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## Exchange News

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### Special Edition 2007

### Realty Exchange Corporation Implements AlwaysSafe™ Exchange Escrow Funds Security System

The security and safety of exchange escrow funds is the first priority of Realty Exchange Corporation. Therefore we have established the AlwaysSafe™ escrow security system. The AlwaysSafe™ system:

- Provides a segregated separate bank account for each exchange
- Permits exchangers 24/7 on-line viewing of the segregated bank escrow account
- Provides a Fidelity Bond specifically designed for Qualified Intermediaries
- Provides Errors and Omissions insurance
- Establishes escrow accounts in strict compliance with IRS regulations
- Deposits all exchange escrow funds in an FDIC insured bank
- Ensures exchange escrow funds are always available for disbursement
- Provides a monthly bank statement for each exchange account
- Provides for a client authorization to transfer escrow funds
- Performs daily validation of each escrow disbursement and deposit
- Performs monthly audits of all escrow accounts
- Maintains individual registers for each escrow account

Realty Exchange Corporation:

- Is a member of the Federation of Exchange Accommodators (FEA) and follows its strict Code of Ethics
- Requires each officer to be a Certified Exchange Specialist®

- Provides stability as a family-owned and operated Qualified Intermediary since 1990. Only a family member and officer may disburse exchange escrow funds.

### **Separate Segregated Bank Accounts**

A separate segregated FDIC insured bank account is established for each exchange. These separate accounts provide maximum security and visibility of the individual exchangor's funds. Exchangors can view the funds in the separate bank escrow account at any time by accessing the bank's on-line system.

### **Fidelity Bond**

We maintain a \$5 million dollar per occurrence Fidelity Bond. This Bond insures against losses resulting from dishonest acts, such as embezzlement, conversion, fraud, theft, etc., of the insured's employees against the insured, as well as the insured's employees, partners and owners against the insured's clients. The bond is underwritten by Continental Casualty Company, a member of the CNA Insurance Companies. The conditions of the bond establish specific internal control requirements. Only members of the Federation of Exchange Accommodators (FEA) may purchase this CNA fidelity bond.

### **Errors and Omissions Liability Insurance**

The Errors and Omissions insurance defends and pays valid claims alleging negligent acts, errors or omissions in the provision of, or failure to provide, professional services involving or related to 1031 exchange transactions. The policy is issued by underwriters at Lloyd's of London.

### **Maintenance of Escrow Accounts**

IRS Regulation 1.1031(k)-1(g) clearly provides the safe harbor rules for the establishment of qualified escrow accounts. For the taxpayer to qualify for tax deferral of capital gain, it is essential that the Qualified Intermediary (QI) strictly adhere to the IRS regulation. The party holding the escrow funds must not be a disqualified person, and there must be strict compliance with the "(g)(6) restrictions" in the regulation and escrow agreement.

### **All Funds Deposited in FDIC Insured Banks**

Exchange escrow funds are only deposited in FDIC insured banks. Escrow funds will not be placed in other investment accounts unless specifically directed in writing by the exchangor. Realty Exchange Corporation takes very seriously its fidelity responsibility to ensure that the exchange escrow funds are liquid and immediately available for disbursement.

## **Monthly Statement**

In addition to the ability to view the segregated account on-line twenty-four hours a day, seven days a week, exchangors may receive a monthly bank escrow statement.

## **Funds Transfer Authorization**

Each exchangor has the option to add for disbursement of funds a client authorization signature. When requested, Realty Exchange Corporation will not transfer funds without the specific authorization of the exchangor or their designated representative.

## **Daily Validation of Escrow Deposits and Disbursements**

To ascertain that escrow deposits and disbursements are being properly made and recorded both internally and at the bank, a daily reconciliation of escrow transactions is accomplished. This process permits immediate follow-up if there is a discrepancy or delay in the receipt or recording of escrow funds.

## **Monthly Audit of Escrow Assets and Liabilities**

In addition to the daily reconciliation of escrow transactions, Realty Exchange Corporation conducts a monthly audit of all escrow accounts.

## **Individual Register for Each Escrow Account**

Within our proprietary software system there is an escrow account register for each exchange which mirrors the segregated bank account balance. The register shows the receipt of escrow funds from the relinquished property settlement, the disbursement of any requested deposits, the disbursement of funds to purchase the replacement property and the current escrow account balance. This dual tracking system allows Realty Exchange Corporation to double check and track exchange escrow activities.

At any time exchangors may view their account activity and balance directly on the bank account web site. Monthly paper bank statements are also available, or an exchangor may request a copy of the register activity and balance.

## **Federation of Exchange Accommodators**

Realty Exchange Corporation is a long-time member of the Federation of Exchange Accommodators (FEA). The FEA is the only national trade organization organized to represent

professionals who conduct like-kind exchanges. The FEA establishes and promotes ethical standards for qualified intermediaries (QIs), enforces the Code of Ethics, offers required continuing education and promotes the development of uniform terminology and standards. To ensure members are knowledgeable of all new IRS rulings and procedures, the FEA sponsors national and regional conferences and publishes quarterly newsletters.

### **Code of Ethics**

Federation of Exchange Accommodators (FEA) members must comply with a strict code of ethics. The Code stresses the protection of the public and clients against fraud, misrepresentation and other illegal practices. The Code requires the Qualified Intermediary (QI) to keep exchange proceeds in a stable financial institution, provide financial information to the exchangor as requested, and to give a full accounting of funds at the end of the exchange. Realty Exchange Corporation prides itself on membership in the FEA and strict compliance with its Code of Ethics.

### **Certified Exchange Specialist®**

In recognition of the need for Qualified Intermediary (QI) personnel to be knowledgeable in all aspects of Section 1031 exchanges, the Federation of Exchange Accommodators (FEA) instituted the Certified Exchange Specialist® program. The program, which is available only to FEA members, certifies professional QI staff members and fosters public confidence in the selection of an exchange accommodator (QI). Candidates must meet specific exchange work experience criteria and pass a comprehensive examination on exchange law and procedures. The examination tests candidates' competency to perform critical exchange activities. The test also focuses on the ethical issues when QIs control the funds of the taxpayer.

In addition, CES® designees are required to obtain twenty hours of 1031 exchange continuing education every two years. Only courses approved by the FEA may be counted toward this requirement.

All three officers of Realty Exchange Corporation hold the prestigious Certified Exchange Specialist® designation.

### **Family Owned and Operated Since 1990**

Realty Exchange Corporation is a Virginia corporation established in 1990 by Ed Horan. The company's sole mission was and is to serve investors and real estate professionals as a 1031 exchange qualified intermediary (QI). Daughter Cynthia Dove and son Bill Horan have been officers of the firm since the beginning. Today Ed Horan serves as President Emeritus, Treasurer and Corporate Secretary. Ed served 30 years in the U.S. Air Force as a pilot and Comptroller. Our firm is one of the oldest family-owned QIs in the country.

Recent escrow security problems in the industry occurred when escrow funds being held by recently purchased QI firms were diverted to other businesses by new corporate owners.

We have thus learned that long-term ownership and QI stability are important security attributes. It is important to note that Realty Exchange Corporation has been family owned since 1990 and that serving as a QI is the only business we conduct. Escrow fund disbursements can only be made by officers of the corporation who are family members.

Exchangors and their advisers can be assured that the first priority of Realty Exchange Corporation is the security and safety of exchange escrow funds.

-Bill Horan is President of Realty Exchange Corporation and a Certified Exchange Specialist®, Ed Horan is the founder of Realty Exchange Corporation.

*This publication is designed to provide accurate information on tax-deferred exchanges. The publisher is not engaged in rendering legal or accounting services. If legal or tax advice is required, the services of a competent professional should be sought.*