

[CHAPTER 651C]
UNIFORM FRAUDULENT TRANSFER ACT

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Law Journals and Reviews

The "ABCs" of Hawaii's Assignment for Benefit of Creditors Law. 13 HBJ, no. 13, at 127 (2009).

Case Notes

Where a creditor alleges a fraudulent transfer of property from a judgment debtor to a transferee who retains title to the subject property or who claims an interest in the property or its proceeds, the transferee is a necessary party to any action seeking to set aside the transfer. Such an action for relief against a transfer alleged to be fraudulent should be brought pursuant to this chapter, and should expressly name as defendants the alleged fraudulent transferees. 76 H. 32, 868 P.2d 450 (1994).

Although Hawaii's uniform fraudulent transfer act does not preclude preferential transfers per se, if the preferential transfer was made with "actual intent to hinder, delay, or defraud any creditor" the transfer will be deemed fraudulent. 113 H. 174, 150 P.3d 823 (2006).

Where developer did not seek to directly obtain title to, or possession of, property, but rather sought to avoid the transfer of the property owner's and lessee's interest in the property for the purpose of securing payment of money which might potentially be owed if developer succeeded on its counterclaims, the developer's claim under this chapter was asserted for a purpose which was rejected as a basis for a lis pendens under §634-51; thus, circuit court did not abuse its discretion in granting county's motion to expunge developer's lis pendens. 128 H. 378 (App.), 289 P.3d 1014 (2012).

Petitioners were entitled to a variety of means (§§651C-7, 651C-8, and 651C-10) to secure a full recovery of their losses from respondent and/or the asset fraudulently transferred to respondent, but only once, not twice; moreover, nothing in this chapter requires petitioners to elect one remedy over another. This chapter does not, however, allow petitioners recovery of both the asset transferred (regardless of its value) and, in addition, a judgment in the full amount of their damages. 130 H. 58 (App.), 305 P.3d 474 (2013).

" **[§651C-1] Definitions.** As used in this chapter, unless the context otherwise requires:

"Affiliate" means:

- (1) A person who directly or indirectly owns, controls, or holds with power to vote, twenty or more per cent of

the outstanding voting securities of the debtor, other than a person who holds the securities:

- (A) As a fiduciary or agent without sole discretionary power to vote the securities; or
 - (B) Solely to secure a debt, if the person has not in fact exercised the power to vote;
- (2) A corporation, twenty or more per cent of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by the debtor, or by a person who directly or indirectly owns, controls, or holds with power to vote, twenty or more per cent of the outstanding voting securities of the debtor, other than a person who holds the securities:
- (A) As a fiduciary or agent without sole discretionary power to vote the securities; or
 - (B) Solely to secure a debt, if the person has not in fact exercised the power to vote;
- (3) A person whose business is operated by the debtor under a lease or other agreement, or a person substantially all of whose assets are controlled by the debtor; or
- (4) A person who operates the debtor's business under a lease or other agreement or controls substantially all of the debtor's assets.

"Asset" means property of a debtor but does not include:

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

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

"Creditor" means a person who has a claim against a debtor.

"Debt" means liability on a claim.

"Debtor" means a person against whom a creditor has a claim.

"Insider" includes:

- (1) If the debtor is an individual:
 - (A) A relative of the debtor or of a general partner of the debtor;

- (B) A partnership in which the debtor is a general partner;
 - (C) A general partner in a partnership described in subparagraph (B); or
 - (D) A corporation of which the debtor is a director, officer, or person in control;
- (2) If the debtor is a corporation:
- (A) A director of the debtor;
 - (B) An officer of the debtor;
 - (C) A person in control of the debtor;
 - (D) A partnership in which the debtor is a general partner;
 - (E) A general partner in a partnership described in subparagraph (D); or
 - (F) A relative of a general partner, director, officer, or person in control of the debtor;
- (3) If the debtor is a partnership:
- (A) A general partner of the debtor;
 - (B) A relative of a general partner in, of a general partner of, or of a person in control of the debtor;
 - (C) Another partnership in which the debtor is a general partner;
 - (D) A general partner in a partnership described in subparagraph (C); or
 - (E) A person in control of the debtor;
- (4) An affiliate, or an insider of an affiliate as if the affiliate were the debtor; and
- (5) A managing agent of the debtor.

"Lien" means a charge against or an interest in property to secure payment of a debt or performance of an obligation, including a security interest created by agreement, a judicial lien obtained by legal or equitable process or proceedings, a common-law lien, or a statutory lien.

"Person" means an individual, partnership, corporation, association, organization, government or governmental subdivision or agency, business trust, estate, trust, or any other legal or commercial entity.

"Property" means anything that may be the subject of ownership.

"Relative" means an individual related within the third degree as determined by the common law, a spouse, or an individual related to a spouse within the third degree as so determined, and includes an individual in an adoptive relationship within the third degree.

"Transfer" means every mode, direct or indirect, absolute or conditional, voluntary or involuntary, of disposing of or

parting with an asset or an interest in an asset, and includes a payment of money, a release, a lease, and the creation of a lien or encumbrance.

"Valid lien" means a lien that is effective against the holder of a judicial lien subsequently obtained by legal or equitable process or proceedings. [L 1985, c 216, pt of §1]

Revision Note

The definition of "An 'insider'" changed to "Insider" pursuant to §23G-15.

" **[\$651C-2] Insolvency.** (a) A debtor is insolvent if the sum of the debtor's debts is greater than all of the debtor's assets, at a fair valuation.

(b) A debtor who is generally not paying his or her debts as they become due is presumed to be insolvent.

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

(d) Assets under this section do not include property that has been transferred, concealed, or removed with intent to hinder, delay, or defraud creditors or that has been transferred in a manner making the transfer voidable under this chapter.

(e) Debts under this section do not include an obligation to the extent it is secured by a valid lien on property of the debtor not included as an asset. [L 1985, c 216, pt of §1]

" **[\$651C-3] Value.** (a) Value is given for a transfer or an obligation if in exchange for the transfer or obligation property is transferred or an antecedent debt is secured or satisfied, but value does not include an unperformed promise made otherwise than in the ordinary course of the promisor's business to furnish support to the debtor or another person.

(b) For the purposes of section 651C-4(a)(2) and section 651C-5, a person gives a reasonably equivalent value if the person acquires an interest of the debtor in an asset pursuant to a regularly conducted, noncollusive foreclosure sale or execution of a power of sale for the acquisition or disposition of the interest of the debtor upon default under a mortgage, deed of trust, or security agreement.

(c) A transfer is made for present value if the exchange between the debtor and the transferee is intended by them to be contemporaneous and is in fact substantially contemporaneous. [L 1985, c 216, pt of §1]

" **[\$651C-4] Transfers fraudulent as to present and future creditors.** (a) A transfer made or obligation incurred by a debtor is fraudulent as to a creditor, whether the creditor's claim arose before or after the transfer was made or the obligation was incurred, if the debtor made the transfer or incurred the obligation:

- (1) With actual intent to hinder, delay, or defraud any creditor of the debtor; or
- (2) Without receiving a reasonably equivalent value in exchange for the transfer or obligation, and the debtor:
 - (A) Was engaged or was about to engage in a business or a transaction for which the remaining assets of the debtor were unreasonably small in relation to the business or transaction; or
 - (B) Intended to incur, or believed or reasonably should have believed that the debtor would incur, debts beyond the debtor's ability to pay as they became due.

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

- (1) The transfer or obligation was to an insider;
- (2) The debtor had retained possession or control of the property transferred after the transfer;
- (3) The transfer or obligation was disclosed or concealed;
- (4) Before the transfer was made or obligation was incurred, the debtor was sued or threatened with suit;
- (5) The transfer was of substantially all the debtor's assets;
- (6) The debtor had absconded;
- (7) The debtor had removed or concealed assets;
- (8) The value of the consideration received by the debtor was reasonably equivalent to the value of the asset transferred or the amount of the obligation incurred;
- (9) The debtor was insolvent or became insolvent shortly after the transfer was made or the obligation was incurred;
- (10) The transfer had occurred shortly before or shortly after a substantial debt was incurred; and
- (11) The debtor had transferred the essential assets of the business to a lienor who had transferred the assets to an insider of the debtor. [L 1985, c 216, pt of §1]

Case Notes

Fraudulent transfers, discussed. 916 F.2d 528 (1990).

Plaintiffs pled facts with sufficient particularity to support a cause of action for fraudulent conveyance under subsection (a)(1) and (a)(2)(B) and §651C-5(a). 529 F. Supp. 2d 1190 (2007).

Although Hawaii's uniform fraudulent transfer act does not preclude preferential transfers per se, if the preferential transfer was made with "actual intent to hinder, delay, or defraud any creditor" the transfer will be deemed fraudulent. 113 H. 174, 150 P.3d 823 (2006).

Mentioned: 130 H. 58 (App.), 305 P.3d 474 (2013).

" **[\$651C-5] Transfers fraudulent as to present creditors.**

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

(b) A transfer made by a debtor is fraudulent as to a creditor whose claim arose before the transfer was made if the transfer was made to an insider for other than a present, reasonably equivalent value, the debtor was insolvent at that time, and the insider had reasonable cause to believe that the debtor was insolvent. [L 1985, c 216, pt of §1]

Case Notes

Plaintiffs pled facts with sufficient particularity to support a cause of action for fraudulent conveyance under subsection (a) and §651C-4(a)(1) and (a)(2)(B). 529 F. Supp. 2d 1190 (2007).

Where partner was not a "creditor" as defined under §651C-1, other partner was not entitled to relief under this chapter. 92 H. 243, 990 P.2d 713 (1999).

" **[\$651C-6] When transfer is made or obligation is incurred.**

For the purposes of this chapter:

(1) A transfer is made:

(A) With respect to an asset that is real property other than a fixture, but including the interest of a seller or purchaser under a contract for the sale of the asset, when the transfer is so far perfected that a good-faith purchaser of the asset from the debtor against whom applicable law permits the transfer to be perfected cannot

- acquire an interest in the asset that is superior to the interest of the transferee; and
- (B) With respect to an asset that is not real property or that is a fixture, when the transfer is so far perfected that a creditor on a simple contract cannot acquire a judicial lien otherwise than under this chapter that is superior to the interest of the transferee;
- (2) If applicable law permits the transfer to be perfected as provided in paragraph (1) and the transfer is not so perfected before the commencement of an action for relief under this chapter, the transfer is made immediately before the commencement of the action;
 - (3) If applicable law does not permit the transfer to be perfected as provided in paragraph (1), the transfer is made when it becomes effective between the debtor and the transferee;
 - (4) A transfer is not made until the debtor has acquired rights in the asset transferred;
 - (5) An obligation is incurred:
 - (A) If oral, when it becomes effective between the parties; or
 - (B) If evidenced by a writing, when the writing executed by the obligor is delivered to or for the benefit of the obligee. [L 1985, c 216, pt of §1]

" **[\$651C-7] Remedies of creditors.** (a) In any action for relief against a transfer or obligation under this chapter, a creditor, subject to the limitations provided in section 651C-8, may obtain:

- (1) Avoidance of the transfer or obligation to the extent necessary to satisfy the creditor's claim;
- (2) An attachment or other provisional remedy against the asset transferred or other property of the transferee in accordance with the procedure prescribed by chapter 651;
- (3) Subject to applicable principles of equity and in accordance with applicable civil rules of procedure:
 - (A) An injunction against further disposition by the debtor or a transferee, or both, of the asset transferred or of other property;
 - (B) Appointment of a receiver to take charge of the asset transferred or of other property of the transferee; or
 - (C) Any other relief the circumstances may require.

(b) If a creditor has obtained a judgment on a claim against the debtor, the creditor may, if the court so orders, levy execution on the asset transferred or its proceeds. [L 1985, c 216, pt of §1]

Case Notes

Action in which plaintiff made fraudulent transfer claims under the Hawaii uniform fraudulent transfer act, seeking to avoid the transfer of real property to the extent necessary to satisfy plaintiff's claims and/or to grant plaintiff other relief under subsection (a), was an appropriate subject of a lis pendens under the Hawaii doctrine of lis pendens, codified in §634-51. 457 F. Supp. 2d 1121 (2006).

Petitioners were entitled to a variety of means (§§651C-8 and 651C-10 and this section) to secure a full recovery of their losses from respondent and/or the asset fraudulently transferred to respondent, but only once, not twice; moreover, nothing in this chapter requires petitioners to elect one remedy over another. This chapter does not, however, allow petitioners recovery of both the asset transferred (regardless of its value) and, in addition, a judgment in the full amount of their damages. 130 H. 58 (App.), 305 P.3d 474 (2013).

" **[§651C-8] Defenses, liability, and protection of transferee.** (a) A transfer or obligation is not voidable under section 651C-4(a)(1) against a person who took in good faith and for a reasonably equivalent value or against any subsequent transferee or obligee.

(b) Except as otherwise provided in this section, to the extent a transfer is voidable in an action by a creditor under section 651C-7(a)(1), the creditor may recover judgment for the value of the asset transferred, as adjusted under subsection (c), or the amount necessary to satisfy the creditor's claim, whichever is less. The judgment may be entered against:

- (1) The first transferee of the asset or the person for whose benefit the transfer was made; or
- (2) Any subsequent transferee other than a good-faith transferee who took for value or from any subsequent transferee.

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

(d) Notwithstanding voidability of a transfer or an obligation under this chapter, a good-faith transferee or

obligee is entitled, to the extent of the value given the debtor for the transfer or obligation, to:

- (1) A lien on or a right to retain any interest in the asset transferred;
- (2) Enforcement of any obligation incurred; or
- (3) A reduction in the amount of the liability on the judgment.

(e) A transfer is not voidable under section 651C-4(a)(2) or section 651C-5 if the transfer results from:

- (1) Termination of a lease upon default by the debtor when the termination is pursuant to the lease and applicable law; or
 - (2) Enforcement of a security interest in compliance with Article 9 of the Uniform Commercial Code.
- (f) A transfer is not voidable under section 651C-5(b):
- (1) To the extent the insider gave new value to or for the benefit of the debtor after the transfer was made unless the new value was secured by a valid lien;
 - (2) If made in the ordinary course of business or financial affairs of the debtor and the insider; or
 - (3) If made pursuant to a good-faith effort to rehabilitate the debtor and the transfer secured present value given for that purpose as well as an antecedent debt of the debtor. [L 1985, c 216, pt of §1]

Case Notes

Fraudulent transfers, discussed. 916 F.2d 528 (1990).

Petitioners were entitled to a variety of means (§§651C-7 and 651C-10 and this section) to secure a full recovery of their losses from respondent and/or the asset fraudulently transferred to respondent, but only once, not twice; moreover, nothing in this chapter requires petitioners to elect one remedy over another. This chapter does not, however, allow petitioners recovery of both the asset transferred (regardless of its value) and, in addition, a judgment in the full amount of their damages. 130 H. 58 (App.), 305 P.3d 474 (2013).

" **[§651C-9] Extinguishment of cause of action.** A cause of action with respect to a fraudulent transfer or obligation under this chapter is extinguished unless action is brought:

- (1) Under section 651C-4(a)(1), within four years after the transfer was made or the obligation was incurred or, if later, within one year after the transfer or obligation was or could reasonably have been discovered by the claimant;

- (2) Under section 651C-4(a)(2) or section 651C-5(a), within four years after the transfer was made or the obligation was incurred; or
- (3) Under section 651C-5(b), within one year after the transfer was made or the obligation was incurred. [L 1985, c 216, pt of §1]

Case Notes

Section barred fraudulent conveyance claim by U.S. upon expiration of prescribed time period. 780 F. Supp. 705 (1992).

Petitioners' argument that the statute of limitations began to run when the judgment in the underlying action was filed was incorrect. 131 H. 497, 319 P.3d 416 (2014).

The one year limitations period under paragraph (1) that begins on the date a transfer "was or could reasonably have been discovered by the claimant" commences when a plaintiff discovers or could reasonably have discovered a transfer's fraudulent nature. 131 H. 497, 319 P.3d 416 (2014).

" **[\$651C-10] Supplement of provisions.** Unless displaced by the provisions of this chapter, the principles of law and equity, including the law merchant and the law relating to principal and agent, estoppel, laches, fraud, misrepresentation, duress, coercion, mistake, insolvency, or other validating or invalidating cause, supplement its provisions. [L 1985, c 216, pt of §1]

Case Notes

Petitioners were entitled to a variety of means (§§651C-7 and 651C-8 and this section) to secure a full recovery of their losses from respondent and/or the asset fraudulently transferred to respondent, but only once, not twice; moreover, nothing in this chapter requires petitioners to elect one remedy over another. This chapter does not, however, allow petitioners recovery of both the asset transferred (regardless of its value) and, in addition, a judgment in the full amount of their damages. 130 H. 58 (App.), 305 P.3d 474 (2013).