1031 EXCHANGE ELITE · YOU DECIDE REALTY

INVESTOR PROTECTION GUIDE

QI Selection Checklist

How to vet and select a Qualified Intermediary — the most important and most overlooked step in any 1031 exchange. Your exchange funds have no FDIC insurance. Your QI is the only thing standing between your money and a catastrophic loss.

- What a QI does
- Who cannot be your QI
- Vetting questions
- Red flag checklist
- Fee structure guide

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SECTION 01

Why the QI Choice Matters More Than Anything Else

Your Qualified Intermediary holds your entire exchange — sometimes millions of dollars — in a private escrow account with no FDIC insurance, no SIPC protection, and no government backstop. The QI industry has seen major fraud cases. Choosing the wrong QI can result in total loss of your funds and disqualification of your exchange.

THE STAKES ARE REAL

In 2007, 1031 Exchange Services LLC — one of the largest QI companies in the US — collapsed and stole $170M in client exchange funds. Hundreds of investors lost their entire exchange proceeds. None were protected by any government insurance. This is why QI selection is the most important decision in any 1031 exchange — and why vetting your QI is not optional.

SECTION 02

What a QI Does — And What They Cannot Do

Understanding the QI's exact role helps you evaluate candidates and spot fraud.

→ **Holds exchange funds**

The QI receives your sale proceeds directly from escrow into a dedicated account — separate from all other client funds and the QI's own operating accounts.

→ **Prepares exchange documents**

The QI drafts and executes: Exchange Agreement, Assignment of Purchase Contract, Identification Notice procedures, and Exchange Closing Instructions for both title companies.

→ **Tracks your deadlines**

Your QI should proactively notify you of approaching deadlines — especially the Day 45 identification deadline and Day 180 close deadline. You should receive deadline confirmations in writing.

→ **Coordinates with title**

The QI coordinates with both the selling and buying title/escrow companies to ensure funds flow correctly — from sale escrow to QI account to replacement escrow.

→ **Disburses replacement funds**

At the replacement close, your QI wires exchange funds directly to the replacement property escrow account. You never personally receive the funds.

SECTION 03

Who CANNOT Be Your QI

IRS regulations prohibit "disqualified persons" from serving as your QI. Using a disqualified person invalidates the entire exchange — even if everything else is done perfectly.

- ✗ Your real estate agent or broker on this transaction
- ✗ Your personal attorney (even if not involved in this deal)
- ✗ Your accountant or CPA
- ✗ Your banker or mortgage broker
- ✗ Any employee of yours
- ✗ Anyone who has performed services for you within the past two years
- ✗ Any entity owned or controlled by any of the above
- ✗ Your employer or any entity that employs you
- ✗ Any family member (spouse, parents, siblings, children)

SECTION 04

The QI Vetting Interview — Questions to Ask

Ask every QI candidate these questions before signing any agreement. Their answers will reveal their professionalism, their infrastructure, and any red flags.

TRACK RECORD

- **How many 1031 exchanges have you completed total?**
  Look for: 1,000+ completed exchanges. Less than 500 suggests limited experience.
- **How many exchanges in the past 12 months?**
  Look for: Active volume. A QI that's slowing down may have financial or operational issues.
- **Can you provide three client references from the past year?**
  Look for: Willingness to provide references immediately. Hesitation is a red flag.
- **Have you ever had a client's exchange funds lost, stolen, or frozen?**
  Look for: Transparent answer. If yes, full explanation of what happened and how it was resolved.

FINANCIAL SECURITY

- **Are client funds held in individually segregated accounts or pooled?**
  Required: SEGREGATED INDIVIDUAL ACCOUNTS. If commingled, walk away immediately — this is the primary fraud mechanism.
- **What is your fidelity bond limit?**
  Look for: Bond coverage equal to or exceeding typical client exchange amounts. Minimum $5M.
- **What is your Errors & Omissions insurance limit?**
  Look for: $5M+ E&O; coverage. This protects you from QI mistakes that cost you money.
- **Who has access to client escrow accounts?**
  Look for: Dual authorization required for all disbursements — two signatories, not one.

- **Can you provide audited financials or a financial statement?**
  Look for: Immediate willingness. A healthy QI has nothing to hide.

PROFESSIONAL STANDARDS

- **Are you a member of the Federation of Exchange Accommodators (FEA)?**
  Look for: Yes. FEA membership requires adherence to a professional code of conduct and best practices.
- **Do you carry FEA Certified Exchange Specialist (CES) designations?**
  Look for: Yes. CES is the gold standard QI certification.
- **What is your average response time for client inquiries?**
  Look for: Same business day. If they can't answer this confidently, expect slow responses during your exchange.
- **Do you have Nevada-specific exchange experience?**
  Look for: Yes. Nevada replacement transactions have specific title and escrow nuances that benefit from local QI experience.

SECTION 05

Red Flags — Walk Away Immediately

If any QI candidate exhibits these behaviors, do not hire them regardless of their explanation.

✗ Cannot immediately confirm that client funds are held in individually segregated accounts

✗ Refuses to provide proof of fidelity bond and E&O; insurance on request

✗ Cannot provide a clear answer on who has escrow disbursement authority

✗ Offers significantly below-market fees — quality QI services have a cost

✗ Pressures you to select specific replacement properties or refers you to their affiliated agents

✗ Cannot provide client references or asks for time to find them

✗ Is not a member of the Federation of Exchange Accommodators

✗ Cannot confirm Nevada-specific exchange experience

✗ Uses vague language about "pooled" or "commingled" accounts

✗ Cannot provide written confirmation of your deadline dates within 24 hours of signing

✗ Your own attorney, CPA, agent, or anyone with a prior relationship (legally disqualified)

SECTION 06

QI Fee Structure — What to Expect

QI fees vary significantly. Understanding what's standard helps you identify unusually low fees (a red flag) and negotiate appropriately.

FEE TYPE	TYPICAL RANGE	NOTES
Exchange setup fee	$750 – $1,500	Covers document preparation and account setup
Additional property fee	$250 – $500 each	If exchanging multiple replacement properties
Wire fee	$25 – $50 per wire	For each fund transfer in or out
Interest earned on funds	Varies — split or retained	Negotiate interest sharing on large exchanges
Failed exchange fee	$250 – $500	If exchange doesn't complete — rare reputable QIs
Total typical cost	$1,000 – $2,500	For a standard single-property exchange

READY TO EXCHANGE?

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