

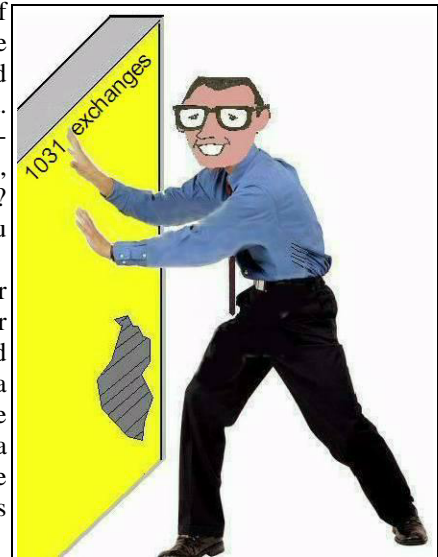


Tax- and Transaction-Related News and Commentary from S.Crow Collateral Corp.

With the Aging 1031 Exchange Wall Now Tottering, Dealburt Steps up to Hold Exchanges Steady

Dear Dealburt: My company is one of the largest, oldest and most experienced qualified intermediaries for tax-deferred exchanges under Section 1031 of the Internal Revenue Code. We never thought it would come to this, but market conditions now have all but shut us down. One of the core requirements of a fully tax-deferred exchange is that the exchangor must “trade up”, that is, all of the proceeds of the exchangor’s disposition of the relinquished asset must be reinvested in the replacement asset. More can be invested in the replacement asset, but not less. Another requirement of a fully-deferred exchange is that the amount of debt in relation to the replacement asset must be not less than the amount of the debt that pertained to the relinquished asset. Well, nearly everyone needs to have *less* debt now, not more, both because of their need to reduce interest costs and because the assets to which the debt pertains are worth less and can support less debt. And, because properties are worth less, it’s harder to trade up without grossly overpaying. And who wants to trade into a declining market? Or, simply to defer taxes, who wants to trade into an asset that stands a good chance of losing further value? I’ve been hearing others in the industry say that they’re turning to you, because you can overcome these problems. Is this right? If so, sign me up.—H. Dumpty

Dear Mr. Dumpty: The talk you’re hearing is right; there is a rescue plan for your company, without your having to take a great fall. The rescue plan is for your company to enable your customers to have a non-exchange alternative ready and waiting in case your customers’ exchanges fail. That non-exchange alternative is a back-up collateralized installment sale (“C453”) transaction, so that a would-be exchangor need not trade up, need not remain in debt, need not trade at all into a declining market, and need not miss out on tax deferral. And not least, you will have a more durable business model, ready for both up and down market conditions. As for signing you up, there are some details we need to discuss first.—Dealburt



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