Bottom Up Creditor Problem
Use Limited Liability Company to Protect Assets

**Bad Scenario**
No LLC - Assets at Risk

1. **Investor**
2. **Rental Property**
3. **Injured Tenant - the bottom up creditor**

   Tenant sues the property owner, the Investor, directly.

   **ALL of the Investor’s assets are at risk.**

**Good Scenario**
LLC Protects Assets

1. **Investor**
2. **Limited Liability Company owns rental property**
3. **Injured Tenant - the bottom up creditor**

   Tenant sues the property owner, which is the LLC.

   **LLC may lose the property, but the Investor’s other personal assets are safe.**

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**Rule Number 1:** Purchase as much insurance as you can afford for the type of activity that your entity engages in.

**Rule Number 2:** Purchase the biggest umbrella insurance policy you can obtain and afford. May be easy to purchase a $5,000,000 umbrella policy. Does your insurer offer umbrella policies larger than $5,000,000?

**Rule Number 3:** Own real estate (other than your residence) in a limited liability company. Operate businesses through a limited liability company.

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Prepared by
Richard Keyt
Business & Real Estate Attorney
3001 East Camelback, Suite 130
Phoenix, Arizona 85016
602-906-4953 ext. 101
rk@keylaw.com - www.keylaw.com

For more information about Arizona LLCs, see the Arizona LLC Library on our website at [www.keylaw.com/lc](http://www.keylaw.com/lc).

To hire Richard Keyt to form your Arizona LLC for $599, including the $85 expedited filing fee, the $45 newspaper publication fee, a 100 page Arizona LLC Quick Start Guide book and a 30 page Operating Agreement, see [www.keylaw.com/formllc](http://www.keylaw.com/formllc).

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Scenarios When an LLC Gives No Asset Protection

Bottom Up Creditor Problem

Investor install water heater in the home that blows up and harms tenant.

Limited Liability Company owns rental property

ALL of the investor's assets are at risk.

LLC does not protect Investor because the investor caused the injury.

Rental Property

Investor sues Investor directly.

Injured Tenant

Top Down Creditor Problem

Car Accident Victim - the Top Down Creditor

Investor runs a red light and injures car accident victim who sues the investor directly.

Limited Liability Company owns rental property

The injured victim is a top down creditor.

The LLC provides no asset protection against top down creditors.

Asset Protection Rule Number 1:

If you personally cause harm, you are liable and may be sued directly and all of your assets are at risk. Your LLC or corporation will not protect you from a lawsuit or a judgment against you when you cause the harm.

1st Line of Defense against top down creditor is insurance

2nd Line of Defense against a top down creditor is a big umbrella insurance policy.

3rd Line of Defense against a top down creditor involves planning and various optional business structures created before a claim or contingent liability arises.

Prepared by Richard Keyt
Business & Real Estate Attorney
3001 East Camelback, Suite 130
Phoenix, Arizona 85016
602-906-4953 ext. 101
rk@keytlaw.com - www.keytlaw.com

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