

**From:** Jeffrey Epstein <jeevacation@gmail.com>  
**To:** Ada Clapp <[REDACTED]>  
**Subject:** Re: Funding a GRAT with encumbered property  
**Date:** Wed, 16 Oct 2013 18:15:25 +0000

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the prperoty is not enbcumbered,

On Wed, Oct 16, 2013 at 2:06 PM, Ada Clapp <[REDACTED]> wrote:  
Jeffrey,

Regarding the GRAT, to summarize my discussions with Alan, as I understand it, there is still an issue to resolve regarding the BFP interests as it is currently collateral for the 2006 Trust loan. Funding a GRAT with assets pledged for Leon's personal obligation is not so clear cut. In short:

1. There is some concern that the gift to the GRAT would be incomplete given that there is a risk (albeit slight) of forfeiture of the assets if Leon defaults on the loan from the 2006 Trust. We may be able to take care of this with a side agreement between Leon and the GRAT (which I think would also solve any valuation issues resulting from the risk of loss). Alan is still considering this option.
2. Alan is also exploring the option of having the 2006 Trust release the BFP interests as collateral in exchange for Leon giving the 2006 Trust a secured interest in his annuity payments. This might work while Leon is alive but may cause a problem if Leon dies during the GRAT term. There is some concern that this arrangement may disqualify the GRAT since the amount of the annuity payable to Leon or his estate would be uncertain and because GRAT property is not permitted to be paid to anyone other than Leon or his estate).

FYI--Alan and I spent some time looking into the viability of funding the GRAT with a derivative as you suggested. This too is not clear cut and raised several issues, including the risk of an incomplete gift, a step transaction if we funded with cash and had the GRAT trustee purchase the derivative contracts, whether Section 7520 could be used to calculate the annuity since the asset has a speculative value (resulting in the risk of an under-valutaion gift that would not adjust via an annuity increase). I believe Alan turned to the encumbered property issues once he understood that you were willing to forgo funding with a derivative.

Best regards,

**Ada Clapp**  
Black Family Partners  
c/o Apollo Management

[REDACTED]

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