

Five Questions to Ask a Prospective Qualified Intermediary

Due diligence is an analytical process of the facts and circumstances associated with an investment, intended to help an investor make the most appropriate decision in the given time frame. In today's market, as you look for a Qualified Intermediary to hold your 1031 Like-Kind Exchange proceeds, consider asking the questions below:

1. Will the QI place my funds in a segregated account or commingle the funds with other investor funds?

Though it is not illegal to commingle their client's exchange proceeds, it certainly can be a dangerous practice. Should the QI file for bankruptcy or be affected by any other legal action, the entire account may become frozen and inaccessible. This could have a detrimental effect as to the ability to complete your exchange or even recover any of the proceeds. At Banker Exchange, we place each client in a fully liquid, segregated account with FDIC coverage. We are happy to provide monthly bank account statements to our clients as well.

2. Where will my funds be invested?

In light of recent events in the QI industry coupled with the current economic situation, the security of your funds should take top priority. After 16 years in the QI business, we understand the need for prudent daily management and investment of investor dollars. To that end, we are continually evaluating the fiscal soundness of all bank partners. All client funds are invested in liquid, segregated accounts with banks that meet our rigorous standards and are FDIC insured. Banker Exchange has never lost a single investor dollar.

3. Is the QI bonded and insured?

Fidelity bonding exists to insure exchange transactions against corporate and individual theft, malfeasance and dishonest acts of employees, partners or owners. Banker Exchange maintains a Fidelity Bond which covers \$5,000,000 per exchange transaction.

Error & Omissions (E&O) insurance is very difficult to qualify for and maintain. E&O provides coverage to insure against losses resulting from an employee's error or omission. As human error may be a more likely occurrence than theft or embezzlement, this coverage is very important. Banker Exchange maintains E&O insurance coverage for our clients.

4. Will I receive all the interest earned on my account?

Though the interest rate earned on your deposited 1031 funds should not be your first consideration in choosing a QI, it is important. Many QIs will place your funds into an interest-bearing account with the idea of paying you a portion of the interest earned and retaining the rest. Recently, the IRS enacted §468B, which, under certain conditions, requires you to pay tax on all the interest earned from the account – whether you received all the interest income or not. Banker Exchange places your funds into interest-bearing, segregated accounts from which you receive 100% of the interest earned.

5. Do you have a Certified Exchange Specialist® (CES®) on staff?

In 1989, the Federation of Exchange Accommodators (the “FEA”) was established to provide professional exchange accommodators with an educational forum and advocacy platform. The FEA established the Certified Exchange Specialist® (CES®) certification to enhance the professionalism and expertise of its exchange industry members. Our staff includes three out of five CES® designees in the State of South Carolina, as well as a CPA and two South Carolina Real Estate agents.