

How to Choose a QI (Qualified Intermediary)

Presented by
The Exchange Experts^{LLC}
National Qualified Intermediaries

Section 1031 of the Internal Revenue Code requires that the exchanger/investor must use a **Qualified Intermediary**, or "QI." So, how do you find a good QI? Here are some questions to ask....

1. Do you commingle accounts?

Commingling clients' 1031 funds isn't illegal, but it is dangerous. Many clients have lost their money when their QI abused the funds in a commingled account. **The Exchange Experts** keep every account segregated from every other account and viewable online.

Note: QIs who commingle accounts often say that its OK since they're bonded. **Don't believe it.** Recent QI bankruptcies have proven that a bond won't save your exchange.

2. What do you do with the clients' funds you're holding?

There are NO rules as to how exchange funds can be "invested". Make sure you know where your funds will be kept.

3. Who gets the interest?

Many QIs keep all the interest accrued on client's accounts. Others keep the interest for at least the first 30 days. It allows some QIs to charge a very small fee and claim they're inexpensive, while keeping all or nearly all the interest to more than make up the difference. This money could have gone to your client to pay for the exchange.

Note: \$250K will earn \$417/month at 2%.

4. Will you defend your work?

Many QIs figure they're done at closing. But will they defend their work in an IRS audit at no extra charge?

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5. Are you available 24/7?

Often, when calling a minimal service QI, you can be told that the person who does the exchanges is out of the office – not much help when you need an answer now.

6. Do you have legal AND accounting expertise?

Some exchanges can get very complicated (especially reverse exchanges). Just knowing how the process works often isn't good enough. Make sure they at least have real estate attorneys AND tax accountants.

7. Will you help me with my tax return?

The Exchange Experts send their clients **1031TaxPak™**, a tax preparation package with step-by step instructions. This can save hundreds of dollars come tax-preparation time.

8. Are you bonded?

Not only do most QIs commingle all their clients' funds, but the vast majority aren't even bonded. Make sure every client's account is segregated AND individually bonded.

9. Sure your fee is small, but is it flat?

Some QIs quote a "flat rate," then charge fees for other services, and even for answering questions!

10. Do I have to sign a "hold harmless" clause for your actions?

Most QIs who ask for this don't defend their work (See #4). The point of this one should be obvious.

11. Have you done exchanges in all fifty states, and in foreign countries?

If your exchange involves multiple states or foreign countries, make sure the QI you use has experience with all the applicable tax laws.

12. How many exchanges do you do?

To be knowledgeable in this business, a QI should have several years of experience handling a minimum of 50 straight exchanges and 10 reverse exchanges per month.

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