

DEFERRED EXCHANGE TRUST AND 1031 EXCHANGE

A Starker Trust allows an owner of investment or commercial real estate to defer paying taxes on real estate gains provided the property is exchanged for "Like Kind" property rather than sold for cash. "Like Kind" is all property classified as realty under State law. Improved real estate may be exchanged for unimproved real estate and city real estate may be exchanged for rural real estate. A personal residence does not qualify as "Like Kind" property.

Section 1031 of the Internal Revenue Code has definite parameters when using a Starker Trust and Old Second National Bank is a Qualified Intermediary pursuant to Reg. 1.1031(g)(4) enacted under Section 1031 of the Internal Revenue Code of 1986, as amended.

In order to satisfy the parameters of the Internal Revenue Code, the following provisions are required to be followed:

A. Prior to transfer of the Relinquished Property, the following steps must be completed:

- The Exchange Agreement must be executed and entered into by the Exchangor/Taxpayer and the Bank/Qualified Intermediary with the legal description attached to the Exchange Agreement as an Exhibit;
- Your rights in the Relinquished Property Contract must be assigned to the Bank/Qualified Intermediary and the Exhibit attached to the Exchange Agreement must be used for this;
- The attachment to the Exchange Agreement, assigning your rights in the Relinquished Property Contract, must be signed by you as Exchangor/Taxpayer (Assignment and Notice Sections), the Bank/Qualified Intermediary (Acceptance Section), and the Relinquished Property Purchaser (Consent Section);
- This assignment of your rights in the Relinquished Property Contract must be hand delivered, mailed by first class U.S. certified or registered mail return receipt requested, or telecopied to you as Exchangor/Taxpayer and to the Relinquished Property Purchaser. This notice of assignment is required by Regulation 1.1031(k)-1(g)(4)(v) of the Internal Revenue Code;
- The originals of the executed copies of the Exchange Agreement, legal description of the Relinquished Property and the assignment of your rights in the Relinquished Property Contract must be returned to the Bank/Qualified Intermediary;
- The exchange funds (proceeds from the sale of the Relinquished Property) and the Bank/Qualified Intermediary's fee must be forwarded to the Bank/Qualified Intermediary. The exchange funds will be deposited in the Starker Trust Account for the benefit of the Taxpayer/Exchangor and invested pursuant to the terms of the Exchange Agreement.

B. Prior to 12:00 a.m. (midnight) on the 45th day after the closing date on the Relinquished Property, Taxpayer/Exchangor must identify one or more properties as the Replacement property as provided in Regulation 1.1031(k)-1(c) of the Internal Revenue Code. Any identification must be made on the attached Exhibit to the Exchange Agreement and an original of this Exhibit must be returned to the Bank/Qualified Intermediary.

C. Before the transfer of the Replacement Property, the following must be completed:

- Your rights in the Replacement Property Contract must be assigned to the Bank/Qualified Intermediary and the attached Exhibit must be used for this;
- The assignment of your rights in the Replacement Property Contract must be executed by you as Exchangor/Taxpayer (Assignment and Notice Sections), the Bank/Qualified Intermediary (Acceptance Section), and the Replacement Property Seller (Consent Section);
- This assignment of your rights in the Replacement Property Contract must be hand delivered, mailed by first class U.S. certified or registered mail return receipt requested, or telecopied to you as Exchangor/Taxpayer and to the Replacement Property Seller. This notice of assignment is required by Regulation 1.1031(k)-1(g)(4) of the Internal Revenue Code;

- An original of the assignment of your rights in the Replacement Property Contract must be returned to the Bank/Qualified Intermediary.

D. Prior to 12:00 a.m. (midnight) on the 180th day after the closing date on the Relinquished Property, the Taxpayer/ Exchangor must have closed on the Replacement Property(ies) with all possible exchange funds having been allocated by the qualified intermediary pursuant to direction.

If the Bank's fee is not paid separately from the exchange funds, it will be debited from the exchange funds upon final disbursement of the exchange funds from the account.

Should you have any questions or would like additional information, please contact our Wealth Management area at 630-906-2000.