4(a)(2) and § 5),
5 employment of divergent nonstatutory presumptions by enacting jurisdictions may render the
6 law nonuniform as a practical matter. It is not the purpose of subsection (c) to forbid
7 employment of any and all nonstatutory presumptions. Indeed, in some instances a rule of
8 avoidance law applied with a judicially-crafted presumption has won such favor as to be codified
9 as a separate statutory creation, such as the bulk sales laws, the absolute priority rule applicable
10 to reorganizations under Bankruptcy Code § 1129(b)(2)(B)(ii) (2014), and the so-called
11 “constructive fraud” provisions of § 4(a)(2) and § 5(a) of this Act itself. However, subsection (c)
12 and § 13 mean, at the least, that a nonstatutory presumption is suspect if it would alter the
13 statutorily-allocated burden of persuasion, would upset the policy of uniformity, or is an
14 unwarranted carrying-forward of obsolescent principles. An example of a nonstatutory
15 presumption that should be rejected for those reasons is a presumption that the transferee bears
16 the burden of persuasion as to the debtor’s compliance with the financial condition tests in
17 § 4(a)(2) and § 5, in an action under those provisions, if the transfer was for less than reasonably
18 equivalent value (or, as another example, if the debtor was merely in debt at the time of the
19 transfer). See *Fidelity Bond & Mtg. Co. v. Brand*, 371 B.R. 708, 716-22 (E.D. Pa. 2007)
20 (rejecting such a presumption previously applied in Pennsylvania).

21 **SECTION 5. TRANSFERS AND OBLIGATIONS VOIDABLE AS TO PRESENT**
22 **CREDITORS.**

23 (a) A transfer made or obligation incurred by a debtor is voidable as to a creditor whose
24 claim arose before the transfer was made or the obligation was incurred if the debtor made the
25 transfer or incurred the obligation without receiving a reasonably equivalent value in exchange
26 for the transfer or obligation and the debtor was insolvent at that time or the debtor became
27 insolvent as a result of the transfer or obligation.

28 (b) A transfer made by a debtor is voidable as to a creditor whose claim arose before the
29 transfer was made if the transfer was made to an insider for an antecedent debt, the debtor was
30 insolvent at that time, and the insider had reasonable cause to believe that the debtor was
31 insolvent.

32 (c) Subject to Section-2(b), a creditor making a claim under subsection (a) or (b) has the
33 burden of proving the elements of the claim by a preponderance of the evidence.

1
2
3 **Official Comment**

4 | ~~(1)~~ Subsection ~~(a)~~ is derived from § 4 of the Uniform Fraudulent Conveyance Act. It
5 | adheres to the limitation of the protection of that section to a creditor whose claim arose before
6 | the transfer or obligation described. As pointed out in Comment ~~(3)~~ accompanying § 4, this Act
7 | substitutes “reasonably equivalent value” for “fair consideration.”

8 | ~~(2)~~ Subsection ~~(b)~~ renders a preferential transfer—*i.e.*, a transfer by an insolvent debtor
9 | for or on account of an antecedent debt—to an insider voidable when the insider had reasonable
10 | cause to believe that the debtor was insolvent. This subsection adopts for general application the
11 | rule of such cases as *Jackson Sound Studios, Inc. v. Travis*, 473 F.2d 503 (5th Cir. 1973)
12 | (security transfer of corporation’s equipment to corporate principal’s mother perfected on eve of
13 | bankruptcy of corporation held to be voidable); *In re Lamie Chemical Co.*, 296 F. 24 (4th Cir.
14 | 1924) (corporate preference to corporate officers and directors held voidable by receiver when
15 | corporation was insolvent or nearly so and directors had already voted for liquidation); *Stuart v.*
16 | *Larson*, 298 F. 223 (8th Cir. 1924), noted 38 Harv.L.Rev. 521 (1925) (corporate preference to
17 | director held voidable). See generally 2 G. Glenn, *Fraudulent Conveyances and Preferences* 386
18 | (Rev. ed. 1940). Subsection (b) overrules such cases as *Epstein v. Goldstein*, 107 F.2d 755, 757
19 | (2d Cir. 1939) (transfer by insolvent husband to wife to secure his debt to her sustained against
20 | attack by husband’s trustee); *Hartford Accident & Indemnity Co. v. Jirasek*, 254 Mich. 131, 139,
21 | 235 N.W. 836, 839 (1931) (mortgage given by debtor to his brother to secure an antecedent debt
22 | owed the brother sustained as not voidable).

23 |
24 | ~~(3)~~ Subsection ~~(b)~~ does not extend as far as § 8(a) of the Uniform Fraudulent
25 | Conveyance Act and Bankruptcy Code § 548(b) (1984) in rendering voidable a transfer made by
26 | an insolvent partnership to a partner. A general partner is an insider of the partnership, but a
27 | transfer by the partnership to the partner nevertheless is not vulnerable to avoidance under § 5(b)
28 | unless the transfer is for an antecedent debt and the partner has reasonable cause to believe that
29 | the partnership is insolvent. By contrast, the cited provisions of the Uniform Fraudulent
30 | Conveyance Act and the Bankruptcy Code make any transfer by an insolvent partnership to a
31 | general partner voidable. Avoidance of the partnership transfer without reference to the partner’s
32 | state of mind and the nature of the consideration exchanged would be unduly harsh treatment of
33 | the creditors of the partner and unduly favorable to the creditors of the partnership.

34 |
35 | ~~(4)~~ Subsection ~~(c)~~ was added in 2014. Sections 2(b), 4(c), 5(c), 8(g), and 8(h) together
36 | provide uniform rules on burdens and standards of proof relating to the operation of this Act.
37 | The principles stated in Comment ~~(11)~~ to § 4 apply to subsection ~~(c)~~.

38
39 **SECTION 6. WHEN TRANSFER IS MADE OR OBLIGATION IS INCURRED.**

40 For the purposes of this [Act]:

41 (1) a transfer is made:

42 (i) with respect to an asset that is real property other than a fixture, but including

1 the interest of a seller or purchaser under a contract for the sale of the asset, when the transfer is
2 so far perfected that a good-faith purchaser of the asset from the debtor against which applicable
3 law permits the transfer to be perfected cannot acquire an interest in the asset that is superior to
4 the interest of the transferee; and

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

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

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

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

15 (5) an obligation is incurred:

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

17 (ii) if evidenced by a record, when the record signed by the obligor is delivered to

18 or for the benefit of the obligee.

19 Official Comment

20
21 | ~~(1)~~. One of the uncertainties in the law governing the avoidance of transfers and
22 obligations of the nature governed by this Act is the difficulty of determining when the cause of
23 | action arises. Section 6 clarifies that point in time. For transfers of real estate property other than
24 | a fixture, paragraph (1)(i) fixes the time as the date of perfection against a good-faith purchaser
25 from the transferor. For transfers of fixtures and assets constituting personalty, paragraph (1)(ii)
26 fixes the time as the date of perfection against a judicial lien creditor not asserting rights under
27 this Act. Perfection under paragraph (1) typically is effected by notice-filing, recordation, or
28 delivery of unequivocal possession. See U.C.C. §§ 9-310, 9-313 (2014) (security interest in

1 personal property generally is perfected by notice-filing or delivery of possession to transferee);
2 4 American Law of Property §§ 17.10-17.12 (1952) (recording of transfer or delivery of
3 possession to grantee required for perfection against bona fide purchaser from grantor). The
4 provision for postponing the time a transfer is made until its perfection is an adaptation of
5 Bankruptcy Code § 548(d)(1) (1984). When no steps are taken to perfect a transfer that
6 applicable law permits to be perfected, the transfer is deemed by paragraph (2) to be perfected
7 immediately before the filing of an action to avoid it; without such a provision to cover that
8 eventuality, an unperfected transfer arguably would be immune to attack. ~~Some transfers—e.g.,~~
9 ~~an assignment of a bank account in a consumer transaction, or execution of a marital or~~
10 ~~premarital agreement for the disposition of property owned by the parties to the agreement—~~
11 ~~Some transfers~~ may not be amenable to perfection as against a bona fide purchaser or judicial
12 lien creditor. When a transfer may not be perfected as provided in paragraph (1), paragraph (3)
13 provides that the transfer occurs for the purpose of this Act when the transferor effectively parts
14 with an interest in the asset as provided in § 1(16) *supra*.

15
16 ¶(2). Paragraph (4) requires the transferor to have rights in the asset transferred before the
17 transfer is made for the purpose of this section. This provision makes clear that its purpose may
18 not be circumvented by notice-filing or recording of a document evidencing an interest in an
19 asset to be acquired in the future. *Cf.* Bankruptcy Code § 547(e) (1984); U.C.C. § 9-203(b)(2)
20 (2014).

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

29
30 An obligation may be avoided under this Act if it is incurred under the circumstances
31 specified in § 4(a) or § 5(a). The debtor may receive reasonably equivalent value in exchange
32 for an obligation incurred even though the benefit to the debtor is indirect. See *Rubin v.*
33 *Manufacturers Hanover Trust Co.*, 661 F.2d at 991-92; *Williams v. Twin City Co.*, 251 F.2d 678,
34 681 (9th Cir. 1958); Rosenberg, *supra*, at 243-46.

35
36 Under paragraph (5), ~~if an oral obligation is effective between the parties it is~~ incurred
37 when it ~~so~~ becomes effective between the parties, and later confirmation of the oral obligation by
38 a record does not reset the time of incurrence to that later time.

39 SECTION 7. REMEDIES OF CREDITORS.

40
41 (a) In an action for relief against a transfer or obligation under this [Act], a creditor,
42 subject to the limitations in Section 8, may obtain:

43 (1) avoidance of the transfer or obligation to the extent necessary to satisfy the

1 creditor's claim;

2 (2) an attachment or other provisional remedy against the asset transferred or

3 other property of the transferee if available under applicable law;

4 (3) subject to applicable principles of equity and in accordance with applicable

5 rules of civil procedure,

6 (i) an injunction against further disposition by the debtor or a transferee, or

7 both, of the asset transferred or of other property;

8 (ii) appointment of a receiver to take charge of the asset transferred or of

9 other property of the transferee; or

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

11 (b) If a creditor has obtained a judgment on a claim against the debtor, the creditor, if the

12 court so orders, may levy execution on the asset transferred or its proceeds.

13 **Official Comment**

14

15 | ~~(1)~~₂. This section is derived from §§ 9 and 10 of the Uniform Fraudulent Conveyance
16 Act. Section 9 of that Act specified the remedies of creditors whose claims have matured, and
17 § 10 enumerated the remedies available to creditors whose claims have not matured. A creditor
18 holding an unmatured claim may be denied the right to receive payment from the proceeds of a
19 sale on execution until the claim has matured, but the proceeds may be deposited in court or in
20 an interest-bearing account pending the maturity of the creditor's claim. The remedies specified
21 in this section are not exclusive.

22

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

34

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

14 |
15 | ~~(4)~~ As under the Uniform Fraudulent Conveyance Act, a creditor is not required to
16 | obtain a judgment against the debtor-transferor or to have a matured claim in order to proceed
17 | under subsection-(a). See §§ 1(3) and 1(4) *supra*; *American Surety Co. v. Conner*, 251 N.Y. 1,
18 | 166 N.E. 783, 65 A.L.R. 244 (1929); 1 G. Glenn, *Fraudulent Conveyances and Preferences* 129
19 | (Rev. ed. 1940).

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

30 |
31 | ~~(6)~~ The remedies specified in § 7, like those enumerated in §§ 9 and 10 of the Uniform
32 | Fraudulent Conveyance Act, are cumulative. *Lind v. O. N. Johnson Co.*, 204 Minn. 30, 40, 282
33 | N.W. 661, 667, 119 A.L.R. 940 (1939) (Uniform Fraudulent Conveyance Act held not to impair
34 | or limit availability of the “old practice” of obtaining judgment and execution returned
35 | unsatisfied before proceeding in equity to set aside a transfer); *Conemaugh Iron Works Co. v.*
36 | *Delano Coal Co., Inc.*, 298 Pa. 182, 186, 148 A. 94, 95 (1929) (Uniform Fraudulent Conveyance
37 | Act held to give an “additional optional remedy” and not to “deprive a creditor of the right, as
38 | formerly, to work out his remedy at law”); 1 G. Glenn, *Fraudulent Conveyances and Preferences*
39 | 120, 130, 150 (Rev. ed. 1940).

40 |
41 | ~~(7)~~ If a transfer or obligation is voidable under § 4 or § 5, the basic remedy provided by
42 | this Act is its avoidance under subsection (a)(1). “Avoidance” is a term of art in this Act, for it
43 | does not mean that the transfer or obligation is simply rendered void. It has long been
44 | established that a transfer avoided by a creditor under this Act or its predecessors is nevertheless
45 | valid as between the debtor and the transferee. For example, in the case of a transfer of property
46 | worth \$100 by Debtor to Transferee, held voidable in a suit by Creditor-1 who is owed \$80 by

1 Debtor, “avoidance” of the transfer leaves the \$20 surplus with Transferee. Debtor is not entitled
2 to recover the surplus. Nor is Debtor’s Creditor-2 entitled to pursue the surplus by reason of
3 | Creditor-1’s action (though Creditor-2 may be entitled to bring **his** own avoidance action to
4 pursue the surplus). The foregoing principle is embedded in the language of subsection (a)(1),
5 which prescribes “avoidance” only “to the extent necessary to satisfy the creditor’s claim.”
6 Section 9(a) of the Uniform Fraudulent Conveyance Act was similarly limited. See, e.g., *Becker*
7 *v. Becker*, 416 A.2d 156, 162 (Vt. 1980); *De Martini v. De Martini*, 52 N.E.2d 138, 141 (Ill.
8 1943); *Markward v. Murrah*, 156 S.W.2d 971, 974 (Tex. 1941); *Society Milion Athena, Inc. v.*
9 *National Bank of Greece*, 22 N.E.2d 374, 377 (N.Y. 1939); *National Radiator Corp. v. Parad*, 8
10 N.E.2d 794, 796-97 (Mass. 1937); 1 G. Glenn, *Fraudulent Conveyances and Preferences* § 114,
11 at 225 (Rev. ed. 1940). The transferee’s mental state is irrelevant to the foregoing, but a good-
12 faith transferee may also be afforded protection by § 8.

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

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

27
28 **SECTION 8. DEFENSES, LIABILITY, AND PROTECTION OF TRANSFEREE**
29 **OR OBLIGEE.**

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

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

35 (1) Except as otherwise provided in this section, the creditor may recover
36 judgment for the value of the asset transferred, as adjusted under subsection (c), or the amount
37 necessary to satisfy the creditor’s claim, whichever is less. The judgment may be entered

1 against:

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

4 (ii) an immediate or mediate transferee of such first transferee, other than

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

6 (B) an immediate or mediate good-faith transferee of a person

7 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.

Official Comment

1
2
3 | (1). Subsection (a) sets forth a complete defense to an action for avoidance under
4 | § 4(a)(1). The subsection is an adaptation of the exception stated in § 9 of the Uniform
5 | Fraudulent Conveyance Act. Pursuant to subsection (g), the person invoking this defense carries
6 | the burden of establishing good faith and the reasonable equivalence of the consideration
7 | exchanged.

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

11
12 | The requirement of Bankruptcy Code § 550(b)(1) (1984) that a transferee be “without
13 | knowledge of the voidability of the transfer” in order to be protected has been omitted as
14 | inappropriate. Knowledge of the facts rendering the transfer voidable would be inconsistent with
15 | the good faith that is required of a protected transferee. Knowledge of the voidability of a
16 | transfer would seem to involve a legal conclusion. Determination of the voidability of the
17 | transfer ought not to require the court to inquire into the legal sophistication of the transferee.

18
19 | (3). Subsection (c) has no analogue in Bankruptcy Code § 550(a), (b) (1984). The
20 | measure of the recovery of a creditor against a transferee is usually limited to the value of the
21 | asset transferred at the time of the transfer. See, e.g., *United States v. Fernon*, 640 F.2d 609, 611
22 | (5th Cir. 1981); *Hamilton Nat’l Bank of Boston v. Halstead*, 134 N.Y. 520, 31 N.E. 900 (1892);
23 | *cf. Buffum v. Peter Barceloux Co.*, 289 U.S. 227 (1932) (transferee’s objection to trial court’s
24 | award of highest value of asset between the date of the transfer and the date of the decree of
25 | avoidance rejected because an award measured by value as of time of the transfer plus interest
26 | from that date would have been larger). The premise of § 8(c) is that changes in value of the
27 | asset transferred that occur after the transfer should ordinarily not affect the amount of the
28 | creditor’s recovery. Circumstances may require a departure from that measure of the recovery,
29 | however, as the cases decided under the Uniform Fraudulent Conveyance Act and other laws
30 | derived from the Statute of 13 Elizabeth illustrate. Thus, if the value of the asset at the time of
31 | levy and sale to enforce the judgment of the creditor has been enhanced by improvements of the
32 | asset transferred or discharge of liens on the property, a good-faith transferee should be
33 | reimbursed for the outlay for such a purpose to the extent the sale proceeds were increased
34 | thereby. See Bankruptcy Code § 550(d) (1984); *Janson v. Schier*, 375 A.2d 1159, 1160 (N.H.
35 | 1977); Anno., 8 A.L.R. 527 (1920). If the value of the asset at the time of the transfer has been
36 | diminished by severance and disposition of timber or minerals or fixtures, the transferee should
37 | be liable for the amount of the resulting reduction. See *Damazo v. Wahby*, 269 Md. 252, 257,
38 | 305 A.2d 138, 142 (1973). If the transferee has collected rents, harvested crops, or derived other
39 | income from the use or occupancy of the asset after the transfer, the liability of the transferee
40 | should be limited in any event to the net income after deduction of the expense incurred in
41 | earning the income. Anno., 60 A.L.R.2d 593 (1958). On the other hand, adjustment for the
42 | equities does not warrant an award to the creditor of consequential damages alleged to accrue
43 | from mismanagement of the asset after the transfer.

44
45 | (4). Subsection (d) is an adaptation of Bankruptcy Code § 548(c) (1984). An insider

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

8
9 ~~(5)~~ Subsection-(e)(1) rejects the rule adopted in *Darby v. Atkinson (In re Farris)*, 415
10 F.Supp. 33, 39-41 (W.D.Okla. 1976), that termination of a lease on default in accordance with its
11 terms and applicable law may constitute a voidable transfer.

12 Subsection (e)(2) protects a transferee that acquires a debtor's interest in an asset as a
13 result of the enforcement by a secured party (which may but need not be the transferee) of rights
14 pursuant to and in compliance with the provisions of Part 6 of Article 9 of the Uniform
15 Commercial Code. Cf. *Calaiaro v. Pittsburgh Nat'l Bank (In re Ewing)*, 33 B.R. 288, 9
16 C.B.C.2d 526, CCH B.L.R. ¶ 69,460 (Bankr. W.D.Pa. 1983) (sale of pledged stock held subject
17 to avoidance under § 548 of the Bankruptcy Code), *rev'd*, 36 B.R. 476 (W.D.Pa. 1984) (transfer
18 held not voidable because deemed to have occurred more than one year before bankruptcy
19 petition filed). The global requirement of Article 9 that the secured party enforce its rights in
20 good faith, and the further requirement of Article 9 that certain remedies be conducted in a
21 commercially reasonable manner, provide substantial protection to the other creditors of the
22 debtor. See U.C.C. §§ 1-304, 9-607(b), 9-610(b) (2014). The exemption afforded by
23 subsection (e)(2) does not extend to acceptance of collateral in full or partial satisfaction of the
24 obligations it secures. That remedy, contemplated by U.C.C. §§ 9-620–9-622 (2014), is
25 sometimes referred to as “strict foreclosure.” An exemption for strict foreclosure is
26 inappropriate because compliance with the rules of Article 9 relating to strict foreclosure may not
27 sufficiently protect the interests of the debtor's other creditors if the debtor does not act to protect
28 equity the debtor may have in the asset.

29
30 ~~(6)~~ Subsection-(f) provides additional defenses against the avoidance of a preferential
31 transfer to an insider under § 5(b).

32
33 Paragraph (1) is adapted from Bankruptcy Code § 547(c)(4) (1984), which permits a
34 preferred creditor to set off the amount of new value subsequently advanced against the recovery
35 of a voidable preference by a trustee in bankruptcy to the debtor without security. The new value
36 may consist not only of money, goods, or services delivered on unsecured credit but also of the
37 release of a valid lien. See, e.g., *In re Ira Haupt & Co.*, 424 F.2d 722, 724 (2d Cir. 1970);
38 *Baranow v. Gibraltar Factors Corp. (In re Hygrade Envelope Co.)*, 393 F.2d 60, 65-67 (2d Cir.),
39 *cert. denied*, 393 U.S. 837 (1968); *In re John Morrow & Co.*, 134 F. 686, 688 (S.D.Ohio 1901).
40 It does not include an obligation substituted for a prior obligation. If the insider receiving the
41 preference thereafter extends new credit to the debtor but also takes security from the debtor, the
42 injury to the other creditors resulting from the preference remains undiminished by the new
43 credit. On the other hand, if a lien taken to secure the new credit is itself voidable by a judicial
44 lien creditor of the debtor, the new value received by the debtor may appropriately be treated as
45 unsecured and applied to reduce the liability of the insider for the preferential transfer.

1
2 Paragraph (2) is derived from Bankruptcy Code § 547(c)(2) (1984), which excepts certain
3 payments made in the ordinary course of business or financial affairs from avoidance by the
4 trustee in bankruptcy as preferential transfers. Whether a transfer was in the “ordinary course”
5 requires a consideration of the pattern of payments or secured transactions engaged in by the
6 debtor and the insider prior to the transfer challenged under § 5(b). See Tait & Williams,
7 *Bankruptcy Preference Laws: The Scope of Section 547(c)(2)*, 99 Banking L.J. 55, 63-66 (1982).
8 The defense provided by paragraph (2) is available, irrespective of whether the debtor or the
9 insider or both are engaged in business, but the prior conduct or practice of both the debtor and
10 the insider-transferee are relevant.

11
12 Paragraph (3) has no analogue in Bankruptcy Code § 547 (1984). It reflects a policy
13 judgment that an insider who has previously extended credit to a debtor should not be deterred
14 from extending further credit to the debtor in a good-faith effort to save the debtor from a forced
15 liquidation in bankruptcy or otherwise. A similar rationale has sustained the taking of security
16 from an insolvent debtor for an advance to enable the debtor to stave off bankruptcy and
17 extricate itself from financial stringency. *Blackman v. Bechtel*, 80 F.2d 505, 508-09 (8th Cir.
18 1935); *Olive v. Tyler (In re Chelan Land Co.)*, 257 F. 497, 5 A.L.R. 561 (9th Cir. 1919); *In re*
19 *Robin Bros. Bakeries, Inc.*, 22 F.Supp. 662, 663-64 (N.D.Ill. 1937); see *Dean v. Davis*, 242 U.S.
20 438, 444 (1917). The amount of the present value given, the size of the antecedent debt secured,
21 and the likelihood of success for the rehabilitative effort are relevant considerations in
22 determining whether the transfer was in good faith.

23
24 | ~~(7)~~ Subsections (g) and (h) were added in 2014. Sections 2(b), 4(c), 5(c), 8(g), and 8(h)
25 together provide uniform rules on burdens and standards of proof relating to the operation of this
26 | Act. The principles stated in Comment ~~(11)~~ to § 4 apply to subsections (g) and (h).

27 | ~~(8)~~ The provisions of § 8 are integral elements of the rights created by this Act.
28 Accordingly, they should apply if this Act is invoked in a bankruptcy proceeding pursuant to
29 Bankruptcy Code § 544(b) (2014). That follows from the fundamental principle that property
30 rights in bankruptcy should be the same as outside bankruptcy, unless a federal interest compels
31 a different result. See *Butner v. United States*, 440 U.S. 48, 55 (1979). Section 8(b) limits
32 damages under this Act to the amount of the plaintiff creditor’s claim, and that limitation is
33 overridden in bankruptcy by the rule of *Moore v. Bay*, 284 U.S. 4 (1931), which Congress
34 unmistakably maintained when it enacted the Bankruptcy Code. In the absence of a clear
35 override by the Bankruptcy Code or other federal law, however, other aspects of § 8 should
36 apply if this Act is invoked in bankruptcy. See, e.g., *Decker v. Tramiel (In re JTS Corp.)*, 617
37 F.3d 1102, 1110-16 (9th Cir. 2010) (holding that § 8(d) applies to a claim brought under this Act
38 in a bankruptcy proceeding pursuant to Bankruptcy Code § 544(b)).
39

40 **SECTION 9. EXTINGUISHMENT OF [CLAIM FOR RELIEF] [CAUSE OF**
41 **ACTION].** A [claim for relief] [cause of action] with respect to a transfer or obligation under
42 this [Act] is extinguished unless action is brought:

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

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

6 (c) under Section 5(b), not later than one year after the transfer was made .

7 **Official Comment**
8

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

21 | ~~(2)~~ Statutes of limitations applicable to the avoidance of transfers and obligations vary
22 widely from state to state and are frequently subject to uncertainties in their application. See
23 Hesson, *The Statute of Limitations in Actions to Set Aside Fraudulent Conveyances and in*
24 *Actions Against Directors by Creditors of Corporations*, 32 Cornell L.Q. 222 (1946); Annos., 76
25 A.L.R. 864 (1932), 128 A.L.R. 1289 (1940), 133 A.L.R. 1311 (1941), 14 A.L.R.2d 598 (1950),
26 and 100 A.L.R.2d 1094 (1965). Together with § 6, this section should mitigate the uncertainty
27 and diversity that have characterized the decisions applying statutes of limitations to actions to
28 avoid transfers and obligations. The periods prescribed apply, whether the action under this Act
29 is brought by a creditor or by a purchaser at a sale on execution levied pursuant to § 7(b) and
30 whether the action is brought against the original transferee or subsequent transferee. The
31 prescription of statutory periods of limitation does not preclude the barring of an avoidance
32 | action for laches. See § 12 and the accompanying Comment *infra*.

33
34 | ~~(3)~~ Subsection-(a) provides that the four-year period ordinarily applicable to a claim
35 under § 4(a)(1) is extended to “one year after the transfer or obligation was or could reasonably
36 have been discovered by the claimant.” Antecedents to that “discovery rule” have long existed
37 in common law and in other statutes, and courts may take different approaches to filling out the
38 | meaning of subsection-(a) by reference to such precedents. Thus, subsection-(a) literally starts
39 the one-year period when the transfer was or could reasonably have been discovered by the

1 | claimant, but cases applying subsection (a) have held that the period starts only when the
2 transfer and its wrongful nature were or could reasonably have been discovered. See, e.g.,
3 *Freitag v. McGhie*, 947 P.2d 1186 (Wash. 1997); *State Farm Mut. Auto. Ins. Co. v. Cordua*, 834
4 F.Supp.2d 301, 306-08 (E.D. Pa. 2011). A recurring situation to which that distinction may be
5 relevant is Spouse X’s transfer of assets beyond the reach of creditors, made in anticipation of
6 divorcing Spouse Y after the four-year period has elapsed and made for the purpose of thwarting
7 Spouse Y’s economic interests in the divorce. Spouse Y may well know of the transfer long
8 before Spouse Y learns its wrongful purpose. Of course, even if the period specified in
9 subsection (a) is held to have lapsed in a given case, law other than this Act might allow the
10 transferred assets to be considered in making a division of assets in the ensuing divorce case.

11 **SECTION 10. GOVERNING LAW.**

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

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

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

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

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

20 **Official Comment**

21
22 | ~~(1)~~ Section 10, added in 2014, is a simple and predictable choice of law rule for claims
23 of the nature governed by the Act. It provides that a claim in the nature of a claim under the Act
24 is governed by the local law of the jurisdiction in which the debtor is “located” at the time the
25 challenged transfer is made or the challenged obligation is incurred. “Local” law means the
26 substantive law of the referenced jurisdiction, and not its choice of law rules. Section 6
27 determines the time at which a transfer is made or obligation is incurred for purposes of the Act,
28 including this section.
29

30 Basing choice of law on the location of the debtor is analogous to the rule set forth in
31 U.C.C. § 9-301 (2014), which provides that the priority of a security interest in intangible
32 property is generally governed by the local law of the jurisdiction in which the debtor is located.
33 The analogy is apt, because the substantive rules of this Act are a species of priority rule, in that
34 they determine the circumstances in which a debtor’s creditors, rather than the debtor’s
35 transferee, have superior rights in property transferred by the debtor. In keeping with that
36 analogy, the definition of the debtor’s “location” in subsection (a) is identical to the baseline

1 definition of that term in U.C.C. § 9-307(b) (2014). Subsection (a) does not include any of the
2 exceptions to the baseline definition that are set forth in Article 9 of the Uniform Commercial
3 Code, such as U.C.C. § 9-307(e) (2014) (providing that the location of a domestic corporation or
4 other “registered organization” is its jurisdiction of organization), and U.C.C. § 9-307(c) (2014)
5 (providing in effect that if the baseline definition would locate a debtor in a jurisdiction that lacks
6 an Article 9-style filing system, then the debtor is instead located in the District of Columbia).
7 Those exceptions are not included in subsection (a) because their primary purpose relates to the
8 operation of Article 9’s perfection rules, which have no analogue in this Act.

9
10 ~~———(2) As used in subsection~~

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

20
21 3. As used in subsection (a), the terms “principal residence,” “place of business,” and
22 “chief executive office” are to be evaluated on the basis of authentic and sustained activity, not
23 on the basis of manipulations employed to establish a location artificially (*e.g.*, by such means as
24 establishing a notional “chief executive office” by use of straw-man officers or directors in a
25 jurisdiction in which creditors’ rights are substantially debased, or establishing a notional
26 “principal residence” for a short term in such a jurisdiction for the purpose of making an asset
27 transfer while there). Notwithstanding the adaptation of subsection (a) from U.C.C. § 9-307(b)
28 (2014), the foregoing terms need not necessarily have the same meanings in both statutes.
29 Debtors are likely to have greater incentive and ability to employ “asset tourism” for the purpose
30 of seeking to evade the substantive rules of this Act than for the purpose of seeking to
31 manipulate the perfection and priority rules of secured transactions law. Interpretation and
32 application of this Act should so recognize.

33
34 ~~(3)4.~~ “Location” under this Act is completely independent from the concept of “center of
35 main interests” (“COMI”), as that term is used in Chapter 15 of the Bankruptcy Code.
36 Chapter 15, which applies to transnational insolvency proceedings, requires United States courts
37 to defer in various ways to a foreign proceeding in the jurisdiction of the debtor’s COMI. Those
38 consequences are quite different from the consequences of “location” under this Act.
39 Furthermore, if the debtor is an organization, the debtor’s jurisdiction of organization has no
40 bearing on the debtor’s “location” under subsection (a), by contrast to the presumption in
41 Bankruptcy Code § 1516(c) (2014) that the jurisdiction in which the debtor has its registered
42 office (*i.e.*, its jurisdiction of organization) is its COMI.

43 SECTION 11. APPLICATION TO SERIES ORGANIZATION.

44 (a) In this section:

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

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

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

10 (ii) Debt incurred or existing with respect to the activities of, or property
11 of or associated with, a particular protected series is enforceable against the property of or
12 associated with the protected series only, and not against the property of or associated with the
13 organization or ~~of~~ other protected series of the organization.

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

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

20 Official Comment

21
22 This section, added in 2014, accommodates developments in business organization
23 statutes exemplified by the Uniform Statutory Trust Entity Act §§ 401-404 (2009) and Del. Code
24 Ann. tit. 6, § 18-215 (2012) (pertaining to Delaware limited liability companies). The definition
25 of “series organization” in subsection (a)(2) is adapted from §§ 401-402 of the Uniform Statutory
26 Trust Entity Act. If the statute under which an organization is organized permits it to divide its
27 assets and debts among “protected series” (however denominated), such that assets and debts of,

1 or associated with, each “protected series” are separated in accordance with subsections (a)(2)(ii)
2 and (iii), and if the organization does so, then the provisions of this Act apply to each “protected
3 series” as if it were a legal entity, regardless of whether it is considered to be a legal entity for
4 other purposes. The conditions referred to in subsections (a)(2)(ii) and (iii) are satisfied if the
5 law under which the organization is organized so provides. It does not matter whether the
6 separation of assets and debts described in subsections (a)(2)(ii) and (iii) would be respected by
7 another jurisdiction in which the organization does business, or would be given effect by the
8 Bankruptcy Code in the bankruptcy of the organization. An organization may be a “series
9 organization” having “protected series,” as those terms are used in this section, even though the
10 statute under which the organization is organized uses different terminology. This section uses
11 the term “protected series,” which is not used in either the Uniform Statutory Trust Entity Act or
12 the Delaware provisions cited above, to emphasize that the application of this section does not
13 depend upon the terminology used by the applicable statute.

14
15 **SECTION 12. SUPPLEMENTARY PROVISIONS.** Unless displaced by the
16 provisions of this [Act], the principles of law and equity, including the law merchant and the law
17 relating to principal and agent, estoppel, laches, fraud, misrepresentation, duress, coercion,
18 mistake, insolvency, or other validating or invalidating cause, supplement its provisions.

19 **Official Comment**

20
21 This section is derived from § 11 of the Uniform Fraudulent Conveyance Act and
22 Uniform Commercial Code § 1-103 (1984) (later § 1-103(b) (2014)). The section adds a
23 reference to “laches” in recognition of the particular appropriateness of the application of this
24 equitable doctrine to an untimely action to avoid a transfer under this Act. See *Louis Dreyfus*
25 *Corp. v. Butler*, 496 F.2d 806, 808 (6th Cir. 1974) (action to avoid transfers to debtor’s wife
26 when debtor was engaged in speculative business held to be barred by laches or applicable
27 statutes of limitations); *Cooch v. Grier*, 30 Del.Ch. 255, 265-66, 59 A.2d 282, 287-88 (1948)
28 (action under the Uniform Fraudulent Conveyance Act held barred by laches when the creditor
29 was chargeable with inexcusable delay and the defendant was prejudiced by the delay).

30 **SECTION 13. UNIFORMITY OF APPLICATION AND CONSTRUCTION.** This
31 [Act] shall be applied and construed to effectuate its general purpose to make uniform the law
32 with respect to the subject of this [Act] among states enacting it.

33 **SECTION 14. SHORT TITLE.** This [Act], which was formerly cited as the Uniform
34 Fraudulent Transfer Act, may be cited as the Uniform Voidable Transactions Act.

1
2
3 **Official Comment**

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

20 In addition, the word “Transfer” in the original title of the Act was underinclusive,
21 because the Act applies to incurrence of obligations as well as to transfers of property.
22

23 | ~~(2)~~ The Act, like the earlier Uniform Fraudulent Conveyance Act, has never purported
24 to be an exclusive law on the subject of voidable transfers and obligations. See Prefatory Note
25 (1984), ¶5; § 1, Comment ~~(2)~~; ¶6; § 4, Comment ~~(9)~~; ¶1. It remains the case that the Act is not
26 the exclusive law on the subject of voidable transfers and obligations.
27

28 | ~~(3)~~ The retitling of the Act should not be construed to affect references to the Act in
29 other statutes or international instruments that use the former terminology. See, e.g., Convention
30 on International Interests in Mobile Equipment, art. 30(a)(3), opened for signature Nov. 16,
31 2001, S. Treaty Doc. No. 108-10 (referring to “any rules of law applicable in insolvency
32 proceedings relating to the avoidance of a transaction as a ... transfer in fraud of creditors”).
33

34 | ~~(4)~~ The 2014 amendments also make a correction to the text of the Act that is consonant
35 with the change of the Act’s title. As originally written, the Act inconsistently used different
36 words to denote a transfer or obligation for which the Act provides a remedy: sometimes
37 “voidable” (see original § 2(d), §§ 8(a), (d), (e), (f)), and sometimes “fraudulent” (see original
38 § 4(a), §§ 5(a), (b), § 9). The amendments resolve that inconsistency by using “voidable”
39 consistently or deleting the word as unnecessary. No change in meaning is intended.
40

41 | ~~(5)~~ The Act does not address the extent to which a person who facilitates the making of
42 a transfer or the incurrence of an obligation that is voidable under the Act may be subject to
43 liability for that reason, whether under a theory of aiding and abetting, civil conspiracy, or
44 otherwise. The Act leaves that subject to supplementary principles of law. See § 12. Cf.
45 § 8(b)(1)(i) (imposing liability upon, *inter alia*, “the person for whose benefit the transfer was
46 made”). Other law also governs such matters as (i) the circumstances in which a lawyer who

1 assists a debtor in making a transfer or incurring an obligation that is voidable under the Act
2 violates rules of professional conduct applicable to lawyers, (ii) the circumstances in which
3 communications between the debtor and the lawyer in respect of such a transfer or obligation are
4 excepted from attorney-client privilege, and (iii) the extent to which criminal sanctions apply to a
5 debtor, transferee, obligee, or person who facilitates the making of a transfer or the incurring of
6 an obligation that is voidable under the Act. Neither the retitling of the Act, nor the consistent
7 use of “voidable” in its text per Comment ~~(4)~~² effects any change in the meaning of the Act, and
8 those amendments should not be construed to affect any of the foregoing matters.

9
10 **SECTION 15. REPEAL.** The following acts and all other acts and parts of acts

11 inconsistent herewith are hereby repealed:

12 **Official Comment**

13
14 If enacted by this State, the Uniform Fraudulent Conveyance Act should be listed among
15 the statutes repealed.

16
17 **Legislative Note (2014):** *The legislation enacting the 2014 amendments in a jurisdiction in*
18 *which the Act is already in force should provide as follows: (i) the amendments apply to a*
19 *transfer made or obligation incurred on or after the effective date of the enacting legislation,*
20 *(ii) the amendments do not apply to a transfer made or obligation incurred before the effective*
21 *date of the enacting legislation, (iii) the amendments do not apply to a right of action that has*
22 *accrued before the effective date of the enacting legislation, and (iv) for the foregoing purposes a*
23 *transfer is made and an obligation is incurred at the time provided in § 6 of the Act. In addition,*
24 *the enacting legislation should revise any reference to the Act by its former title in other*
25 *permanent legislation of the enacting jurisdiction.*