



## Accredited Investor Rule Change **Primary Residence No Longer Creditable Towards Net Worth**

For companies planning to become involved in raising capital through the issuance of securities, effective February 27, the definition of “accredited investor” in the Securities Act of 1933 rules [has been amended](#). The term “accredited investor” is used in the Securities Act rules to determine whether investors are eligible to participate in private offerings of securities that are exempt from having to go through the registration process with the [Securities and Exchange Commission](#) (SEC).

One category of accredited investor consists of individuals with a net worth (or joint net worth with such individual’s spouse) that exceeds \$1 million. As a result of the amendment, an investor will have to exclude the positive equity of his or her primary residence (fair market value of the residence in excess of the mortgage) from the calculation of net worth to determine if he or she is an accredited investor, but if the mortgage exceeds the fair market value of the residence, then that difference is reflected as a liability in the balance sheet of the investor. Also, if an investor increases his or her existing mortgage debt in the 60 days before the accredited investor determination is made, then that new debt will be treated as a liability in the net worth calculation and will not be netted against the fair market value of the residence.

Companies are advised to confer with counsel to revise investor questionnaires to take into account the new rules.

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