Trusts and Bankruptcy

Some people attempt to protect their assets from creditors by transferring some of their money or property into a trust. A trust gives some ownership of a person's assets to another person or group of people. Creditors would then have a harder time collecting on these assets.

In the meantime, the trust holder can continue to earn the interest made on the property in the trust by reserving a life estate. Some people then try to transfer the interest earned to another party to try to shelter it from creditors. However, with the bankruptcy law reform in effect, creditors will more easily be able to gain access to these assets.

Self-Settled Trust

Your trustee can stop you from collecting the interest on properties protected by trusts made within 10 years of your bankruptcy filing if you assigned a portion of them to a self-settled trust. A self-settled trust is a trust that you start for your own personal benefit.

Your trustee can also stop you from collecting interest on assets protected by a trust if you are deliberately trying to interfere with or defraud any creditors.