



## Becoming a Qualified Intermediary with FEA

The Federation of Exchange Accommodators (FEA) is the only national trade organization formed to represent qualified intermediaries (QIs), their primary legal and tax advisors and affiliates who are directly involved in Section like-kind 1031 exchanges. Check out more information at [http://www.1031.org/FEA/About\\_Us](http://www.1031.org/FEA/About_Us). We do not have a 'checklist' per se for becoming a QI, but here are some things to keep in mind when considering the launch of a QI business:

- Retain counsel to help prepare the necessary exchange documents and correspondences with the various parties in the transaction. Once these are prepared, it is prudent to have them reviewed by an attorney every few years or more frequently if a tax case, new Rev Proc or Rev Rul warrants it.
- Obtain fidelity bond and professional liability insurance. Not all off the shelf policies provide the type of coverage that complies with the various state QI laws. Lockton Insurance is an FEA Affiliate member and offers a fidelity bond and E&O program specifically for FEA members designed to protect the consumer and comply with the state QI laws.
- You will need a bank to deposit the exchange funds. Be sure to ask about applicable fees and the availability of Qualified Escrow Accounts (QEA) because some state QI laws require them (and failure to use is a felony).
- Carefully consider the controls in place to protect your clients' funds from both internal theft and, more importantly, cybercrime. Wire fraud in the real estate industry is skyrocketing. Cybercrime and data breach insurance coverage is also recommended.
- Many QIs have customized a CRM system or other computer software to track exchanges transactions. Many include a good accounting program to track exchange funds or else keep separate accounting records. Consider two signers on all withdrawals and who will be the non-signer that will reconcile the accounts each month.
- Consider how you are going to get the expertise to educate your clients throughout the exchange process. A missed deadline, title vested in the wrong name, a disqualified QI or an unexpected trade down could result in a significant tax liability for the client. How much E&O coverage should you have? Be sure to budget for training and continuing education expenses to educate and keep your team up to date.
- Understand the various state QI laws and make sure you keep them in mind while setting up your operation. Know which require QEAs, minimum insurance amounts, licensing or disclosures.
- Determine who will reconcile your accounts. Should be a non-signer on the account. Fidelity bond provider looks for them to be recognized by non-signer within two weeks of month end. Ideally there would be two signers required on all withdrawals.
- Who will handle things if you are incapacitated in anyway? Wires must be sent when someone is ready to close. Failure to do so could cost them their ability to complete the exchange within the 1031 time period or cause them to breach the terms of the sales agreement.
- Membership in FEA is recommended so you stay current on industry news, get discounted conference and webinar rates, benefit from a "Board Buddy" and networking opportunities with follow members and help support our efforts to preserve Section 1031 and the role of the

QI. Membership also provides access to our members only resources, such as the state QI laws, tax updates, non-resident state withholding tax requirements and other state related tax issues.

- FEA holds their Annual Conference in the fall and we usually offer a webinar series later in the year. It is unfortunate you miss the opportunity to attend our recent conference. The education and networking is invaluable – regardless if you are new to the industry or around for many years. Each year at our conference, we are offer a Boot Camp covering the basics of a delayed exchange and a Reverse Exchange Boot Camp for newer members and those looking for a refresher.
- Visit the FEA website at [www.1031.org](http://www.1031.org) for a list of FEA affiliate members who can provide assistance with products or services needed to help your business operate or grow.
- The CES® Certification Program requires someone to have three years full-time experience in the QI industry before being eligible to take the exam. Designees are required to take 20 hours of CE every two years. For more information, visit [www.1031CES.org](http://www.1031CES.org).
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This list is certainly not complete but should give you food for thought as you are considering your options.