

The art of the possible: Becoming the go-to institution for 1031 Exchanges

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Presented by ZSuite Tech



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Nathan Baumeister
CEO and Co-founder



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Chief Client Officer

Agenda

How to sell to QIs –
30 minutes

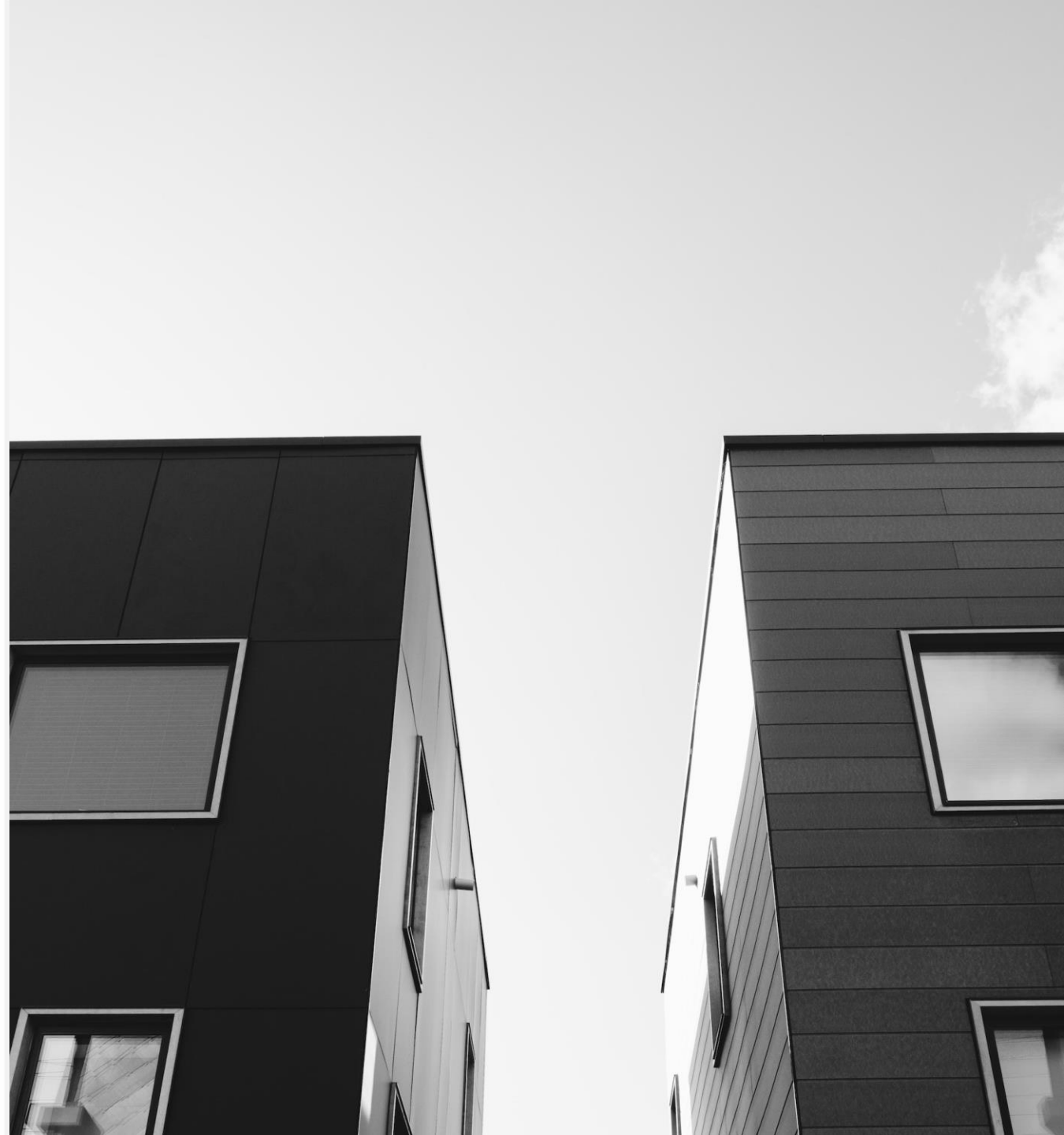
Q&A –
10 minutes

Demo –
10 minutes

**What is a 1031 Exchange,
and what is a QI?**

Like-kind exchanges

- Named after Section 1031 of the Internal Revenue Code
- Tax deferment for real property sales
- The “Exchanger” must report the 1031 via Form 8824 with their federal tax return.
- Requires accommodation by a qualified intermediary (QI) and a bank





Qualified intermediaries

- Consult on the best approach to achieving a successful 1031
- Prepare and review necessary documents
- Receives, holds, and disburses the Exchanger's funds using a qualified escrow account at a financial institution

What does a QI firm look like?

- **Small**
 - Individual realtors, attorneys, CPAs, and wealth advisors.
- **Medium**
 - Smaller title companies
 - Independent QI firms
 - Banks with QI departments
- **Large**
 - National title companies that own QI firms
 - Independent QI firms

Why QIs make great clients



Large core deposits

A photograph of a natural rock archway in a desert landscape. The arch is made of reddish-brown sandstone and frames a view of a valley and distant mountains under a clear blue sky. The foreground shows the rocky terrain of the arch's base.

Specialty deposits are a gateway to deposit growth, loan growth, and non-interest income.

- Core commercial deposits
- Large wire volume
- Fee income
- Commercial real-estate lending
- Access high-net-worth clientele

Getting to know them



What does the landscape look like for QIs?

- Federal compliance
- State compliance
- Security

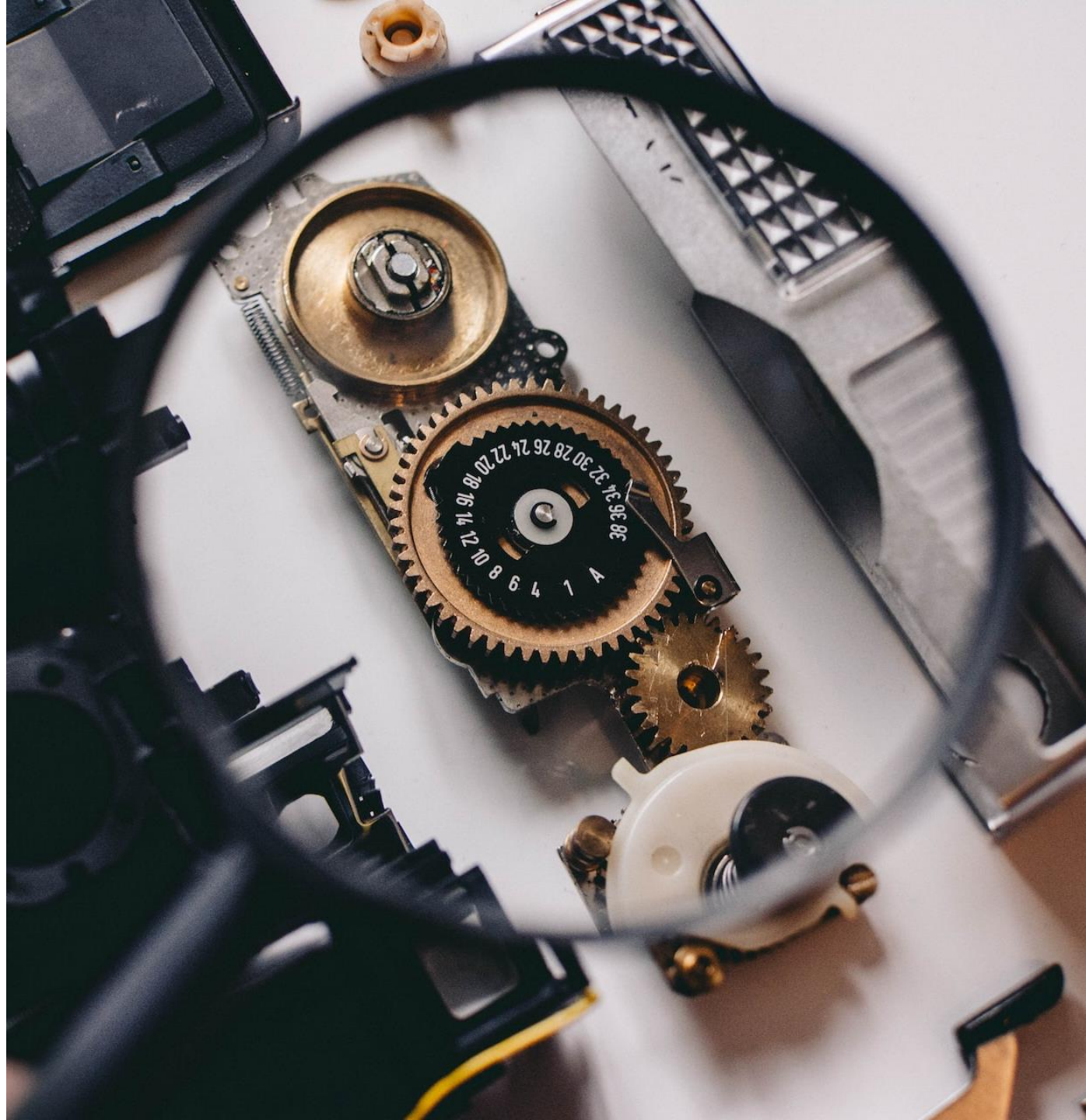


Regulation

- Fed involvement
- State involvement
- California wants to collect

Staying compliant

- No co-mingling of 1031 deposits
- The qualified escrow account keeps everything clear
- Doing everything possible to ensure a successful exchange for the client/exchanger.





Top of mind concerns

- Wire fraud
- Liability
- Completing the transaction before the deadline.
- Serving the client

**What QIs look for in a
banking partner**



Dan McCabe

Vice President and Co-founder

Company:

**Exchange Resource
Group, LLC.**

Location:

Denver, CO

“But if I had the chance to sit down and walk every one of those bankers that actually do handle our accounts... We literally have a 1-hour program if they could walk through that I think they would have a better understanding of what the common goal is and the common goal is to serve the client the best way we can.”

Supporting every step of the 1031

- Compliant account structure
- Secure processes
- Ease of transaction
- Reducing paperwork and busy work
- Using technology to increase efficiency and security
- Learn the workflow specific to the QI





Strong understanding of 1031s

- 1031 Exchanges
- Reverse Exchanges
- Reverse Improvement Exchanges
- Reverse Construction Exchanges

Favorable fee arrangements

- QIs make most of their money from interest, sometimes referred to as account origination fees.
- Rising rates create pressure to split that money with exchangers.
- Some QIs will chase the best rates.

The competition

Specialization is critical

A close-up photograph of a diver's head and scuba gear above the water surface. The diver is wearing a black mesh hood and a silver regulator. The background is a clear blue sky and a calm sea.

Banks that pursue 1031 Exchange business have:

- A specialty deposits team
- The right tools and training
- A strategy to attract QI firms



Adam Nishikawa
Vice President

Company:
**Exchange Resources,
Inc.**

Location:
San Diego, CA

His QI firm tends to chase the highest interest rate for deposits. They've switched banks every 18 months or so.

They handle 5000 transactions a year. They want to make sure the bank has a competent specialty deposits team that can meet their needs for wire frequency and security.

Not all banks are pursuing this business

- May not need the deposits
- May not have the staff and expertise to handle it
- May not be willing to negotiate on fees



How to reach QIs



They come from all over

- Look for tangential industries such as real estate attorneys, realtors, brokers, and CPAs.
- The Federation of Exchange Accommodators is the only association for QIs.



What can you do today?

- Search for QIs in your state
- Start talking to real estate attorneys and CPAs about their work with QIs
- Read the Like-Kind Exchanges Under Section 1031 Ebook

What can you do for the long term?

- Get involved with events through the FEA
- Establish relationships with other industry associations:
 - Real estate
 - State boards
 - CPAs
 - Property investment
- Collaborate with a QI: consider running a webinar targeted at high-net-worth account holders



An aerial, black and white photograph of an open-pit coal mine. The image shows a vast, terraced excavation site with numerous large, dark piles of coal. Two large, complex pieces of mining machinery, likely conveyor systems or crushers, are positioned on the upper levels of the mine. The overall scene conveys the scale and intensity of the mining operation.

Unearthing these rich deposits can take time, but they're worth it.

Questions?

Associations and industry intel

- Federation of Exchange Accommodators (fea.memberclicks.net)
 - The FEA is the national association representing QIs. They provide advocacy, continuing education, and a database of QIs.
- eBook: Like-Kind Exchanges Under Section 1031
- The ABA real property, trust, and estate law group (LinkedIn)

Downloadable qualified intermediary battle card!

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1031 EXCHANGES AND QUALIFIED INTERMEDIARY OVERVIEW

1031 Exchanges.

- In its current form, Section 1031 of the Internal Revenue Code permits businesses and individuals to take a business or investment real estate asset/s and trade it for another real estate asset/s.
- The taxpayer must file specific paperwork, place the money in a qualified escrow account at a bank, and use a qualified intermediary (QI) to facilitate the transaction within a 180-day timetable.
- There are multiple types of 1031 Exchanges, including:
 - Reverse 1031 Exchanges
 - Reverse Improvement Exchanges
 - Reverse Construction Exchange

Qualified intermediaries (QIs).

The majority of 1031 Exchanges are handled by dedicated QI firms. Attorneys, realtors, and even CPAs can serve as QIs, provided they haven't had a concurrent business relationship with the exchanger in the two years prior. QIs make the lion's share of their revenue from the interest or fee arrangement on the deposit itself.

QIs make great commercial clients.

- Large core deposits
 - 1031 deposits come and go, but the aggregate balance is high and remains high during economic fluctuations.
- Wire transfers
- Some firms handle thousands of transactions a year, and a single transaction can have multiple wire transfers associated with it.
- Commercial lending
- Often when an investor uses a 1031 to swap a property, they want to upgrade to a more valuable property, which requires a mortgage.
- Access to high-net-worth clientele
- They open the door to valuable property investor clientele as well as lawyers, realtors, and CPAs.

What keeps QIs up at night.

- Wire fraud
- A single transaction may represent tens of millions of dollars. If a 1031 exchanger misses the 180-day deadline for completion (because of a faulty wire transfer, for example), they'll fail the 1031 and be required to pay capital gains tax.
- Bonding and insurance
- Many clients want to know if the bank is covered. In practice, fidelity bonds aren't very useful if something goes wrong because establishing a claim and getting paid is a lengthy process.
- Serving the client
- Exchangers rely on the QI to facilitate every aspect of the 1031 in a timely, compliant fashion. The fees they pay QIs are minuscule in comparison to the tax savings. A failed exchange isn't a matter of refunding money – it's a potentially catastrophic tax bill. QIs want to know that somebody at the bank is available to initiate wires and handle transactions promptly. Your specialty deposit team needs to have functional redundancy, so QIs never have to wait for somebody to return from vacation or sick leave.

HOW TO REACH QIS

What do QIs look for in a banking partner?

- A willingness to support 1031s at every step.
- Thorough understanding of 1031 rules and variations
- Insurance to cover deposits and wire transactions.
- Favorable interest splitting
 - Terms
 - Capability
 - Reporting
- Security for wire transfers
- Compliant account structure
- Technology solutions wherever possible
- Deliver what you sell. Ensure your specialty deposits team has all the tools, training, and resources they need to execute 1031s quickly, securely, and with transparent reporting.

The competition for 1031 business.

Some banks don't have the capability or interest in serving QIs. QIs often diversify their deposits across multiple institutions. They may move banks for better fee arrangements. Be proactive about re-pricing these agreements as interest rates climb to help build loyalty.

Where to find QIs.

QIs come in lots of shapes and sizes. Once your institution builds a reputation for supporting QIs, attracting and retaining them becomes easier.

What you can start doing today.

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What you can do for the long term.

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Additional resources:

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- Like-Kind Exchanges Under Section 1031 eBook
- ABA real property, trust, and estate law group.
- Article on 1031 Exchange fees.

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Thank you!