Five Red Flags to Avoid When Choosing a Self-Directed IRA Custodian

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On March 12, 2026, Exeter Trust Company (ExeterTrust™) published an article on Choosing the Right IRA Custodian: Balance between Technology and High-Human-Touch, in which we address important considerations to make when choosing a custodian for a self-directed IRA or an individual 401(k) plan (often called a Solo-K). These considerations revolved around executive experience, the level of executive and leadership availability, regulatory oversight and industry acumen, amongst other leader and organizational attributes.

Our intent is not to disparage other IRA custodians or other financial services companies that serve in custodial capacities, rather we wish to point out that there is a quality continuum. On the far end of that continuum lie organizational and leader attributes that are negative in nature for self-directed IRA owners. The following points touch on factors that should be focused on as potential custodial attributes that should be avoided.

Custodians With Limited or No Leadership Experience in The Financial Services Industry

Popular trends in leadership theory suggest that leaders should be rotated in and out of a company and should be selected from different industries, so that diverse ways of thinking and of acting can add to the best practices and knowledge capital pools within the organization. This makes sense on the surface, but diversity in style, information commanded and approach can be learned and refined in other ways, and leadership turnover is often disruptive for the actual account holder.

Many leaders are part of management groups such as the American Management Association (AMA) or the International Leadership Association (ILA) where one's views, style and philosophy are challenged. If leaders operate on the Chamber of Commerce or within other industry groups as members, there is exposure to different ways of thinking which can be transferred and absorbed into one's home-organization. There are also numerous educational companies that focus on assisting leaders with acquiring new skills, refining their leadership style or assist with adding tools to their leadership tool kit. Also to be considered are the numerous certificate programs that colleges and professional organizations offer with the intent to improve leader skill sets. Skills don't necessarily have to be brought into a company from the outside and services external to the custodian make it easy to acquire new hard and technical skills and ideas.

It is not as easy to acquire knowledge derived directly from unique events. Take for example the financial crises that have occurred in recent years, to name the more prolific; 1) the collapse of Long-Term Capital Management (1998), 2) global financial crisis (2007-2008), 3) flash markets crash (2010), 3) markets crash during Covid – 19 (2020). The lessons learned from these crises, and the strategies derived to live through them could have only been acquired for mass public consumption during the moment. Very few considered the juxtaposition of events and layering of events that caused LTCM to fail, but now there have been risk models built as controls to attempt to react to such. If the tools we developed in the social networking arena were as prevalent and robust as they were after the Covid-19 crisis, communication would not have been as problematic. These unexpected events leave leaders with latent knowledge gained through strategizing and performing tactically on-the-fly.

Intuition is not just a mystical feeling; it's a non-conscious form of knowledge that arises from patterns and experience.

- *Gary Klein*

Financial professionals who have spent their careers in the financial services industry have developed a valuable pool of latent, intuitive knowledge that allows them to act nimbly, correctly and quickly.

Custodian With No Experience in IRAs and Alternative Investments

IRAs can be confusing vehicles. There are rules and regulations that govern every action that is taken by an IRA client. A custodian with specific IRA experience will be able to usher owners through the questions efficiently. Further, experienced individuals, who have heard questions posed in different ways, and have dealt with clients having different ways of learning, can tailor their responses to appeal to these different categories of information-intake. Employees and leaders who lack specialized experience in IRAs might only regurgitate information from manuals and thus miss important contextual queues or provide only partial guidance.

Alternative investments can be equally confusing and complex. It is important to have someone who understands alternative investment, sometimes referred to as non-traditional investment, structures and has worked with them. This will decrease the probability of embarking upon a prohibited transaction. Further, IRA custodians with strong operational programs built upon employee knowledge can execute more quickly and more efficiently. This prevents the problem of a missed investment opportunity due to custodial failure. In addition, educated and experienced custodians can gauge unacceptable risk to your self-directed IRA or solo-k. This speaks to comments made earlier about the acquisition of intuition and having leaders experienced in the financial services industry.

As an example, consider the number of private funds opened during 2026. There have been 748 Form D filings for private equity funds, 241 for venture capital funds and 2,514 for hedge funds.1 Each of these funds has a unique strategy, a unique issuer with specific rules of engagement for purchase, and unique ways of reporting valuation. Navigating these characteristics in an efficient way and with the intent to keep an IRA in compliance with IRS rules and regulations requires custodial experience, and in some cases latent intuition gained over years of experience.

History of Regulatory Actions, or Pending Litigation

Pending litigation is not uncommon among self-directed IRA custodians. There remain bad actors in the financial world, and the nature of alternative investments allows bad actors to utilize structures to their advantage and in some instances camouflage egregious intents. We also live in litigious times. It is easy for a custodian to be drawn into litigation or class action lawsuits, as the custodian can often be the last-man-standing. In this case, there is little a custodian can do other than to defend itself.

The good news is that there are mitigants that allow an IRA custodian to learn from prior instances and build new and ongoing controls to detect problematic and bad issuers of investments. Custodians who apply these mitigants learned through the retirement industry should be able to present a strong risk mitigation program. Equally, these custodians will be able to articulate their controls both verbally and in writing.

Actions applied to custodians by regulatory bodies, such as state banking commissions, paint a different picture than does litigation. Regulatory actions suggest such problems as lack of transparency with clients, failed controls, or careless retirement custodial behavior.

Some litigation is natural. Regulatory actions are not natural. A consistent history of regulatory complaints or litigation is a red flag for a potential SDIRA client.

Surprise Fees

Fees that are charged for unclear reasons are a red flag.

Alternative investments are complex vehicles, and require manual labor in terms of review, execution and maintenance. Multiple fees, and variable fees for holding and investing in these vehicles are natural amongst industry participants. Undisclosed fees are not natural. At a minimum, the Custodian should have the IRA fees, charges and costs disclosed on its fee schedule and clearly described on its statement. Barring these, there should be a strong verbal conversation and explanation as to why there is a lack of information. Too many fees are concerning, even if they are disclosed properly.

Unwilling to Have Engaged Conversations

The final comment we want to make is about the feeling one gets when speaking to someone about a problem, a situation or idea, whereby one feels that the responder has his back, is equally excited about the situation and its prospects, or is generally inquisitive and curious about the strategy. This is engagement. The leaders and employees of any custodian should be consistently engaged in any conversation embarked upon, from the simplicity of a distribution to the complexity of investing in leveraged real property. If one is engaged, most other desired qualities in a custodian fall in line, and those that are not desirable are minimized or eliminated completely.

Engagement speaks to the ability of leadership to make employees' jobs meaningful and purposeful. Good leaders transfer excitement, acumen and knowledge to their employees. Engagement also speaks to having the right people in the right chairs, where natural ability and an affinity for helping others can flourish. If you don't feel that your IRA custodian's employees are engaged through your verbal conversations, this speaks to a red-flag in leadership.

The art of conversation is the art of hearing as well as of being heard.

- *William Hazlitt*

Very great change starts from very small conversations, held among people who care.

- *Margaret J. Wheatley*

Frequently Asked Questions (FAQs) About Choosing a Self-Directed IRA Custodian

What steps can I take to verify that a self-directed IRA custodian has genuine expertise in alternative investments? Begin by asking the custodian directly which specific asset classes it has operational experience processing, not simply which assets it lists in its marketing materials. A custodian with authentic expertise should be able to describe, in precise terms, how it handles the documentation, titling, valuation, and ongoing administration of complex holdings such as real estate interests, private fund commitments, and promissory notes secured by deeds of trust. Ask for references or examples of similar transactions it has completed. Inquire whether the custodian takes a consultative approach, that is, whether its team will work alongside you and your advisors to evaluate a prospective investment's structure and compliance implications before funds are committed. A self-directed IRA custodian that engages substantively with these questions, rather than offering only general assurances, demonstrates the technical competency and client-focused philosophy that alternative asset investors require.

What should I do if a self-directed IRA custodian cannot answer basic questions about its regulatory oversight?

Treat the inability, or unwillingness, to answer directly as a disqualifying red flag. A legitimate, properly licensed and regulated retirement account custodian should be able to identify, without hesitation, the specific government or regulatory agency responsible for its oversight, confirm whether it is subject to periodic audits and exams, and provide clear documentation of its insurance coverages, including fidelity bonds, errors and omissions coverage, financial institution blanket bonds, and cyber and wire transfer fraud protection. If a prospective custodian deflects these questions, provides vague or inconsistent answers, or is unable to produce written evidence of its licensing and insurance, investors should proceed with extreme caution. Regulatory accountability is not a secondary

consideration, it is the foundational safeguard that protects your retirement assets from both internal mismanagement and external threats.

How do I evaluate the fee structure of a self-directed IRA custodian?

Fee models vary considerably across the custodial industry, and a thorough comparison requires looking beyond any single advertised number. Investors should request a complete, written breakdown of all applicable charges, including set-up and administration fees, per-transaction service charges such as wire transfers and courier fees, any additional fees for complex transactional structures, and any interest income the custodian retains on uninvested cash held in the account. A reputable custodian, such as Exeter Trust Company, will provide this information clearly and without hesitation. Transparency in fee disclosure is a strong indicator of the broader accountability an investor should expect from any institution entrusted with retirement assets. While cost is an important consideration, it should not be the sole criterion; the custodian's regulatory standing, expertise, and service responsiveness carry equal, if not greater, weight in the overall evaluation.

What types of alternative investments can be held in a self-directed IRA?

A properly equipped self-directed IRA custodian can hold a wide range of non-traditional assets, including real estate and real estate-related investments such as income-producing residential and commercial properties, raw land, and mineral rights; promissory notes secured by deeds of trust or mortgages; Real Estate Investment Trusts (REITs); tax lien certificates; limited partnerships (LPs); limited liability companies (LLCs); C corporations and closely held private business entities; private equity and private real estate funds offered under a Regulation D exemption; hedge funds; Tenants-in-Common (TIC) investments; Delaware Statutory Trusts (DSTs); and unlisted Business Development Companies (BDCs). It is equally important to know what is not permitted: collectibles such as art, coins, and automobiles; life insurance contracts; and shares of stock in S corporations are specifically precluded from IRAs and 401(k) plans, regardless of the IRA custodian. A knowledgeable custodian will identify these prohibited asset types before a transaction is initiated, protecting your account from costly compliance violations.

What is a self-directed IRA custodian, and why does it matter which one I choose?

A self-directed IRA or individual 401(k) plan custodian is a licensed financial institution, such as a trust company, bank, or other regulated entity, that holds and administers the unique assets in your IRA or single-participant 401(k) on your behalf. Unlike conventional retirement account custodians, which typically limit account holders to publicly traded stocks, bonds, and mutual funds, a true self-directed custodian can hold a broader range of alternative assets, including real estate, promissory notes, private funds, and more. The custodian you choose directly determines which investments are available to you, how well your account is protected, and how efficiently your transactions are processed. Selecting the wrong custodian—one that lacks regulatory oversight, operational depth, or relevant expertise—can expose your retirement savings to unnecessary risk, compliance problems, and costly delays.

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