

# Security of Funds

## How Secure are the Exchange Funds?

1031

Knowledge

Security of the exchange proceeds is paramount to all other aspects of a successful 1031 exchange. Some taxpayers are not aware that with the exception of state level consumer protection regulations for qualified intermediary (QI) companies in handful of states (currently California, Colorado, Connecticut, Idaho, Maine, Nevada, Oregon, Virginia and Washington), QI companies are not overseen by the federal government or any national regulatory entities. The bottom line is that a taxpayer has to determine whether the QI company they have selected can provide sufficient protection and financial security before proceeding with any 1031 exchange.

It is critical to examine the differences between QI companies. Many taxpayers and legal/tax advisors are not aware that QI companies often hold significant sums of money on behalf of taxpayer's completing 1031 exchanges. It is important to compare the true security mechanisms provided by a QI before making a final selection.

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### QUESTIONS TO ASK AN INTERMEDIARY

1. What bank or financial institution will be holding the QI's exchange proceeds? *(If held in a bank, is the taxpayer aware that FDIC coverage is limited only to certain coverage amounts?)*
2. In what type of bank or financial account are the exchange funds invested?
3. Are separate accounts set up for each taxpayer?
4. What are the requirements for the withdrawal and movement of the exchange proceeds? *(Can the QI move exchange funds without the taxpayer's authorization?)*
5. What additional security mechanisms are in place by the QI to prevent cyber fraud or other means of potential electronic theft of exchange proceeds?
6. Does the QI offer the ability for the taxpayer to require a notarized signature for the movement of exchange proceeds?
7. Does the QI offer a written "3rd Party Guaranty" to taxpayers? *(What entity backs this guaranty? How long has this entity been in business and do they an established track record and sufficient assets to cover a potential loss of exchange proceeds?)*
8. Is the QI a member of the Federation of Exchange Accommodators (FEA; [www.1031.org](http://www.1031.org)), the 1031 exchange industry's national trade organization, and subscribe to the FEA's Code of Ethics?

### Compliments of:



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