What Every Investor Should Know Before Selecting a Self-Directed IRA Custodian, Including Warning Signs

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Why Choosing the Right Self-Directed IRA Custodian Matters

Individual Retirement Accounts or IRAs are, technically, all "self-directed IRAs," because the retirement account owner chooses the custodian. IRA custodians include commercial banks, savings banks, trust companies, trust departments of banks, securities and brokerage firms, mutual fund companies, and life insurance companies. However, not all IRA custodians are created equal, and this distinction becomes critically important the moment an investor wants to purchase and hold anything beyond publicly traded stocks, bonds, ETFs, and mutual funds, often referred to as alternative assets or non-traditional investments, inside of their self-directed IRA or individual 401(k) plan, often referred to as a solo-k.

Investors and Advisors Want Choices and Options

Retirement account owners and their investment advisors want choices. They want investment options, and they want the flexibility to invest funds held in IRAs and single-participant 401(k) plans in non-traditional or alternative investments, including real estate, real estate related assets such as promissory notes secured by a deed of trust or mortgage, private investment funds, and limited liability companies (LLCs), and more.

That flexibility, though, depends entirely on selecting a custodian with the licensing, expertise, experience and operational discipline to support it. Choosing the wrong custodian can expose your retirement savings to unnecessary risk, hidden costs, and administrative headaches that surface only after you've already committed your IRA or 401(k) funds. Below are five warning signs or “red flags” that every retirement account investor should watch for, along with the qualities that distinguish a best practices IRA custodian worth trusting with a self-directed retirement account.

Red Flag #1: Lack of Regulatory Oversight or Licensing

The first and most fundamental question to ask any prospective custodian is simple: who licenses and regulates you? A legitimate IRA custodian should be able to answer this without hesitation, naming the specific government body or regulatory agency responsible for its oversight.

Investors should ask prospective IRA custodians specifically:

- Are you directly licensed by any government body or regulatory agency, and if so, by whom?
- Do you have any form of government or regulatory oversight, and if so, by whom?
- Are you subject to any form of government or regulatory audit, and if so, by whom?
- Are you required to undergo any CPA examinations of your financial statement or policy and procedures?
- Do you carry fidelity bond, errors and omissions, financial institution blanket bond, and cyber fraud and wire transfer fraud insurance coverages?

Any custodian that cannot clearly answer these questions, or that deflects these questions, should be treated with significant caution. Regulatory oversight and regular audits exist to protect account holders, and these safeguards are not optional extras. They are the foundation of a trustworthy retirement account custodial relationship. Insurance coverages such as fidelity bonds, errors and omissions insurance and cyber fraud and wire fraud

insurance protection further demonstrate that a custodian has taken concrete steps to safeguard client assets against both internal and external threats. Regulatory required minimum equity capital reserves serve as a final back stop for administrative losses. If a prospective custodian is vague about licensing, oversight, insurance, bonding, or equity capital reserves, that vagueness is in and of itself a cautionary red flag.

Third-Party Administrators or TPAs

Third-party administrators or TPAs for example are generally not licensed, regulated, audited or bonded. They merely serve in a third-party administrative capacity to facilitate the administration of the self-directed IRA. Third-party administrators are not banks nor trust company; they merely perform sales, marketing and ministerial tasks and are not the IRA custodian.

Red Flag #2: No Expertise in Alternative Investments

Not every IRA custodian or trustee is equipped to handle the full range of assets available to self-directed retirement account investors. Some firms describe themselves as "self-directed" custodians but, in practice, limit account holders to a narrow menu of publicly traded securities. Others simply lack the technical competency to properly title, value, and administer more complex holdings.

A retirement account custodian with genuine expertise and experience in alternative investments should be able to custody a broad range of asset classes, including:

- Real estate and real estate-related assets, such as income-producing residential and commercial properties, net lease (NNN) properties, raw or undeveloped land, and mineral rights
- Promissory notes secured by deeds of trust or mortgages, as well as unsecured or installment notes and convertible promissory notes
- Simple Agreements for Future Equity (SAFEs)
- Real Estate Investment Trusts (REITs)
- Tax lien certificates
- Limited partnerships (LPs) and limited liability companies (LLCs)
- C corporations and closely held private business entities
- Private funds, including private equity, private debt and private real estate funds offered under a Regulation D exemption
- Hedge funds
- Tenants-in-common (tic) investments and Delaware Statutory Trusts (DSTs)
- Unlisted Business Development Companies (BDCs)

It is equally important to understand what cannot be held in an IRA or 401(k), regardless of custodian. The short list of non-permissible assets includes collectibles such as art, coins, and automobiles; life insurance contracts; and shares of stock in S corporations. A custodian with real expertise and experience will know this list cold and will identify a prohibited transaction before it becomes a costly problem. Alternative investments belong to a financial ecosystem populated by continually creative individuals and institutions, which makes it genuinely difficult for investors and advisors to understand the full array of available structures, along with their respective risks and rewards. The right IRA custodian takes a consultative approach, exploring options with clients and their advisors while keeping the account in compliance with applicable laws, regulations, and rulings.

Red Flag #3: Hidden or Confusing Fee Structures

Fee transparency is a hallmark of a trustworthy custodian, and its absence is one of the clearest warning signs an investor can encounter. Fee models vary widely across the industry, and it is essential to compare custodians on an apples-to-apples basis rather than focusing on a single advertised fee.

Watch for custodians that are reluctant to provide a complete, written breakdown of their fees, or that bury additional charges in fine print. Relevant fee categories to scrutinize include:

- Set-up and administration fees
- Per-transaction or service charges, such as wire transfers, check disbursements, notary services, and courier fees
- Per asset holding fees
- Statement or reporting fees
- Additional charges for more complex transactional structures
- Any interest or income retained by the custodian on uninvested cash
- Fees associated with segregated or specialized account structures
- Termination fees when accounts are closed or transferred

While fees matter, they should not be the only, or even the primary, criterion in selecting a custodian. An IRA custodian that is transparent and willing to walk through its complete fee schedule in plain language demonstrates the kind of accountability that should extend to every other aspect of the relationship. Investors should always ask detailed questions and compare total costs carefully, rather than assuming that a lower headline fee reflects a better overall value. It usually doesn't.

Red Flag #4: Poor Communication, Turnaround Time and Customer Service

A self-directed IRA or 401(k) often involves time-sensitive transactions: closing on a property, funding a note, or meeting a capital call deadline for a private fund. When questions arise, investors and their advisors need a custodian that is genuinely accessible and responsive.

Poor communication or turnaround time can take many forms: long hold times, automated systems that never connect to a knowledgeable representative, or staff who cannot speak confidently about the specifics of alternative asset administration. These are more than inconveniences; they can delay transactions and jeopardize investment opportunities with firm deadlines.

A custodian worth trusting takes the time needed to satisfy both sides of the knowledge equation, explaining the account's requirements to the investor while also understanding the particulars of the investment being considered. In short, when you call, someone should pick up the phone. That level of direct, responsive service is not a luxury; it is a basic expectation for any institution entrusted with retirement assets.

Red Flag #5: Limited Asset Custody Capabilities

Even a custodian with strong regulatory standing and transparent fees can fall short if its operational capabilities are limited. Some custodians advertise broad flexibility but, in practice, are unable to properly process, title, and hold certain asset types, leaving investors to discover the limitation only after they've attempted a transaction.

The real issue that an investor needs to consider when selecting a self-directed IRA custodian is the type of investment he or she wishes to purchase and hold inside the account. The investor must be careful to select a custodian that will actually allow the specific investments intended, whether that's a fractional real estate interest, a private fund commitment, or a promissory note secured by a deed of trust. A custodian's marketing materials may list an impressive range of asset classes, but it is worth confirming that the firm has actual operational experience and expertise in processing that exact type of holding, including the documentation, titling, and ongoing administration it requires.

What to Look for in a Trustworthy and Reliable SDIRA Custodian

Choosing a self-directed IRA or single-participant 401(k) custodian is not a decision to make lightly. The right partner should demonstrate clear regulatory licensing and oversight, carry appropriate bonding and insurance coverages, and be subject to meaningful audits and exams. It should have genuine, demonstrated expertise and experience across the full range of alternative investments—real estate, private funds, notes, LPs, LLCs, and more—while understanding precisely which assets fall outside what an IRA or 401(k) is permitted to hold. It should

maintain transparent, understandable fee structures, and it should be staffed by people who are responsive, knowledgeable, and easy to reach.

Exeter Trust Company (ExeterTrust™) has built its approach around these very principles. As an IRA and single-participant 401(k) plan custodian with a specialty emphasis in real property and real estate related alternative assets, Exeter brings together regulatory accountability, technical expertise and experience, and a consultative, compliance-focused philosophy. We take the time to explore options with clients and their advisors, and we work to keep retirement plans in compliance with the applicable laws, regulations, and rulings governing them. Note that Exeter Trust Company does not provide investment, tax, or legal advice; investors must consult with their own qualified advisors regarding the suitability of any specific legal, tax or investment matter.

If you are evaluating a custodian for your self-directed IRA or 401(k) plan and want straightforward answers to the questions outlined above, reach out to the team at Exeter Trust Company. We're here to talk through your retirement account investment goals and objectives, **and we pick up the phone**.

FAQs: Warning Signs When Selecting a Self-Directed Retirement Account Custodian

How do I verify that an IRA custodian has genuine expertise in non-traditional investments? Start by asking the IRA custodian directly about the specific alternative asset classes that it has day-to-day experience in processing, not simply just which alternative investments the custodian has listed on its marketing materials. A retirement account custodian with real experience and expertise should be able to describe, in exact terms, how it administers documentation, titling, valuation, and ongoing administration of complex investment holdings such as real estate interests, private funds, and promissory notes secured by deeds of trust or mortgages. Request references or examples of similar transactions that have been completed by the custodian. Ask how the custodian's team will work alongside you and your advisors, in a consultative approach, to evaluate a prospective investment's structure, administrative feasibility by the custodian, and compliance implications before retirement account funds are invested. Retirement account holders need more than just a processor. They need a consultative retirement account custodian or trustee. A self-directed IRA custodian or trustee that actually engages in these discussions, as opposed to offering only general assurances, demonstrates the technical competency and client-focused philosophy that alternative investment investors.

What should I do if a self-directed IRA custodian won't answer questions about its government oversight?

The inability, or unwillingness, to answer questions about the custodian's licensing and regulatory oversight should be treated as a disqualifying red flag. A best practices, properly licensed and regulated IRA custodian should identify, without any hesitation, the specific government or regulatory agency responsible for its licensing and oversight, provide information about its periodic exams, and offer clear documentation of its insurance and bonding coverages, including fidelity bonds, errors and omissions coverage (E&O), cyber fraud and wire transfer fraud insurance protection, and its regulatory required equity capital reserves. If a prospective custodian avoids these type of questions, provides vague, misleading or inconsistent answers, or is not able to offer written evidence of its licensing, regulatory oversight, bonding, insurance, and equity capital reserves, investors should proceed with extreme caution. Regulatory accountability is critical, it is the foundational safeguard that protects your retirement assets from both internal mismanagement and external threats.

How do I evaluate the fee and cost structure of an IRA custodian?

Service charge models vary quite a bit across the retirement account custodial services ndustry, and a thorough understanding and analysis requires looking beyond a single fee quote. Real estate investors should request a complete breakdown of all applicable custodial account fees, costs and charges, in writing, including set-up and administration fees, per-transaction service charges, such as wire transfers and courier fees, per account holding fees, additional fees for complex transactional structures, and any interest income retained by the custodian on any idle cash position held in the individual retirement account. A reputable best practices IRA 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, experience, expertise, and responsiveness are just as important.

What types of asset classes can be held in a self-directed IRA?

Truly self-directed IRA custodians can hold a wide range of non-traditional assets, including real estate and real estate-related assets such as income-producing residential and commercial properties, raw or unimproved vacant land, and mineral rights; promissory notes secured by deeds of trust or mortgages; Real Estate Investment Trusts, also referred to as REITs; tax lien certificates; limited partnerships (LPs); single member or multiple member limited liability companies (LLCs); C corporations and closely held private business entities; private equity funds, private debt funds, private real estate funds offered under a Regulation D exemption; hedge funds; tenants-in-common (tic) investments in real property; Delaware Statutory Trusts (DSTs); and unlisted Business Development Companies (BDCs) to name a few. Just as important is to know what is not allowed inside SDIRAs, including collectibles such as art, coins, and automobiles; life insurance contracts; and shares of stock in sub-chapter S corporations are specifically excluded from SDIRAs and solo-401(k) plans, regardless of the custodian. A knowledgeable custodian will identify these types of prohibited asset before the retirement account transaction is initiated to help you and your advisors protect your account from expensive compliance issues.

What is a SDIRA custodian, and why does it matter which one I choose?

A self-directed IRA or individual 401(k) plan custodian is a licensed and regulated 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. They are not third-party administrators but are the actual trust company or commercial bank that serves as your IRA custodian. Unlike conventional individual retirement account custodians, that only allow account owners to invest in publicly traded stocks, bonds, and mutual funds, a true self-directed IRA custodian, such as Exeter Trust Company, will allow a much broader range of alternative investments, including real property, secured promissory notes, unsecured promissory notes, private equity, debt and real estate funds, and much more. The IRA custodian that you select will determine which investments can be selected by you, how well your individual retirement account or solo-k is protected, and how efficiently your transactions can be processed. Choosing the wrong retirement account custodian, one that lacks regulatory oversight, operational depth, or relevant expertise and experience, can expose your retirement account funds and investment to unnecessary risks, compliance challenges, and costly processing delays.