

STRIPPED FOR PROTECTION

With the economy under duress, the wealthy are increasingly targets of unjust and frivolous lawsuits. This translates into a need for the affluent to structure their wealth in specific ways, as well as adopt various legal and financial strategies to protect themselves from predators.

BY RUSS ALAN PRINCE & HANNAH SHAW GROVE

Richard J. Flynn, head of the **Rothstein Kass** Family Office Group in New York, says, "With all our clients, we first carefully address their personal and financial situations to identify the ways they can lose their assets in unfair lawsuits. Then we take appropriate preventive actions. Rarely are the wealthy people we bring on as clients adequately protected. We consistently find ways to better protect their wealth."

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One asset protection strategy that relatively few professional advisors employ effectively, but which can be very beneficial, is "equity stripping." "It's when a commercial lender loans cash to the wealthy individual using some of his or her property as collateral," explains Frank W. Seneco, an advanced planning specialist and president of **Seneco & Associates** in New Haven, Conn. "Because of the loan, a lien is placed on the property. A creditor will have a really difficult time defeating the lender's lien. Meanwhile, the cash is placed in a structure that insulates it from the creditor."

There are a variety of structures the affluent person can use to protect their cash. "When we facilitate the equity stripping process, we tend to use qualified retirement plans and a variety of trusts," notes Flynn. "We also are very involved in arranging for the loan." While commercial banks can be used to make the loan, there are other lenders that are often superior. "Hedge funds and specialty lenders are usually better on terms and rates," says Seneco. "What has to happen here is that we have to work very closely with the hedge fund, for instance, to create a customized credit facility."

Equity stripping is most commonly employed with real estate and corporate assets. However, it can be used with any asset. "Working with celebrities, we've been able to use the equity stripping strategy with their intellectual property, such as music catalogues," says Flynn. "The equity stripping strategy can also work with the artwork and even with licensing agreements." Additional types of assets that work include accounts receivables. Here a high-quality factoring company provides the loan. Investment portfolios are another "asset" that can be made creditor-protected with equity stripping.

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