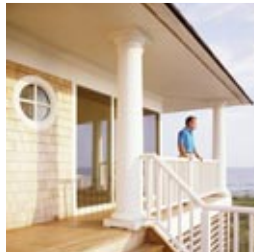


REVERSE **1031** EXCHANGES

HOW THEY WORK

PROTECTING INVESTMENTS THROUGH 1031 EXCHANGE



Investment Exchange Group



800.908.1031



When Would I Consider a Reverse Exchange?

If you find a property you would like to acquire before you sell your current property, a Reverse 1031 Exchange can save you thousands of dollars in capital gains tax.

What is the IRS's Position on Reverse 1031 Exchanges?

The IRS issued Revenue Procedure 2000-37 (Rev Proc) in September 2000 that gives taxpayers guidance on Reverse 1031 Exchanges. A "Safe Harbor" Reverse introduces a new entity into the exchange process—an Exchange Accommodation Titleholder (EAT). An EAT is a single member limited liability company (LLC) established by a Qualified Intermediary (QI) for use specifically in a reverse exchange. The EAT takes title to, or parks, a property for the taxpayer and holds it until the taxpayer is able to sell the old property. Rev Proc places a time restraint on the taxpayer—the EAT must convey the title on or before 180 days from the date of the EAT's purchase. When the EAT parks the new property, Rev Proc requires the taxpayer to identify their old property on or before 45 days from the EAT's purchase. Our reverse exchange specialists will guide you through this process.

Rev Proc also refers to the fact that some reverse exchanges will fall outside of the "Safe Harbor." A "Traditional" Reverse will follow the guidelines outlined in Rev Proc, with the exception of the 180 day requirement. Typically, construction exchanges fall into this category because they require more time to complete the exchange.

Before the reverse process begins, we will review with you the two types of reverse exchanges so you have the information necessary to select the reverse exchange that is best suited to your needs.

Financing Reverse Exchanges

Financing the purchase of the new property as part of a reverse exchange is a critical component of the process. Financing issues can be detailed and involved. Call one of our exchange consultants for specific information.

How will IXG Protect me in a Reverse Exchange?

Our reverse exchange procedures are based on IRS rulings and court cases that set precedence on the reverse exchange process. Our reverse exchange specialists remain current on the latest developments in reverse exchange tax law.

Step 1: We Form a New LLC to Hold (Park) Your Property

The newly created LLC will be your EAT and will hold only your property. After the exchange, it will be dissolved and never used again. This protects you from any potential liability and assures you that your property is legally protected.

Step 2: We Secure Your Investment

For your protection, we will grant you or your lender a security interest in the property as collateral for the funds loaned to the EAT.

Step 3: We Enter into a Legally Binding Contract with You

We give you, and only you, the legal right to purchase the property from the EAT. This gives you the assurance that we can't keep your property or sell it to someone else.

Reverse Exchange Timeline

Purchase - Contract Stage

- Negotiate your purchase contract for the new property. The Buyer on the contract should be you "and/or assigns."
- Include language in the contract to establish your intent to do a tax-deferred exchange.
- Select a title or escrow company and/or closing agent to handle the closing of the transaction. Notify them that you are participating in a Reverse 1031 Exchange.

Purchase - Financing Stage

- Negotiate a loan with your lender on behalf of the EAT. The loan is usually secured by the new property.
- The EAT signs the Note and the Deed of Trust. Your lender may require you to guarantee the loan. Sometimes the lender also takes a security interest in your old property. Be sure that there is an assumption clause in the Deed of Trust allowing you to assume the loan made to the EAT.
- Negotiate with your lender for a clause that allows re-amortization of the loan if there is a single substantial pay down of the loan in excess of a stated percentage.

Purchase - Closing Stage

Inform us when you have a signed purchase contract. Information needed includes:

1. A copy of the contract
2. The phone number, name and reference number for the closing agent or title company
3. Your mailing address, phone and fax numbers
4. Sale price of the property being purchased

We will contact the closing agent or title company and prepare the Qualified Exchange Accommodation Agreement (QEAA) between you as the Exchanger, and the newly-formed EAT as the accommodation titleholder, as required by Rev Proc 2000-37. Ensure that your lender will forward the funds needed to close on the purchase. The QEAA and other documents will be forwarded to you or to the closing agent, depending on timing and the

location of the closing.

The purchase closes, and the title to the property is recorded in the name of the EAT. If possible, one of our representatives will be present at closing to obtain signatures on the QEAA and other documents.

Identify the Relinquished Property

You have exactly 45 days (including Sundays and holidays) from the closing of the new property to identify the property you are going to sell. You have 180 days from the date of closing to close on your sale in order to be within the "Safe Harbor" provided by Rev Proc. We will send you a notice with the closing date of the new property, the expiration date of the 45-day identification period, the expiration date of the 180-day closing date, and a form to notify us of the location of the relinquished [old] property to be sold.

You must mail or fax the Property Identification Form to IXG before midnight of the 45th day from the closing of the new property.

Sale - Contract Stage

- Negotiate the contract to sell the old property.
- Include language in the contract to establish your intent to do a tax-deferred exchange.
- Identify a title company or closing agent to handle the closing of the transaction.

Sale - Closing Stage

Inform us when you have a signed sales contract. Information needed includes:

1. A copy of the contract
2. The phone number, name and reference number for the closing agent or title company
3. Sale price of the property being sold

The sale proceeds are transferred to IXG to hold until you purchase the new property.

Transfer the Replacement Property

We will coordinate with the title company or closing attorney to prepare the closing and transfer documents.

The IXG Incentive

Maximizing our client's investment security and building future wealth preservation with the 1031 tax deferred exchange.

- **Knowledge** - Our CPAs and attorneys, real estate, banking and title professionals are dedicated to providing you with planning and assistance during every stage of your exchange.
- **Available** - IXG is always available to answer your questions and eliminate your concerns.
- **Guaranteed** - We understand the importance of your security. We guarantee your exchange in writing, for your peace of mind.
- **Protection** - IXG exchange funds are fully secured and the interest is paid directly to you. We maintain the largest available Bond in the industry and we carry Errors and Omissions coverage on every exchange consultant.
- **Experience** - Our team of consultants represent over 70 years of combined experience in the 1031 tax, legal, real estate and title industries.

What Does a Reverse Exchange Cost?

A reverse exchange will add costs to your exchange because additional legal and accounting work is required. An EAT must be set up to hold and manage your property, and the IRS also requires the EAT to file its own tax returns.

Reverse exchanges are complex and detailed and require legal and accounting expertise. Fees for reverse exchanges begin at \$2500 and depend on the complexity, size and scope of the transaction.

TaXadvantage®

IXG's TaXadvantage® program provides copies of your exchange information to your CPA. This information is everything needed for preparation of your tax return.

Office Locations

We have consultants nation-wide to help facilitate your exchange. For the Investment Exchange Group office nearest you:

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