



Choosing a Safe, Secure, and Reliable Qualified Intermediary

By
Hiba I. Exeter
Vice President and Treasurer
Exeter 1031 Exchange Services, LLC
Exeter Trust Company



Would you hand a stranger a check for your entire retirement savings and simply hope that he or she makes the best investments for you? That is essentially what happens every time an investor selects a 1031 exchange qualified intermediary without conducting proper due diligence.

The qualified intermediary, often referred to as an accommodator, facilitator, or just QI, receives, holds, and safeguards an investor's exchange funds throughout the transaction, often for weeks or months, and yet most investors know remarkably little about the 1031 company entrusted to hold their equity capital.

This is not a hypothetical risk. It is a structural gap in an entire industry.

An Industry Without a Safety Net

Here is a fact that surprises most investors: the 1031 exchange qualified intermediary industry has no licensing body or [regulatory authority](#) providing independent oversight. Qualified intermediaries are not licensed, not regulated, not audited, and are not subject to any minimum bonding, insurance or equity capital reserve requirements.

Think about what that means. Qualified intermediaries routinely hold millions of dollars in client funds, with fiduciary responsibilities that rival those of a bank or trust company yet operate with none of the regulatory scaffolding that protects depositors at a traditional financial institution. There is no regulator conducting annual examinations. There is no minimum equity capital requirement. There is no mandated bonding or insurance floor.

The [consequences of this gap](#) are not theoretical. In the LandAmerica 1031 Exchange Services bankruptcy, the court ruled that clients' 1031 exchange funds were corporate funds (**NOT** client trust funds) because they were not held in [qualified trust accounts](#) or qualified escrow accounts as permitted under the Treasury Regulations. As a result, investors' exchange proceeds became subject to general creditor claims in bankruptcy. Investors who believed their funds were safely held lost their capital they were counting on to complete their transactions.

This 1031 QI failure, and many others like it, could have been prevented with proper regulatory oversight and independent annual examinations. That is the core problem investors must understand before they ever sign an exchange agreement.

What Investors Should Actually Be Evaluating

Fees matter, and turnaround times matter. But neither should be the deciding factor in selecting a qualified intermediary. The far more important question is this: how safely does this company manage and control risk around my money? Based on decades of industry experience, six criteria consistently separate the safest qualified intermediaries from the rest.

1. Regulatory Oversight and Independent Audits

The single most important due diligence question an investor can ask is whether the QI is subject to government oversight by an agency such as a State Division of Banking (DOB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) or the Federal Reserve Bank (FRB). Regulatory licensing



means the company submits to periodic exams and independent audits by an outside party verifying, on an ongoing basis, that the firm operates in a [safe, sound, and secure](#) manner.

Exeter 1031 Exchange Services, LLC chose to pursue this path proactively. Rather than operating without oversight, as most of the industry does, Exeter1031™ underwent a rigorous, multi-year regulatory review and approval process to establish its own trust company. The result, Exeter Trust Company, is licensed, regulated, and audited by the Wyoming Division of Banking. This makes Exeter1031™ one of the few qualified intermediaries in the country with any form of government oversight.

2. Bonding, Insurance, and Equity Capital

Because exchange intermediaries handle such significant sums of 1031 funds, they should carry substantial protection against theft of funds, embezzlement and misappropriation of exchange funds, errors and omissions, cyber fraud and wire transfer fraud risks. Investors should specifically ask about:

- Fidelity bond coverage, which protects against theft or embezzlement of funds by employees
- Errors and omissions (E&O) insurance, which protects against costly administrative mistakes
- Cyber fraud and wire transfer fraud insurance, which protects against increasingly common electronic theft schemes by hackers and other bad actors
- Financial institution blanket bond coverage
- Equity capital reserves, which serve as a financial backstop beyond insurance limits

[The Exeter Group of Companies](#) maintains \$15.0 million in fidelity bond coverage, \$10.0 million in errors & omissions insurance, \$15.0 million in cyber fraud and wire fraud insurance, a \$15.0 million financial institution blanket bond, and more than \$8.0 million in equity capital reserves.

3. Separate, Segregated, Dual-Signature, Restricted Qualified Trust Accounts

As the LandAmerica 1031 case demonstrated, how a qualified intermediary holds your funds can matter as much as how much protection it carries. Investor funds should always be deposited, held, and safeguarded in separate, segregated, dual-signature, restricted qualified trust accounts or qualified escrow accounts, distinct from the qualified intermediary's own corporate assets (i.e., not commingled with corporate operating accounts or corporate assets).

Exeter1031™ deposits, holds, and safeguards each client's exchange funds in a separate, segregated, dual-signature, restricted qualified trust account with ExeterTrust™ for every individual transaction. The dual-signature structure requires written authorization from both the client and Exeter1031™ before any funds can move, meaning Exeter cannot access or transfer a client's funds without their written permission.

4. Excess FDIC Insurance Coverage

Standard FDIC insurance coverage caps out at \$250,000 per depositor, per bank, often a small fraction of what many exchange transactions involve. Exeter Trust Company automatically allocates client funds across numerous commercial banks, extending FDIC deposit insurance coverage well beyond the standard limit, and offers an Insured Cash Sweep (ICS) vehicle providing up to \$150.0 million in FDIC insurance coverage for larger transactions.

5. Internal Controls and Checks and Balances

Ask a prospective qualified intermediary how it tracks, reconciles, and authorizes the movement of your exchange funds. Sophisticated internal controls matter because they reduce the likelihood of both error and misconduct before either can occur.

At Exeter, it takes four separate team members acting together along with the client's written authorization to request, authorize, process, and complete any electronic transfer or disbursement of exchange funds. This includes a telephone call-back to the designated recipient on a trusted phone number to verbally verify and confirm wire transfer instructions before any wire transfer is entered or released (approved). ExeterTrust™ also reconciles its entire client trust fund position to the penny each and every day.



6. Depth of Knowledge, Experience, and Expertise

A 1031 exchange is not a simple paperwork exercise. It is a highly technical transaction governed by strict IRS deadlines and regulations. Investors need more than a transaction processor; they need a consultative partner capable of working alongside their legal, tax, financial and real estate advisors to ensure a compliant tax-deferred exchange. Interview prospective qualified intermediaries directly. Ask about their tenure, the number of transactions they have administered, and their familiarity with complex structures such as reverse exchanges, improvement exchanges, leasehold improvement exchanges, zero equity exchanges, partnership installment notes (PINs or QI Notes) or foreign property exchanges.

Due Diligence Is Not Optional

Size is not the determining factor in whether a qualified intermediary is safe. How the 1031 firm manages your funds and controls risk is what matters. An investor who focuses solely on fees or turnaround time, while ignoring regulatory status, bonding, insurance, trust account structure, and internal controls, is [taking on risk](#) that has no upside.

Before selecting a qualified intermediary for your next 1031 exchange transaction, ask direct questions: Are you licensed and regulated, and by whom? Are my funds held in a separate, segregated, dual-signature, restricted qualified trust account or qualified escrow account? What insurance and bonding do you carry, what are the limits, and can you provide documentation? What internal controls govern the disbursement of my tax-deferred exchange funds?

A qualified intermediary confident in its own safeguards will answer these questions readily and thoroughly. One that hesitates, deflects, or cannot produce documentation is telling you everything you need to know.

Conduct the due diligence. Ask the hard questions. Your exchange funds and the tax deferral you are counting on deserve nothing less.