



How to Safeguard Your 1031 Exchange Funds: A Guide to Selecting the Best Qualified Intermediary

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A 1031 exchange is a powerful tax planning strategy that allows investors to defer the payment of capital gain taxes when selling real property that has been held for rental, investment or business use (“relinquished property”) and subsequently reinvesting in other real estate that will also be used for rental, investment or business use (“replacement property”).

However, the success of the investor’s transaction rests heavily on the [professionals](#) selected to guide them through it. Section 1031 of the Internal Revenue Code (IRC) requires the use of a qualified intermediary (QI), often referred to as an accommodator or facilitator, to administer the 1031 exchange and to hold and safeguard the funds during the transaction.

Because the industry has no licensing or regulatory oversight capabilities, and has virtually no requirements for insurance, bonding, or minimum equity capital reserves, choosing a trusted 1031 exchange qualified intermediary requires careful due diligence.

The 1031 qualified intermediary selected will hold the investor’s exchange funds and ensure the transaction complies with strict Internal Revenue Service (IRS) guidelines. A mistake or lapse in security can result in a disqualified 1031 exchange, the loss of the tax deferred benefits or the complete loss of the investor’s equity capital.

This post outlines the exact criteria that must be evaluated to protect the 1031 exchange assets, including licensing, regulatory oversight, insurance and bonding, minimum equity capital requirements, technical expertise and experience, fund security, and ratings and reviews of the best 1031 exchange qualified intermediaries in the industry, such as Exeter 1031 Exchange Services, LLC.

The Critical Requirement: Safeguarding the 1031 Exchange Funds

When real property investors sell their relinquished property, their net proceeds from the sale must go directly to their qualified intermediary. If the investor takes [actual receipt or constructive receipt](#) of the funds, the tax-deferred exchange fails immediately. Because the 1031 QI must hold and protect the 1031 exchange funds throughout the transaction to avoid actual or constructive receipt of the funds, the method they use to secure those funds stands as [the most critical factor](#) in the QI selection process (aside from being regulated).

Licensing, Regulatory Oversight, and Audits

It is important to know that the 1031 exchange qualified intermediary industry has no licensing or regulatory oversight capability; the industry is not regulated. It is therefore crucial for an investor to exercise extreme caution when completing due diligence on the top 1031 QI’s.

Licensing and Regulatory Oversight

The safest and most secure intermediaries proactively subject themselves to external licensing, regulatory oversight and examinations, even when they are not required to. Premier 1031 exchange qualified intermediaries choose to be licensed, regulated and audited to better protect their clientele. These QIs are generally licensed, regulated and examined by regulatory authorities such as the state division of banking, state department of financial institutions, office of the comptroller of the currency (OCC), Federal Deposit Insurance Corporation (FDIC)



or the Federal Reserve Bank (FRB). This government regulation dictates minimum equity capital reserve requirements, strict insurance and bonding requirements, regular operational reviews and exams, and adherence to established banking standards. These top rated 1031 qualified intermediaries represent the most reputable and trusted QI's using industry best practices.

Independent Audits and Exams

Always ask a prospective QI if they undergo independent, third-party audits. Internal audits by an internal audit department are not the same as independent, third-party audits or regulatory exams. A reliable firm will commission annual audits by an independent certified public accountant (CPA). Furthermore, institutions that are licensed and subject to regulated oversight must undergo periodic regulatory examinations. These audits verify the financial stability of the firm, the integrity of their accounting practices, the security of client funds and whether the qualified intermediary is operating in a safe and sound manner by using industry best practices. An intermediary that refuses or avoids regulatory oversight or independent audits presents a significant risk to an investor's equity capital.

Qualified Trust and Escrow Accounts

Real property investors should never allow a qualified intermediary to hold their tax-deferred exchange funds in the QI's standard corporate operating account or a commingled bank account. Commingling the funds with the operating capital of the 1031 QI or other clients' funds exposes the money to severe risks, including the potential risks from a bankruptcy filing or misappropriation of funds.

Investors must require the 1031 exchange qualified intermediary to use either a qualified trust account or a qualified escrow account. These specialized accounts must be separate, segregated, restricted trust or escrow accounts, and must require written authorization from both the investor and the qualified intermediary (dual-signature accounts) for any movement of funds. These trust or escrow accounts legally separate and segregate investors' 1031 exchange proceeds from the qualified intermediary's corporate operating accounts and assets as well as other client funds, providing a critical layer of protection against institutional failure or unauthorized withdrawals. Demand written proof of how the 1031 exchange company will hold your funds before signing any tax deferred exchange agreement.

Evaluating Security, Insurance, Bonding and Equity Capital Reserves

Even with proper internal controls, checks and balances, and risk management structures, institutional security requires robust bonding, insurance coverage and equity capital reserves. A reputable qualified intermediary will maintain significant bonding, insurance policies and regulatory required minimum equity capital reserves to protect clients from unforeseen events, human error, or malicious attacks. Ask for proof of coverage in these four (4) key areas:

Fidelity Bond Coverage

A fidelity bond protects investor funds against theft, embezzlement, misappropriation or other types of fraud committed by the employees or officers of the 1031 qualified intermediary. Fidelity bonds are effectively crime insurance. Because the QI handles incredibly large sums of liquid capital, a substantial fidelity bond provides essential reassurance that the investor funds are protected and secure. Verify the fidelity bond amount and ensure it aligns with the balance of fund held by the qualified intermediary.

Some qualified intermediaries may tout written performance guarantees as an added layer of fidelity protection for clients' 1031 exchange funds. However, it is important to recognize that these guarantees typically lack any true enforceability or financial backing. In most cases, a written guarantee is merely a promise without the regulatory authority, bonding, or insurance coverage necessary to actually safeguard investors' funds. In the event of insolvency or misappropriation, such guarantees provide no legal or financial recourse for clients. The court in the LandAmerica 1031 exchange bankruptcy invalidated the performance guarantees and ruled the funds were corporate funds and not client funds. Therefore, it is imperative to focus on concrete risk mitigation measures—such as audited trust accounts, verified insurance coverage and regulated financial institutions—rather than relying on written assurances that offer little real-world protection.



Errors and Omissions (E&O) Insurance

While a fidelity bond covers intentional theft of funds or assets, errors and omissions insurance protects investors against honest mistakes made by the 1031 company. The rules governing 1031 exchanges involve strict deadlines and complex documentation. If the QI makes an administrative error that disqualifies an investor's exchange, the investor faces significant tax liabilities. E&O insurance provides the investor with financial recourse should the gross negligence of the qualified intermediary result in a disqualified tax-deferred exchange.

Cyber and Wire Fraud Insurance

Wire fraud represents one of the fastest-growing threats in the real estate sector today. Cybercriminals frequently target 1031 exchange funds due to the large transactional values. QI's must maintain specific cyber liability and wire transfer fraud insurance. Furthermore, they should implement strict, multi-step verification protocols—such as verbal confirmation of all wire transfer instructions—before processing any disbursements.

Regulated Minimum Equity Capital Reserves

The final “backstop” to protect 1031 clients in the event of a loss is the qualified intermediary's equity capital reserves. Equity capital can absorb any losses that exceed the fidelity bond, E&O insurance and cyber or wire fraud coverage amounts. Regulated exchange companies have minimum equity capital reserve requirements placed on them by their regulators to provide additional loss coverage.

Assessing Expertise and Service Quality

A successful 1031 exchange requires more than just secure accounts; it requires precise technical execution. Investors need a partner with the knowledge to structure complex transactions and the responsiveness to meet strict deadlines. One of the easiest ways to evaluate expertise and service quality is to read the online reviews and ratings of the top licensed qualified intermediaries. Pay close attention to the dates of the reviews. If they were all dated within a very short period of time, they were likely requested and compensated for their review. If they are dated over a longer period of time, they are probably legitimate and organic ratings.

Deep Technical Knowledge and Experience

The IRS regulations surrounding 1031 exchanges contain numerous nuances, exceptions, and safe harbors. Your intermediary must possess a deep understanding of standard tax deferred exchanges, reverse exchanges, improvement 1031 exchanges, leasehold improvement exchanges, foreign property exchanges and zero-equity 1031 exchange transactions. Ask specific questions about your unique situation. A competent QI will quickly provide factual, structured answers based on IRS rulings and tax court precedents. Look for premier licensed firms with decades of institutional experience rather than newly formed operations.

Access to Senior Executive Officers

Complex transactions often require high-level problem-solving. When investors encounter a structural challenge or a sudden shift in their closing timeline, they cannot afford to wait for messages to pass through layers of customer service. Choose a 1031 firm that provides direct access to its senior executive officers and 1031 specialists. Their ability to step in and offer creative solutions can save a tax-deferred exchange from failure.

Reliability and Responsiveness

The 1031 exchange process operates on unforgiving deadlines: the 45-day identification period and the 180-day exchange period. Missing either deadline by a single day invalidates the exchange. Therefore, you need a highly responsive partner. Test their communication skills during your initial inquiries. Do they answer the phone? Do they return emails promptly? A dependable QI prioritizes clear, fast communication to keep tax-deferred exchange transactions moving safely forward.

Balancing Fees and Costs with Financial Security

When comparing reputable qualified intermediaries, you will inevitably compare the [QI fee structures](#). While understanding the fees and costs they charge remain important, never prioritize low fees over the security and safety of the 1031 exchange funds. Often, very low fees or no fees are a sign of limited services, inadequate financial strength, bonding and insurance, not being licensed or regulated, or a lack of experience.



Discount intermediaries often charge lower to no setup fees by cutting corners. They might lack proper insurance, skip expensive third-party audits, chose not to be licensed or regulated, or hold funds in commingled accounts where they capture the interest to subsidize their low upfront costs. These qualified intermediaries often fail during recessionary times or during lower interest rate environments. Paying a few hundred dollars more for a highly regulated and secure, heavily insured and capitalized, and deeply experienced qualified intermediary acts as an inexpensive insurance policy for the hundreds of thousands—or millions—of dollars in tax deferred benefits. Investors should always strive to protect and safeguard their principal above all else.

Membership in the Federation of Exchange Accommodators

Ensure the intermediary is a member of the Federation of Exchange Accommodators (FEA), which ensures they adhere to strict ethical and safety standards. William L. Exeter, founder, Chair and Chief Executive Officer of Exeter 1031 Exchange Services, LLC is one of the original founders of the Federation of Exchange Accommodators back in the late 1980's, and Exeter1031™ continues to be a member of the FEA.

Best Rated 1031 Exchange Qualified Intermediaries

Exeter 1031 Exchange Services, LLC (Exeter1031™) has consistently been rated by numerous websites and rating firms as one of the [best 1031 exchange companies](#) for many, many years. Exeter1031™ prides itself on being a best practices qualified intermediary.

Better Business Bureau (BBB)

The Better Business Bureau reviews companies to determine if they are operating in an ethical, trusted and best practices manner. Organizations that proactively obtain a trusted BBB accreditation designation have shown they are doing just that. Exeter1031™ is a trusted BBB accredited business and has an A+ rating with both the BBB Pacific Southwest chapter and the BBB Great West Pacific (Hawaii) chapter. Exeter1031™ is listed on the BBB website as a top 1031 exchange qualified intermediary. Exeter Trust Company (ExeterTrust™) is also a trusted BBB accredited business and has an A+ rating with the BBB Colorado-Wyoming chapter. Three chapters of the Better Business Bureau have rated The Exeter Group of Companies with an A+ rating.

Next Steps for Your Exchange

Selecting a licensed and regulated qualified intermediary requires diligent verification of facts, not just a review of marketing materials. Investors should trust but verify. Before you close on the sale of your relinquished property, interview potential QIs using this structured framework. Verify their licensing and regulated status. Request written proof of their fidelity bond, E&O insurance, cyber liability and wire transfer fraud coverage and their equity capital reserves. Ask for documentation confirming their use of qualified trust or escrow accounts.

By demanding some form of [licensed and regulated oversight](#) and deep technical expertise and experience, you establish a secure foundation for a successful, stress-free 1031 exchange with a best practices qualified intermediary like Exeter 1031 Exchange Services, LLC.

Help is Always Available

Exeter1031™ is always available to assist investors. Investors™ and their advisors can contact our 1031 exchange specialists at any of our [regional office locations](#) for assistance. Our 1031 specialists are available any time – day or night – to answer questions.