

JOHN T. REED, I DO NOT RECOMMEND....



**JOHN T. REED**



**BILL J. GATTEN**

Please do not bother with this trash unless you are particularly interested in my long-standing feud with John T. Reed. This is a lengthy (but perhaps educational for some) article and not worth the time unless you want to see what uninformed half-assed people do when they appoint themselves to be the guardians of morality and decency. Candidly, I have never known of anyone doing that who was truly moral *or* decent...within his or her heart of hearts. I believe in the old adage that, *“He who sees a burglar behind every bush has larceny in his heart.”* By, hey, that’s just me.

I'll try to abbreviate where I can, but I don't want to leave anything out that he says that could remain debatable. And...all of my responses will be in CAPS for clarity (...AND MAYBE A LITTLE SHOUTING TOO).

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**REED:** Real estate guru Bill Gatten has an approach he calls a PACTrust. I attended a presentation where he described it at a free seminar. He says the PACTrust lets you:

- ignore due-on-sale clauses

**GATTEN:** WRONG! WE JUST DON'T “VIOLATE” THEM.

- buy for nothing down

WRONG! “NO DOWN PAYMENT”...BIG DIFFERENCE!

- avoid credit checks

- have “bulletproof” asset protection

**GATTEN:** NOPE...”ARMOR PLATED.” SOMEONE ELSE USES THE TERM “BULLET PROOF.”

**REED:** the disadvantages of those financing techniques

- simplifies closing

RIGHT!

**REED:** • eliminates management

**GATTEN:** WRONG! ELIMINATES MANAGEMENT-'COSTS'!!

**REED:** • eliminates maintenance

**GATTEN:** WRONG! ELIMINATES MAINTENANCE-'COSTS'!

- has no credit risk

RIGHT. BUT “CREDIT REPORT RISK” MAY BE A BETTER CHOICE OF TERMS, ONE’S ETHICAL OBLIGATIONS CANNOT BE AVOIDED

**REED:** the most extreme violation of the too-good-to-be-true rule I have ever seen in real estate.

**GATTEN:** I AGREE; THEREFORE IT'S EITHER THAT, OR IT’S VERY 'GOOD' AND VERY 'TRUE'!

**REED:** What is the PACTrust? I am not sure the following is an exact description of the PACTrust.

**GATTEN:** YOU’RE NOT SURE, BUT YOU'RE GOING TO PRONOUNCE JUDGMENT ON IT AND ME ANYWAY. NOW THAT'S DAMNED SPORTING OF YOU JOHN.

**REED:** Normally, I would make sure it’s exact.

**GATTEN:** WHY MAKE SURE IT'S *EXACT*...THAT MIGHT SCREW UP YOUR MODUS OPERANDI. “...I'M NOT EXACTLY SURE THAT HELPLESS GUY IS THE ENEMY, BUT I'M GOING TO SHOOT HIM ANYWAY.” THAT’S REAL GOOD.

**REED:** In order to make my analysis precise, I asked Gatten to send me a copy of his book or whatever form he sells this in. He refused.

**GATTEN:** WRONG! I GAVE YOU AN OPPORTUNITY TO BUY IT...JUST LIKE EVERYONE ELSE DOES AND JUST LIKE I HAD TO BUY YOURS. AND BESIDES, I OFFERED IT TO YOU FOR FREE WHEN I FIRST HEARD ABOUT YOU: BUT YOU INDICATED THAT IT WOULDN'T MATTER, BECAUSE YOU WEREN'T CRITIQUING ME... YOU WERE JUST SAYING YOU DIDN'T RECOMMEND ME (CALUMNIOUS, VOLATILE AND PREJUDICIAL ASPERSIONS OR NOT).

**REED:** 1. "Motivated" seller deeds property into a living, revocable, beneficiary-directed land trust.

**GATTEN:** WRONG AGAIN! A LAND TRUST PROPERTY IS 'NEVER' DEEDED TO A TRUST!

**REED:** 2. Investor acquires property for no money down by becoming co-beneficiary with seller.

**GATTEN:** WRONG! "NO DOWN PAYMENT," NOT "NO MONEY DOWN"! ALTHOUGH, MY STUDENTS AND I DO ACQUIRE LOTS OF REAL ESTATE WITHOUT A CENT OUT OF POCKET.

3. Trustee hires property manager.

**GATTEN:** WRONG! A "BILL-PAYING SERVICE" IS PROVIDED WITHOUT CHARGE: NEVER A *PROPERTY MANAGER*...BIG DIFFERENCE! HAVING PROPERTY MANGER WOULD CHARACTERIZE THE WHOLE TRANSACTION AS SOMETHING ELSE. IN A LAND TRUST, THE BENEFICIARIES MUST BE THE MANGERS: A MAJOR FEATURE OF THE *EHT*.

**REED:** 4. Investor, hereinafter referred to as second co-beneficiary, leases property from land trust.

**GATTEN:** WRONG! THE INVESTOR DOES NOT LEASE THE PROPERTY. IT'S THE RESIDENT BENEFICIARY (IF THERE IS ONE) WHO LEASES THE PROPERTY!

**REED:** 5. Second co-beneficiary pays rent to property manager who pays all expenses and mortgage.

**GATTEN:** WRONG! LIKE I SAID, THERE CAN BE NO A PROPERTY MANGER! HAVING ONE WOULD CONSTITUTE A HOME OWNERS ASSOCIATION OR PARTNERSHIP IN THE EYES OF THE COURTS AND THE IRS.

**REED:** 6. Second co-beneficiary markets property as an equity-sharing deal.

**GATTEN:** WRONG! THE EQUITY SHARE IS ONE OF MANY PERMUTATIONS OF THE SYSTEM WE ADVOCATE. NOT EVEN CLOSE TO THE “ONLY” ONE.

**REED:** 7. The person we would normally call a tenant or homebuyer becomes the third co-beneficiary, but he has no power to direct the trustee.

**GATTEN:** YOU ARE TOTALLY AND COMPLETE WRONG AGAIN! THE TENANT—IF A BENEFICIARY—HAS THE SAME POWER OF DIRECTION, AS DO THE OTHER BENEFICIARIES!

**REED:** He subleases the property from the second co-beneficiary

**GATTEN:** WRONG! ONCE AGAIN, ABSOLUTELY WRONG! THE TENANT LEASES THE PROPERTY FROM THE TRUSTEE.

**REED:** and has an agreement to split any appreciation 50-50 with the second co-beneficiary.

**GATTEN:** WRONG AGAIN! THAT WOULD ONLY HAPPEN IN AN EQUITY SHARE ARRANGEMENT (A TINY PART OF WHAT WE ADVOCATE)

**REED:** One of my rules is that simple is better than complex.

**GATTEN:** SO, AS I UNDERSTAND IT, YOU’D RATHER LISTEN TO THE RADIO THAN WATCH TV; OR USE A TYPEWRITER VERSUS A COMPUTER; OR SWIM TO GOONEY-BIRD ISLAND INSTEAD OF CHARTERING A BOAT. WELL, OK.

**REED:** This is one of the most complex real estate deals I have ever heard of.

**GATTEN:** I SUPPOSE YOU’D SAY THE PAPER WORK IS JUST NOT WORTH THE TIME IT TAKES TO PROTECT EVERYONE INVOLVED.

JOHN, THE COMPLEXITY ONLY EXISTS FOR THOSE WHO DON’T KNOW HOW TO DO IT. AND IT’S OBVIOUS THAT YOU HAVE NO TRAINING IN, OR UNDERSTANDING OF, WHAT WE DO.

**REED:** And the other similarly complex deals all involved zillion-dollar, high-rise office buildings. On those deals, there is enough money to afford lawyers to work all this out

**GATTEN:** LET'S DEAL IN SPECIFICS HERE. THERE HAS NEVER BEEN A SINGLE EHT (“PACTRUST” TO YOU) WHERE THE LAWYER WAS NOT COMPLETELY AFFORDABLE! NOT EVER! NOT ONCE!

**REED:** But in single-family home transactions, you can't afford to hire a battery of high-powered lawyers to make sure this hyper complex deal is legit.

**GATTEN:** WE HAVE OUR OWN BATTERY OF ATTORNEYS WHO SUGGEST THAT ANY OTHER SUCH "BATTERY" WOULD MAKE SURE THAT WHAT WE DO IS WHOLLY LEGITIMATE.

**REED:** Economics of the deal. The supposed economics of the deal are that Gatten's investor is buying subject to the existing mortgage and putting nothing down. Gatten's sandwich lease payments are relatively low.

**GATTEN:** NOT NECESSARILY LOW AT ALL. WE ALWAYS HOPE THEY WILL BE, BUT THAT'S NOT USUALLY THE CASE.

**REED:** His subtenant pays an above-market rent for reasons similar to why a lease-option tenant pays above market: credit toward purchase price, share of appreciation, etc.

**GATTEN:** WRONG AGAIN. MANY OF OUR TRANSACTIONS DO NOT INCLUDE APPRECIATION OR EQUITY BUILD-UP FOR THE TENANT BENEFICIARY. THEY OFTEN TIMES AGREE TO HIGHER PAYMENTS THAN RENT IN ORDER TO BE ABLE TO ACCESS INCOME TAX DEDUCTIONS.

**REED:** There is "no find a need and fill it" in this technique. This is find two suckers—

**GATTEN:** BUT YOU DEAL ONLY IN EMPIRICAL TRUTHS...

**REED:** the seller and tenant/buyer. Then get the sucker seller to sell cheap

**GATTEN:** THAT'S NOT CORRECT. WE FREQUENTLY (IF NOT MOST OFTEN) ADVOCATE PAYING FULL MARKET VALUE TO SAVE A SELLER'S EQUITY AND MAKE OUR MONEY IN OTHER AREAS OF THE TRANSACTION. WE HAVE FOUND THAT FAIRNESS AND HONESTY IS WHAT SELLS, NOT DECEIT AND PUFFERY.

**REED:** and get the sucker tenant to overpay.

OUR "TENANTS" END UP PAYING FAR LESS AFTER TAX THAN RENT!

**REED:** How is this accomplished?

**GATTEN:** IF YOU HAVE TO ASK, WHY ARE YOU CRITICIZING THOSE WITH THE ANSWERS AND PUTTING DOWN SOMETHING THAT YOU ADMIT, BY THE QUESTION, YOU KNOW LITTLE ABOUT?

**REED:** By bamboozling them with complexity and fast-talk. This is the real estate equivalent of a shell game.

**GATTEN:** OUR ENTIRE WORKSHOP HAS TO DO WITH THRIVING IN BUSINESS WITHOUT NEEDING TO BE OTHER THAN PERFECTLY HONEST. AND THIS IS YOUR OBJECTIVE REPORTING, MR. REED?

**REED:** I assume that most of my readers are sophisticated enough to see through this,

**GATTEN:** IF YOUR READERS ARE AT ALL SOPHISTICATED, THEY WILL SEE THROUGH 'YOUR' OWN ATTEMPTS TO GET OTHER'S FOLLOWERS TO VISIT YOUR WEBSITE TO BUY YOUR PRODUCTS...NONE OF WHICH IS (NOR ARE YOUR SERVICES) FREE...AS PER YOUR OWN STATEMENT THERE.

**REED:** Tax 'write-offs.' Gatten says he sells the "tax write-offs" to the tenant for, say, \$250/month extra rent. By "tax write-offs," he means homeowner property tax and mortgage interest deductions. He did not make it clear, but I will, that if the "tenant" gets the homeowner tax deductions, the investor may not depreciate the property.

**GATTEN:** THAT IS INCORRECT...THE TREATMENT THAT THE TENANT OPTS FOR IN PREPARING HIS TAX RETURNS IS NOT ACCESSIBLE TO, OR THE BUSINESS OF, THE PROPERTY OWNER (THE TRUSTEE). NOR IS IT AVAILABLE TO ANY NON-RESIDENT BENEFICIARY...ANY MORE THAN ARE YOUR TAX RETURNS ACCESSIBLE BY ME. ALTHOUGH, WERE THE SETTLOR OF THE TRUST IN FACT TO BE DENIED, HIS PENALTY WOULD SIMPLY BE NOT TAKING THE DEPRECIATION, BUT THAT WOULDN'T MAKE ANY SENSE, BECAUSE THE IRS WOULD STILL RECAPTURE IT WHEN THE TRUST TERMINATED T (ONE "USES IT OR LOSES IT," AS THEY SAY). AND HOW VALUABLE IS THE DEPRECIATION ANYWAY? 28% OF 1/3<sup>RD</sup> OF 1/27<sup>TH</sup> OF 60% OF THE VALUE OF THE PROPERTY PER-YEAR.

**REED:** Mr. Gatten is welcome to ask for an IRS Letter Ruling on his PAC Trust. As far as I know, he has not done so.

**GATTEN:** YOU ARE CORRECT. I HAVE NOT DONE SO, AND ACTUALLY DON'T INTEND TO DO SO. THE IRS HAS ALREADY RULED VIA IRC SEC. 163(H)4(d), IRR 92-105, IRC 167, AND SO ON...

**REED:** Also, I do not know that Mr. Gatten has the legal right to "sell" the tax deductions to the tenant. The Internal Revenue Code prescribes who gets the tax deductions.

**GATTEN:** LET ME ENLIGHTEN YOU. AS YOU GUESSED, MR. GATTEN DOES NOT HAVE SUCH RIGHT. NEITHER HAS MR. GATTEN EVER SAID HE HAD SUCH RIGHT. THE CODE FOR WHAT MR. GATTEN DOES IS CLEAR IN 163(h)4(D) NOT 163(h)(3). YOU SHOULD AT LEAST READ IT.

**REED:** Section 163(h)(3) says you can deduct interest on acquisition indebtedness on any "qualified residence of the taxpayer." There is a general principle of law that the owner of

a piece of real estate is the guy who has the “benefits and burdens of ownership.” If multiple people have various benefits and burdens, the guy with the most is considered the owner.

**GATTEN:** THAT IS INCORRECT. THERE IS NO SUCH "GENERAL PRINCIPAL." THE IRS CLEARLY ASSERTS THAT ANY BENEFICIARY OF A SO-CALLED (ILLINOIS-TYPE) LAND TRUST WHO HOLDS AT LEAST A 10% BENEFICIARY INTEREST, IS TO BE TREATED AS THE OWNER OF THE REAL ESTATE FOR 'ALL' FEDERAL INCOME TAX PURPOSES.

**REED:** I am not sure Gatten is leaving the “tenant” enough of the benefits of ownership to convince the courts that the guy deducting the mortgage interest is really the owner.

**GATTEN:** IF YOU'RE NOT SURE, THEN WHY NOT REFRAIN YOU'RE YOUR DERISIONS. I 'AM' SURE!

**REED:** Also, to deduct interest, you must be the borrower. I am not sure Gatten's “tenant” is the borrower for legal purposes.

**GATTEN:** NO SIR. ONE NEED NOT BE “THE BORROWER”! IF YOU'RE NOT SURE ABOUT SOMETHING YOU'RE TRYING TO CONVINCING PEOPLE OF, WHY MENTION IT AT ALL? THE FACT IS THAT I AM SURE. THERE IS NO SUCH TERM IN THE CODE OR IN THE LAW. THE TERM USED IS “THE RISKS AND BURDENS OF OWNERSHIP”; AND THAT A PERSON MUST HAVE A "CONTRACTUAL OBLIGATION" FOR THE SUM BEING PAID FOR INTEREST AND PROPERTY TAX. THE REFERENCE INCLUDES ANYONE WITH A SECURED CONTRACTUAL PROMISE TO PAY FOR THE BENEFITS OF HOMEOWNERSHIP, AND WHO IS WILLING TO ACCEPT THE RISKS AND BURDENS OF SUCH BENEFITS.

**REED:** To deduct the property taxes, you must be the owner. Imagine trying to prove that to an IRS auditor in this deal.

**GATTEN:** AGAIN, THAT IS SIMPLY NOT TRUE! ONE IS NOT THE “OWNER” WHEN THE ACQUIRING PARTY IN A CONTRACT OF SALE, LAND SALE CONTRACT, OR IN A LEASE-PURCHASE?

**REED:** Eviction. Gatten says the 2nd co-beneficiary cannot only evict the 3rd co-beneficiary in the event of late payment of the rent, but that the eviction is much faster than the normal eviction. He claims he and his followers have done this many times.

**GATTEN:** ONCE AGAIN, THIS IS INCORRECT. I HAVE NEVER SAID THAT. IN OUR PROGRAM, “THE” CO-BENEFICIARY DOES NOT EVICT ANYONE. IT IS 'ALL' OF THE BENEFICIARIES IN CONCERT WHO DIRECT THE TRUSTEE TO DO THAT...INCLUDING THE VERY BENEFICIARY WHO IS BEING EVICTED.

**REED:** I don't see how. You can't tell the IRS the 3rd co-beneficiary is an owner when it comes to deducting taxes and interest, then claim he is a mere tenant for eviction purposes. If he is enough of an owner for tax and mortgage interest deductions, and/or if his contract gives him equity, he must either be judicially foreclosed or forced out by a partition lawsuit.

**GATTEN:** THE TAX PAYER BENEFICIARY IS ONLY LEASING THE PROPERTY FROM THE LAND TRUST IN WHICH HE IS A BENEFICIARY (NOT UNLIKE A CORPORATE SHAREHOLDER LEASING HIS HOME FROM A CORPORATION IN WHICH HE OWNS STOCK). BY VIRTUE OF BEING A CO-BENEFICIARY AND MEETING THE REQUIREMENTS OF 163 (ETAL) HE IS AN "OWNER" IN THE EYES OF THE IRS (FEDERAL LAW), EVEN THOUGH REMAINING ONLY A TENANT IN THE TRUST PROPERTY (LOCAL LAW).

**REED:** You can evict someone out of his pure leasehold estate. But you cannot evict someone out of his equity.

**GATTEN:** ONCE AGAIN...THIS MAY BE A LACK OF KNOWLEDGE REGARDING 'RULES OF EQUITY.' YOUR STATEMENT IS SEMANTICALLY CORRECT, BUT IN ERROR. THE BENEFICIARIES OF A LAND TRUST HOLD NO EQUITY IN THE TRUST. THEIR EQUITABLE INTEREST IS WHOLLY IN THEIR BENEFICIARY INTEREST IN THE TRUST, WHICH TRUST HOLDS ALL OF THE EQUITABLE INTEREST IN THE PROPERTY (MANY COURT CASES CLEARLY ATTEST TO THIS FACT).

**REED:** As a practical matter, you might be able to get away with this at times because of lack of sophistication on the part of the tenants, justices of the peace, and so on. But I doubt that an informed application of the pertinent laws would permit an eviction.

**GATTEN:** BEYOND IMPROPER SERVICE ON OCCASIONS, WE HAVE NEVER EXPERIENCED A SINGLE HITCH RELATIVE TO EVICTION AND NO LAWYER HAS, TO DATE, BEEN ABLE TO STOP AN UNLAWFUL DETAINER ACTION, TRY AS THEY MIGHT. NOT ONE!

**REED:** Due-on-sale clause. Gatten discussed, at great length, the standard due-on-sale clause that is in almost all mortgages, and why his PACTrust gets around it. He spouted court decision and statute citations as he went. But the fact that you mention the laws does not prove that your approach complies with them. Or that you are taking into account pertinent adverse decisions.

**GATTEN:** ...NOT CORRECT. IT DOES NOT VIOLATE THE DOSC TO PUT A PROPERTY INTO AN INTER VIVOS TRUST. NOR IS THE CLAUSE VIOLATED WHEN THE PROPERTY IS LEASED OUT. IN ANY TRUST, IS MOST PRUDENT AND CUSTOMARY TO NAME A SUCCESSOR MANAGER OF THE TRUST. I PRESENTLY HAVE A LETTER ON MY DESK FROM COUNTRYWIDE FUNDING, ONE OF THE NATION'S LARGEST MORTGAGEES. THE LETTER IS A

RECANTING OF A DOSC CALL THEY MADE, BECAUSE IT WAS ULTIMATELY LEARNED THAT THE PROPERTY HAD ONLY BEEN VESTED IN A LAND TRUST AND LEASED OUT. DO YOU THINK THEY'D CARE IF THEY ALSO LEARNED THAT THE LESSEE WAS THE SUCCESSOR BENEFICIARY IN THEIR BORROWER'S INTER VIVOS TRUST? OF COURSE NOT. THEY COULDN'T CARE LESS.

**REED:** In his excessive quoting of statutes, court decisions, and regulations, Gatten reminds me of the kooks who have long, convoluted, citation-laden explanations of why the federal income tax is unconstitutional. He also brings to mind Shakespeare's line in Hamlet: "The lady does protest too much, methinks."

**GATTEN:** THEN WHY COMPLAIN THAT YOU DON'T HAVE ENOUGH INFORMATION TO GO ON?

**REED:** Living trust exception. There's a pertinent exception in the Garn Act and the regulations. You don't have to pay off the mortgage if you deed your home to a living trust. People do this to avoid probate. But the exception makes it abundantly clear that you can only do this if you continue to be the owner of the property in all respects except the name on the deed

**GATTEN:** INCORRECT! A LAND TRUST 'IS' A LIVING TRUST! YOU CANNOT BE THE OWNER OF A PROPERTY THAT IS VESTED IN ANY TRUST! FURTHERMORE, THE GSG SAYS NOTHING ABOUT BEING OR REMAINING AN OWNER.

BUT IF I UNDERSTAND YOU CORRECTLY... YOU'RE SAYING THAT IF I PUT MY PROPERTY INTO A LIVING TRUST, I DON'T HAVE TO PAY OFF MY MORTGAGE. I TRULY HOPE NO ONE TRIES TO TAKE YOUR ADVICE ON THAT.

**REED:** In other words, the only circumstance in which deeding a property to a trust does not trigger a due-on-sale clause is when it is merely for the purpose of avoiding probate.

**GATTEN:** I'M SORRY BUT THERE IS NO SUCH STATEMENT ANYWHERE IN THE LAW, AND THERE NEVER HAS BEEN!

**REED:** 'Violation' Bill Gatten, and a number of other gurus who say they can tell you how to get around due-on-sale clauses,

**GATTEN:** QUITE WRONG. WHAT I (WE) SAY IS THAT THE BEST WAY TO AVOID THE DUE ON SALE ISSUE IT IS SIMPLY NOT TO VIOLATE IT. WE DO NOT TRY TO GET AROUND ANYTHING. WE ARE OPEN WITH THE BANKS FOR WHOM WE HOLD MANY MILLIONS UPON MILLIONS OF DOLLARS WORTH OF REAL ESTATE IN LAND TRUSTS. WE SUGGEST "PROTECTING THE PROPERTY AND THE PARTIES FROM THE DUE ON SALE ISSUE

THROUGH THE UTILIZATION OF A LAND TRUST. THEN ONE CAN DEAL ONLY WITH THE INTEREST IN THE TRUST...NOT THE PROPERTY OR ITS TITLE." IN OTHER WORDS, "KEEP IT SAFE AND ETHICAL."

**REED:** There is no such thing as a "violation" of a due-on-sale clause. A due-on-sale clause is not a promise by the borrower to refrain from selling, etc. The word that I use is "trigger." There is probably a fancier legal term.

**GATTEN:** THIS IS INCORRECT. YES, THERE IS SUCH A THING! IF ONE SELLS A MORTGAGED PROPERTY WITHOUT A NEW LOAN AND WITHOUT THE LENDERS PERMISSION TO ASSIGN THE OLD ONE, THE DUE ON SALE CLAUSE HAS INDEED BEEN VIOLATED. IF THE LENDER DOESN'T FIND OUT ABOUT IT, NOTHING WILL BE "TRIGGERED"! IT IS ONLY WHEN *TRIGGERED* THAT A GUN FIRES A BULLET. SHORT OF A MISFIRE, IF THE SLUG IS NOT FORTHCOMING, THERE HAS BEEN NO TRIGGERING OF ANYTHING.

("TRIGGER" (WEBSTER): *TO SET OFF AN ACTION*...IT'S THE DISCOVERY OF THE *VIOLATION* THAT WOULD SET OFF THE ACTION YOU'RE REFERRING TO—NO DISCOVERY: NO TRIGGERING).

**REED:** Due-on-sale clauses say that if the borrower does any of the things listed in the clause, the lender then has the option to make the borrower pay off the entire loan (call immediately). You are not breaking the law or the contract if you do one of the due-on-sale-triggering transactions. But you may be violating the law if you conceal the transaction from the lender or deceive the lender regarding the transaction.

**GATTEN:** THAT AGAIN IS NOT CORRECT. IF I WERE TO PUT MY FEET ON THE BACK OF THE SEAT IN FRONT OF ME IN A MOVIE THEATER, AGAINST MANAGEMENT'S WISHES, HAVE I VIOLATED THEIR RULE? YES. CAN I BE EJECTED FROM THE THEATER FOR IT? YES. WOULD THE LAW SUPPORT THE MANAGER IN HAVING DONE SO? YES. BUT HAS ANY LAW BEEN VIOLATED? NO!

**REED:** 'Dear lender.' The first step in the PACTrust is deeding the property to a revocable living trust. To do that, you must tell the lender you are doing this for the permissible purpose.

**GATTEN:** ON THE CONTRARY: THE LETTER I HAVE FROM COUNTRYWIDE (IN FRONT OF ME AT THIS MOMENT) STATES SPECIFICALLY THAT THEY ARE NOT INTERESTED IN GIVING (NOR DO THEY HAVE THE RIGHT TO WITHHOLD) PERMISSION, SO LONG AS THE TRUST DOES NOT VIOLATE ANY PROVISION OF THE GSGA (I.E., MUST BE INTER VIVOS, REVOCABLE, AND MUST NOT CONVEY OCCUPANCY RIGHTS...THOUGH NOT TO SAY THAT A SUBSEQUENT LEASE AGREEMENT COULDN'T CONVEY A LEASEHOLD INTEREST).

**REED:** Under the Garn Act and related regulations. Since you are really doing it for PACTrust purposes, such a representation to the lender would arguably be fraud or concealment of a material fact or both.

**GATTEN:** IF IT'S "ARGUABLE," THEN IT IS NOT FACT AND SHOULD PERHAPS NOT BE A PART OF THIS DISCUSSION. MY UNDERSTANDING IS THAT ANYONE WHO OWNS AN INCOME PROPERTY KNOWS THAT THE LENDER IS NOT INTERESTED IN HAVING NOTIFICATION EACH TIME A CHANGE IN TENANTS TAKES PLACE.

**REED:** Those are felonies.

**GATTEN:** THAT IS NOT CORRECT! THE WITHHOLDING OF MATERIAL FACT ISSUE WOULD COME ABOUT ONLY IF ONE WERE TO LIE UNDER OATH IN COURT. ALTHOUGH, I DO KEEP MY BUSINESS TO MYSELF RELATIVE TO THE BANK-LOAN PER SE: EVEN THOUGH WE DO NOTHING THAT ANYONE WOULD EVER HAVE TO LIE ABOUT.

PAYING SOMEONE ELSE'S MORTGAGE PAYMENTS IS NOT UNLAWFUL, JUST FROWNED UPON. WERE I TO BE ASKED IF I HAD DONE IT... ONLY THEN WOULD NOT GIVING ACCURATE INFORMATION BE ILLEGAL.

**REED:** Do it twice in a ten-year period and it is arguably racketeering, a felony with a bounty-hunter triple-damages civil provision.

**GATTEN:** RACKETEERING MAY BE A FELONY, BUT VIOLATING S LENDER'S PREFERENCE IS NOT! AND THERE'S THAT WORD "ARGUABLY" AGAIN...

**REED:** Gatten says due-on-sale clauses are rarely enforced.

**GATTEN:** AN INACCURATE STATEMENT. I'M THE PERSONS TOO FREQUENTLY ACCUSED OF SAYING EXACTLY THE OPPOSITE IN ORDER TO SELL MY PRODUCT. WHAT I SAY ABOUT THE DOSC AND THE LIKELIHOOD OF LENDERS RESORTING TO ENFORCEMENT OF IT IS: "IT'S SELDOM ENFORCED, PERHAPS, BUT IT HAPPENS FREQUENTLY ENOUGH" TO NEED TO BE CONCERNED ABOUT IT. I'VE SEEN TWO THIS WEEK ALONE—ONE FULMINATED; AND ONE THWARTED BECAUSE OF THE LAND TRUST.

**REED:** True. That is a major scandal. I called the Office of Thrift Supervision to ask about their enforcement of the regulations. Federal agencies typically publish annual statistics showing their enforcement actions. The attorney to whom I spoke asked me why OTS should care about this.

**GATTEN:** BECAUSE THEY SIMPLY ARE NOT DIRECTLY INVOLVED! MANY ATTORNEYS INSIST THAT THIS SECTION OF THE CODE OF FEDERAL REGULATIONS (SEC. 561-VI) IS A BIASED RE-INTERPRETATION OF THE LAW

AS DRAFTED. THE "LAW" ITSELF IS THE U.S. CODE (USC1701-J-3), AND I WOULD INSIST THAT IT WOULD STAND DESPITE WHAT THE OTS SAYS OR WRITES AFTER THE FACT...UNLESS CONGRESS WOULD OPT TO PASS AN AMENDMENT, AND THEY HAVE YET TO DO SO.

**REED:** When I got over my astonishment, I explained to her that OTS had promulgated the pertinent regulations and was the agency in charge of enforcing them. She then said no comment.

**GATTEN:** THE OTS *DID NOT PROMULGATE* THE REGULATIONS. SENATORS GARN AND ST. GERMAIN ARE WHO PROMULGATED THE LAW THAT WAS PASSED BY CONGRESS IN 1982, AND MADE A PART OF THE U.S. CODE...ONLY TO BE "INTERPRETED" BY THE OTS...NEVER ENFORCED. EVEN THE LENDER CAN'T "ENFORCE" IT. ALL THE LENDER CAN DO IS CALL THE NOTE IF IT IS VIOLATED: BEING THEREBY PERMITTED BY LAW TO HAVE DONE SO.

**REED:** The fact that due-on-sale clauses are rarely enforced has allowed a whole industry of gurus to arise selling get-around-due-on-sale-clause techniques. The fact is that putting garlic in a bag around your neck would probably give you the same protection from due-on-sale clause enforcement as a PACTrust or a lease option or any of the other guru tricks.

**GATTEN:** NO, THE PACTRUST IS NOT DESIGNED TO DECEIVE. IT IS A WAY TO AVOID THE TRICKERY AND GIMMICKS TO WHICH YOU REFER. THAT IS, "DON'T SELL THE HOUSE OR TRANSFER TITLE BEYOND WHAT IS ACCEPTABLE AND PROTECTED UNDER THE LAW...INSTEAD SELL BENEFICIARY INTERESTS IN AN ENTITY THAT OWNS THE HOUSE, VERSUS MESSING AROUND WITH A LENDER'S SECURITY.

**REED:** Take your chances. If you want to trigger a due-on-sale clause and rely on the lack of enforcement to protect you from having to pay off the loan, you have the right to do so. But as I writer, I cannot advocate that. It may be that something will cause all lenders to start enforcing due-on-sale clauses tomorrow.

**GATTEN:** BUT, YOU ARE CORRECT. AND MAY GOD BE WITH THOSE WHO, WHEN THE TIME COMES, HAVEN'T THE PROTECTION THAT A CO-BENEFICIARY LAND TRUST WOULD HAVE PROVIDED.

**REED:** 'Bullet proof.' During the speech I heard, Gatten said his PACTrust was "bullet proof" and "armor plated" for asset protection from creditors.

**GATTEN:** NO, IT'S ATTORNEY BILL BRONCHIK WHO USES THE EXPRESSION "BULLET PROOF" WHEN REFERRING TO THE BENEFITS OF A LAND TRUST. NOT I.

**REED:** My general impression is that almost no asset protection scheme is “bulletproof.” For asset protection, I recommend the Florida and Texas bankruptcy homestead exemptions and laws like the one that lets OJ keep his pension. All the other stuff, like family limited partnerships, offshore trusts, and so forth, have some horror stories involving creditor penetration.

**GATTEN:** THERE ARE NO SUCH HORROR STORIES INVOLVING A SINGLE PACTRUST FROM THE TIME OF ITS RESEARCH AND DEVELOPMENT IN 1989. NOT ONE,

**REED:** Fraudulent transfers. Gatten referred to the need to avoid fraudulent transfer in anticipation of bankruptcy, but as with his other acknowledgments of various laws, merely mentioning a law does not eliminate its problems regarding the PACTrust. The law prohibits transferring assets to another person or entity for less than market value when you expect that you may become insolvent in the foreseeable future.

**GATTEN:** NO SIRE, WE DO NOT ADVOCATE A TRANSFER AT SIGNIFICANTLY LESS THAN FAIR MARKET VALUE WHEN BANKRUPTCY OR FORECLOSURE IS AT ISSUE. NEVER!

**REED:** Creditors’ questions. When you fail to pay your creditors in full, you are likely to be questioned by them under oath as to your assets. Gatten says if you do his PACTrust, you can answer “No” to the question, “Do you own any real estate?” His rationale is that the land trust owns it, not you. That’s Clintonsque.

**GATTEN:** NO SIR, GATTEN SAYS NO SUCH THING. THE TRUST DOES NOT OWN THE PROPERTY! IN A LAND TRUST ITS THE TRUSTEE (A CORPORATION OR SOME GUY NAMED BOB) WHO OWNS IT...LEGALLY, EQUITABLY, ACTUALLY AND COMPLETELY. THE BENEFICIARIES MERELY OWN STOCK IN THE ENTITY (WHICH IS PERSONALTY AND NOT REALTY). THEY HAVE ZERO OWNERSHIP IN THE PROPERTY! NONE! NUNCA. HITCH!

**REED:** Look dishonest. If I were an attorney opposing you, I would make you look like a dishonest jerk to the judge or jury if I caught you parsing words to conceal assets.

**GATTEN:** ONE WOULDN’T NEED TO “PARSE” WORDS. BUT ONE COULD AND SHOULD CLARE UNDER PENALTY OF PERJURY THAT THE DID NOT OWN ANY REALTY PERIOD. ONE CAN EASILY CONTROL IT WITHOUT OWNING IT...THAT IS THE NATURE AND PURPOSE OF THE LAND TRUST: THE VERY REASON IT WAS CREATED.

IF YOU WERE TO RENT A HOUSE FROM THE IBM CORPORATION AND HELD STOCK IN IBM, WOULD YOU SAY TO THE ATTORNEY WHO WAS TRYING TO TAKE EVERYTHING YOU OWN AWAY FROM YOU: "NO, SIR, BUT BY GOSH COME TO THINK OF IT, I DO HOLD STOCK IN THE COMPANY THAT OWNS THE PROPERTY IN QUESTION. WOULD THAT BE OF ANY HELP TO YOU?"

**REED:** I would first give you a chance to play that game under oath, then I would hit you with questions that were “bulletproof,” if you’ll pardon the expression. Questions like, “Are you a beneficiary of any trust?”

**GATTEN:** I WOULD SAY “YES.” WHY WOULD I LIE? A LIEN AGAINST ME WOULD NOT CONSTITUTE A LIEN ON THE PROPERTY: AND NO CHARGING ORDER COULD BE ALLOWED. EVEN A SHERIFF’S LEVY AGAINST A LAND TRUST PROPERTY TO SATISFY A JUDGMENT WOULD NOT BE ALLOWED (READ: WHITAKER VS. SCHERRER; CITIZENS NAT. BNK OF CHI. VS. GROSSMAN; GARVEY VS PARRISH; ETC.)

**REED:** Gatten says that the use of the word “a” instead of “the” in the Garn-St. Germain discussion of beneficiaries creates the loophole through which he drives his PACTrust truck. I doubt any court will jeopardize billions of taxpayer-insured deposits, because a laymen like Gatten points to the word “a” and says, “Aha!” Indeed, I have no idea why the use of the word “a” has any importance at all.

**GATTEN:** IT'S NOT THE "A" THAT IS IN QUESTION (IMPLYING ONE OF A GROUP): IT IS THE WORD "THE" (THE ONLY ONE) THAT WAS ADDED IN AN INTERPRETATION OF A PRE-EXISTING PEOPLE’S LAW, WELL SUBSEQUENT TO ITS BEING PASSED. AND, OF COURSE, IT MAKES A GIGANTIC DIFFERENCE.

FOR EXAMPLE: WOULD YOU PREFER BEING "THE" PERSON YOUR WIFE SLEEPS WITH, OR "A" PERSON YOUR WIFE SLEEPS WITH? YOU TELL ME HOW IMPORTANT AN INDEFINITE ARTICLE CAN BE.

**REED:** Tangling your finances with an innocent party. One theory of asset protection relies on the law’s reluctance to harm an innocent party in order to let creditors collect from a debtor. For example, Joe and Bob own a bakery. Joe gets into financial difficulty. Creditors want to sell off Joe’s interest in the bakery to get their money. But because of the going-concern value of a bakery, that would hurt Bob, who owes no money to the creditors.

**GATTEN:** THAT IS A MAJOR PROTECTION BENEFIT OF THE LAND TRUST...NO PARTIES’ ACTIONS WILL NEGATIVELY AFFECT THE OTHER. ARE YOU SAYING YOU’D RATHER SEE BOB GET HURT? I THINK NOT.

**REED:** Profits and salary

The law allows a charging order which confiscates and gives to the creditors Joe’s share of any profit distributions.

**GATTEN:** YOU ARE AGAIN INCORRECT!! A CHARGING ORDER SPECIFICALLY CANNOT ATTACH TO A PROPERTY OR INCOME FROM THE PROPERTY THAT IS BEING HELD IN A CO-BENEFICIARY LAND TRUST. A

CREDITOR'S BILL CAN, HOWEVER, BE LEVIED TO FORCE THE SALE OF ONE'S BENEFICIARY INTEREST. AND NEITHER CAN CITATION PROCEEDINGS AGAINST ONE BENEFICIARY AFFECT THE OTHER FOR SOME OF THE SAME REASONS. A JUDGMENT LIEN AGAINST A LAND TRUST BENEFICIARY IS NOT A LIEN AGAINST THE PROPERTY (JUST A FEW OF THE CASES THAT GO BACK TO 1920 ARE...ROCHFORD VS.LASER; CHI. FED. S&L VS. CACCIATORE; CHI. TIT. & TRUST VS. MERCANTILE TRUST & SAV.; KERR VS. KOTZ...).

**REED:** Gatten's three co-beneficiaries appear to be a way to try to use the innocent-party defense to stymie creditors. A problem arises when the underlying asset has relatively little going-concern value. Bakeries lose sales and values when they shut down and reopen in another location half as big. Income properties, on the other hand, suffer little or no such loss of value as a result of being split up.

**GATTEN:** I'M TRYING TO FOLLOW YOUR ANALOGY HERE, BUT IT DOES APPEAR THAT YOU ARE COMPLETELY UNAWARE OF THE PROTECTIONS THAT ARE BUILT INTO OUR SYSTEMS. THE SHORTCOMINGS YOU PERCEIVE SIMPLY ARE NOT THERE, AND YOUR ANALOGY IS NOT AT ALL GERMAIN TO THE ISSUE AT HAND.

**REED:** 'Confused mind says no'

There is an old saying that a confused mind says no. If you go at a competent seller or agent with a PACTrust offer, they will probably throw you out of their office.

**GATTEN:** I THINK YOUR ASSUMPTION IS INDICATIVE OF A LACK OF UNDERSTANDING. OUR PROGRAM IS DESIGNED TO APPEAL TO WHOM YOU REFER (THE SO-CALLED "SOPHISTICATED" SELLER) WHO WANTS THE BEST POSSIBLE PROTECTION FROM ALL THE GIMMICKS AND TRICKS THAT ARE OUT THERE.

**REED:** Investor Bill Snipes said he once got shot down just trying to buy a house in a living trust for pure probate-avoiding purposes. The lender said what you are doing may be fine, but we cannot afford to have our attorney review the trust, so your application is rejected merely because of its sheer complexity.

**GATTEN:** I WOULD THINK THAT ANYONE WHO WOULD TRY TO BUY A HOUSE IN A LIVING TRUST AND HAVE A LENDER RELY ON THAT TRUST FOR PAYMENT WOULD BE QUITE NAÏVE.

**REED:** Expensive legal research that only produces questions. A competent seller who tried to accommodate a PACTrust buyer would have his attorney review the documents. There probably are few, if any, attorneys, with PACTrust experience. Accordingly, they would have to do an extraordinary amount of research and would have to hire other attorneys to help because the PACTrust involves numerous legal specialties.

**GATTEN:** MANY ATTORNEYS DO HAVE LAND TRUST EXPERIENCE; AND, BY THE WAY, THERE IS NO SUCH THING A “PAC TRUST.” OUR TRADE MARKED AND COPYRIGHTED SYSTEM EMPLOYING A LAND TRUST IS CALLED A “PACTRUST.”

THE EQUITY HOLDING TRUST IT IS NOT A TRUST AT ALL: THOUGH IT IS A SYSTEM OF DOCUMENTATION THAT USES ONE. AND, ALTHOUGH WE DO HAVE A NATIONAL DATA BASE OF ATTORNEYS WITH PACTRUST EXPERIENCE, THE REVIEW OF THE LEGALITY OF A PACTRUST WOULD INVOLVE AND EVALUATION OF: 1) THE LAND TRUST AND 2) THE LEASE AND 3) THE VALIDITY OF ONE’S NAMING A SUCCESSOR BENEFICIARY/REMAINDER AGENT IN THE TRUST. THAT’S HOW COMPLEX IT IS.

IS A ‘MOTOR CAR’ A MOTOR? A PACTRUST IS NOT A TRUST, IT JUST USES ONE TO MAKE IT GO.

**REED:** Although there are many statutes and court decisions about the various individual components of the PACTrust, I doubt there are any widely applicable statutes or court decisions on the whole PACTrust conglomeration in one transaction.

**GATTEN:** THE “CONGLOMERATION,” AS YOU REFER TO IT, IS NO MORE THAN: 1) A TRUST, 2) A LEASE, AND 3) THE NAMING OF A REMAINDER AGENT.

**REED:** Furthermore, consumer law is very different from business law.

**GATTEN:** I’LL DEFER TO YOU ON THAT ONE. OR...MAYBE YOU’RE REFERRING TO BUSINESS AND PROFESSIONS CODES BEING SEPARATE FROM CONSUMER PROTECTION LAWS.

**REED:** The vast majority of statutes and court cases pertaining to complex uses of trusts, options, and so forth, involve commercial transactions where all parties are sophisticated businesspeople.

**GATTEN:** THAT’S APPARENTLY ANOTHER “FACT” THAT YOU HAVE AT YOUR ACCESS THAT I DO NOT.

**REED:** Lease options offer a simpler example of the issues. The law of consumer leases is well established. Option law is somewhat well established, but almost all the cases involve commercial transactions.

**GATTEN:** IF “MOST” LEASE OPTIONS ARE COMMERCIAL TRANSACTIONS, I WAS NOT AWARE OF THAT.

**REED:** Plus, a lease option is neither a lease nor an option and is probably a totally different thing entirely—a land contract sale.

**GATTEN:** I WOULD RATHER THINK A STRAIGHT LEASE IS A LEASE. AND A STRAIGHT OPTION IS AN OPTION. IT'S MY UNDERSTANDING THAT ONLY WHEN THE TWO ARE TIED TOGETHER RESULTING IN A TRANSFER OF EQUITABLE INTEREST, THAT A CONTRACT FOR SALE WOULD HAVE BEEN CREATED.

**REED:** Courts arrive at this conclusion using the legal doctrine of substance over form. And that does not take into account how courts would construe the pertinent legal authorities to take into account the various protections given to consumers in transactions with sophisticated business people.

**GATTEN:** UNDERSTAND THAT WE ARE ADVOCATES OF THE RULE OF “SUBSTANCE OVER FORM.” THAT’S WHY WE INSIST THAT THE TRUST AND ANY LEASE ALWAYS BE SEPARATE AND UNRELATED DOCUMENTS, AND THAT THERE NEVER BE AN OPTION TO PURCHASE; A BARGAIN BUYOUT; INTEREST CONSIDERATION BETWEEN PARTIES; A PROMISE OF FUTURE OWNERSHIP; ETC.

FIGURATIVELY SPEAKING (IN CORPORATE TERMS): WE JUST WANT A “SHARE HOLDER” TO RENT HIS COMPANY’S INCOME PROPERTY. IF THE “COMPANY” MAKES A PROFIT AND HE GETS A PART OF IT, THAT’S GOOD! BUT IN OUR PROGRAM HE WOULD NON-THE-LESS NEVER BE MORE THAN “JUST A TENANT” UNDER THE THREAT OF EVICTION BY THE TRUST AS FAR AS HIS LEASEHOLD IS CONCERNED.

**REED:** Even after extensive research, an attorney would conclude that he does not know how a PACTrust would be treated in a legal dispute because of the lack of court decisions on such an arrangement and his inability to apply existing law to the PACTrust because of its complex, hybrid nature.

**GATTEN:** OUR ATTORNEYS FEEL QUITE SURE OF THEMSELVES...AND ME...AND THE PROGRAM.

**REED:** “Novel.’ Gatten calls his PACTrust a “novel” use of the Illinois land trust. Novelty is generally a good thing. But not in law.

**GATTEN:** IF IT WEREN’T FOR “NOVELTY” IN LAW, WOULDN’T WE BE PAYING TAXES TO THE QUEEN OF ENGLAND?

**REED:** When you say something is legal, you are saying that it conforms to a statute or to court decisions, regulations, or other similar legal authorities. But there is no PACTrust statute or regulation. As far as I know, no court with nationwide jurisdiction like the U.S. Supreme Court, Tax Court, or Court of Claims, has ever addressed the PACTrust.

**GATTEN:** ITS IS OUR POSITION THAT THE PERTINENT LAW ALREADY EXISTS AND HAS BEEN SUFFICIENTLY TESTED RE. TRUSTS, LEASES, SILENT ASSIGNMENTS, NOMINATIONS OF REMAINDER AGENTS AND SUCCESSOR BENEFICIARIES (RE. BENEFICIARY DIRECTED TRUSTS). OUR SYSTEM OF DOCUMENTATION CONTAINS NO MORE THAN THAT, AND FITS QUITE COMFORTABLY WITHIN ESTABLISHED LAW.

**REED:** What's novel is his combining of numerous legal concepts and his arguments. Whether any court will agree with his novel arguments is as yet unknown, and in my opinion, extremely unlikely.

**GATTEN:** JOHN, CONSIDER THE FOLLOWING AND SEE IF YOU SEE A PROBLEM:

“YOU HONOR, MY CLIENT HAS PLACED HIS RENTAL PROPERTY INTO AN INTER-VIVOS TRUST. IS THAT OK?

...AND IN NAMING A SUCCESSOR MANAGER FOR THE BENEFICIARY-DIRECTED INTER VIVOS TRUST, HE'S CHOSEN HIS FRIEND, BOB, TO FILL THAT POSITION. IS THAT OK?

AND BOB IS RENTING THE TRUST PROPERTY. IS THAT OK?

YOUR HONOR, MY CLIENT HAS ALSO INDICATED TO HIS TENANT (BOB) THAT WHEN HE SELLS THE PROPERTY IN A FEW YEARS, HE'LL GIVE HIM (BOB) SOME OF THE PROFIT IF THERE IS ANY. IS THAT OK?”

AND...WOULD YOU SAY BOB'S TAX REPORTING, RIGHT OR WRONG, WOULD BE HIS OWN BUSINESS AND NOT THE BUSINESS OF MY CLIENT?

DOES THE JUDGE SAY 'NO' TO ANY OF THIS? WELL...THERE JUST AREN'T ANY MORE QUESTIONS TO ASK.

**REED:** Obviously, this is most likely to be agreed to by people who are not advised by counsel or who are inexperienced. Like most of the too-good-to-be-true guru tricks, it requires you to find and take advantage, not of “motivated” sellers; but of unsophisticated sellers and tenants.

**GATTEN:** YOU ARE MISTAKEN ON THIS ISSUE. THE DISTRESSED HOMEOWNERS WE'VE WORKED WITH HAVE LAUDED OUR SYSTEMS FOR HAVING SAVED THEIR EQUITY, AVOIDED FORECLOSURE AND CREDIT DESTRUCTION.

**REED:** Legal certainty requires statutes and/or court decisions that approve almost identical transactions. There's no such thing with PACTrusts and probably never will be.

**GATTEN:** "PROBABLY" NOT BUT LIKELY WILL BE, IF THE SITUATION ARISES AND GATTEN IS RIGHT, AND HIS YEARS OF RESEARCH AND DILIGENT STUDY PROVE HIM TO HAVE BEEN RIGHT ALL ALONG."

THE PATH OF ANY GOOD IDEA:

- 1) RIDICULE BY THE INFLUENTIAL
- 2) VIOLENT OPPOSITION BY THE IGNORANT,
- 3) ACCEPTANCE AS SELF-EVIDENT BY THE MASSES.

**REED:** Legal opinion. Gatten says he ran into a title company that balked about doing a deal involving his trust because of my Web write-up of it. He said he was forced to pay \$3,500 for a legal opinion to prove it was OK. He sarcastically thanks me for forcing him to get that legal opinion.

I would have thought that a layman selling such a complex legal mechanism would have gotten a legal opinion before he started selling it to the public. The Federal Trade Commission and California law both require substantiation of advertising claims. But better late than never.

**GATTEN:** WE'VE ALWAYS FELT, AND DO FEEL, THAT WE HAVE ALL THE SUBSTANTIATION NEEDED. THE OPINION LETTER IN QUESTION HAD TO DO WITH THE CLARITY OF TITLE RE. THE SETTLOR'S MAJOR CREDITOR LIENS AND WHETHER OR NOT THEY MIGHT OR COULD ATTACH TO THE PROPERTY. IT WAS ULTIMATELY ACCEPTED THAT THEY COULD NOT.

**REED:** Gatten says the title company then went ahead and did the deal. Does that prove I'm wrong? Maybe so. But we have to see the legal opinion before I draw that conclusion.

I WOULD THINK SO, BUT MAYBE I'M MISSING A PART OF YOUR QUESTION.

**REED:** Who wrote it? What are his or her qualifications? And how is it worded? I have seen some expert opinions—legal and otherwise—that contained so many weasel words and clauses that the expert really wasn't saying much at all.

**GATTEN:** ATTORNEY PETER GIBBONS OF RIVERSIDE, CALIFORNIA, A TRUST AND ASSET PLANNING SPECIALIST WROTE IT. I DOUBT THAT HE WOULD BE SEEN AS A "WEASELS" BY ANYONE. BUT I WOULD ALSO DOUBT, IF I MAY, THAT YOU WOULD HAVE THE CREDENTIALS TO DETERMINE THAT A TRAINED ATTORNEY'S OPINION LETTER WAS WITHOUT MERIT.

**REED:** The fact is that neither Gatten nor I are attorneys so readers should view the two of us debating the matter as only a preliminary indication of the legal status of the PAC Trust. Gatten has a powerful conflict of interest in that he makes his living off the PAC Trust

**GATTEN:** ANOTHER INACCURACY. "GATTEN" MAKES HIS LIVING FROM ACQUIRING, MANAGING AND SELLING REAL ESTATE VIA THE VERY VERSATILE EQUITY HOLDING TRUST SYSTEM HE'S CREATED.

**REED:** so it would be rather devastating for him to be objective about it if it meant no longer being able to sell it. He would claim that I have a conflict-of-interest in that I am his competitor.

**GATTEN:** I DO NOT SEE YOU AS A COMPETITOR SIR. I DO WHAT I PREACH. I BUY HOUSES; YOU HAVE STATED THAT YOU DO NOT. I DO NOT PROFESS TO BE ANYTHING OTHER THAN WHAT AND WHO I AM. I SUGGEST THAT YOUR ASSERTIONS MAY BE ENTIRELY WITHOUT BASIS.

**REED:** So if you must do a PAC Trust, get an opinion from your own attorney. Rely neither on Gatten nor me.

**GATTEN:** IF I MAY, LET ME OFFER AN ANALOGOUS PARAPHRASING OF YOUR CLOSING COMMENT.

In other words...

"To all the young mothers out there who trust and rely upon me for many of their life decisions (who found my website by searching for the phrase, "Old Tibetan Musk Ox Dog")...and who are considering acquiring a pet. In my attempt to be fair and objective and to provide as valid a service to my readers as I possibly can, I personally believe the beast in question to be a ferocious killer. I'd never seen or heard of this type of animal (until I attended a one hour presentation on them at a local dog club, where I'm certain the speaker was lying through his teeth). I know very little about this evil breed, but in my professional opinion they are a horrid contrivance: quite vicious and cunning untrustworthy creatures.

Sure, in their twenty-year history, one has never bitten anyone...ever...but it will surely happen eventually. And being the animal expert that I am, I'm quite certain that the beast would eventually attack and eat your babies without provocation (as my support: I can tell you of starving wolves and coyotes that have done exactly that...and after all a dog's a dog...be it a wolf, a hungry coyote or a Dingo).

Despite the breeder's claims to the contrary, it's my personal 'unbiased' opinion that this particular dog, since it is a dog and not one of my own (I coach kid's football, raise rabbits and rate dog breeders as a hobby), should be stomped to death forthwith, and its breeder put to sleep. But do understand that this is just my own professional objective

and factual opinion. Don't base your decisions on anything I say. Go ahead and buy one if you can't take my advice, and are too weak-minded to help yourself (despite my dire warnings). Oh yeah, be sure and talk to an expert first.

Yours truly,

Bill J. Gatten