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10  
 11 BEFORE THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION  
 12 OF THE STATE OF CALIFORNIA

13	In the Matter of:	)	CFL LICENSE NO.: 60DBO-81955
		)	
14	THE COMMISSIONER OF FINANCIAL	)	
15	PROTECTION AND INNOVATION,	)	
		)	AMENDED ACCUSATION TO
16	Complainant,	)	REVOKE CALIFORNIA
		)	FINANCING LAW LICENSE
17	v.	)	PURSUANT TO FINANCIAL CODE
		)	§ 22714
18	BLOCKFI LENDING LLC,	)	
		)	
19	Respondent.	)	
20		)	
21		)	
22		)	

1 Clothilde V. Hewlett, Commissioner of the Department of Financial Protection and Innovation  
2 (Department), brings this action in the public interest and alleges and charges as follows:

3 **I.**

4 **Introduction**

5 1. The Commissioner of Financial Protection and Innovation (Commissioner) brings this  
6 action pursuant to Financial Code § 22714.

7 2. The Commissioner is authorized to administer and enforce the provisions of the  
8 California Financing Law (CFL) (Cal. Fin. Code §§ 22000-22780.1).<sup>1</sup>

9 3. At all relevant times, BlockFi Lending LLC (BlockFi) is and was a company licensed  
10 as a finance lender and broker under the authority of the CFL beginning on August 16, 2018, CFL  
11 license number 60DBO-81955, with a business address of 155 2<sup>nd</sup> Street, Suite 112, Jersey City, New  
12 Jersey 07302 and 201 Montgomery Street, Suite 263, Jersey City, New Jersey 07302.

13 4. BlockFi offered consumer and commercial loans to the public, secured by digital asset  
14 collateral.

15 5. BlockFi is a wholly owned subsidiary of BlockFi Inc. and has at least seven affiliated  
16 entities including BlockFi Trading LLC (collectively, each of these entities are hereinafter referred to  
17 as “the BlockFi entities”).

18 6. In addition to BlockFi’s consumer and commercial lending activities under its CFL  
19 license, the BlockFi entities acted as a financial service company that generated revenue through  
20 digital asset trading, lending, and borrowing.

21 **II.**

22 **BlockFi Entities Limited Platform Withdrawals, the Commissioner Temporarily Suspended**

23 **BlockFi’s CFL License, and BlockFi Filed for Bankruptcy**

24 7. On or around November 8, 2022, FTX Trading Ltd. and affiliated entities paused  
25 withdrawals from their platforms.

26 8. On or around November 10, 2022, BlockFi publicly announced on its Twitter account,  
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<sup>1</sup> All citations herein are to the Financial Code unless otherwise noted.

1 @BlockFi, that it was “limiting platform activity, including pausing client withdrawals.” In other  
2 words, customers could not withdraw their funds from BlockFi’s platform.

3 9. On or around November 11, 2022, the FTX entities filed for bankruptcy.

4 10. On November 11, 2022, the Commissioner issued a notification to BlockFi that she  
5 would, three days after service of the notification and subject to a request for hearing by BlockFi,  
6 suspend BlockFi’s CFL license for a period of 30 days, pending investigation, pursuant to § 22710  
7 (the Notice). The Commissioner served and BlockFi acknowledged receipt of the Notice on  
8 November 13, 2022.

9 11. On November 14, 2022, BlockFi represented on its website at  
10 <https://blockfi.com/november-14-2022-blockfi-update> that withdrawals would continue to be paused  
11 because BlockFi had “significant exposure to FTX and associated corporate entities that encompasses  
12 obligations owed to us by Alameda, assets held at FTX.com, and undrawn amounts from our credit  
13 line with FTX.US.”

14 12. On November 18, 2022, having not received a request for a hearing on the Notice, the  
15 Commissioner issued an Order suspending BlockFi’s CFL license for 30 days.

16 13. On November 28, 2022, the BlockFi entities (except for BlockFi Holding UK Limited)  
17 filed Chapter 11 bankruptcy petitions in the United States Bankruptcy Court for the District of New  
18 Jersey (Trenton). This action against BlockFi’s CFL license is, pursuant to the police and regulatory  
19 power exception, excepted from the automatic stay in the bankruptcy case. (11 U.S.C. § 362(b)(4).)

20 14. Also on November 28, 2022, BlockFi reported that it had paused all platform activity,  
21 ceased all lending activity, and would not be charging interest on existing customer loans. According  
22 to BlockFi:

- 23 a. all loans are placed into administrative forbearance and any amounts due, including interest  
24 and maturity payments, are on hold until further notice;
- 25 b. interest rates on BlockFi loans are set to 0% from November 11, 2022, onwards;
- 26 c. loans would not be reported as delinquent to any credit bureaus;
- 27 d. borrowers are not expected to make any payments at maturity while the loans are on hold;
- 28 e. there are no late fees associated with any payments; and

1 f. autopay has been turned off if it was enabled.

2 **III.**

3 **The Commissioner Moved to Revoke BlockFi’s CFL License and BlockFi**

4 **Stipulated to a License Suspension**

5 15. On December 15, 2022, the Commissioner issued and served an accusation on BlockFi  
6 to revoke its CFL license for violations of the CFL for failing to take into consideration the financial  
7 ability of the borrowers to repay the loans in the time and manner provided in the loan contracts in  
8 violation of California Code of Regulations title 10, § 1452.

9 16. On March 27, 2023, BlockFi agreed to refund the repayment that it collected from  
10 California borrowers after it filed for bankruptcy. BlockFi also agreed to an interim CFL license  
11 suspension.

12 **IV.**

13 **Exam Findings**

14 17. In the fall of 2022, the Commissioner, through her CFL Examinations Unit,  
15 commenced a regulatory examination of BlockFi (the Exam).

16 18. As a result of the Exam, the Commissioner makes the following findings:

17 **A. Failing to Consider Borrowers’ Ability to Repay**

18 19. BlockFi’s consumer loan contracts and a majority of its commercial loan contracts  
19 require borrowers to repay loans in monthly installments consisting of a set amount of U.S. dollars due  
20 on the same day of each month.

21 20. At all relevant times, BlockFi did not evaluate borrowers’ financial ability to make the  
22 agreed upon monthly installment payments.

23 21. According to BlockFi, it “employs an asset-based underwriting model for its retail  
24 loans, and requires overcollateralization of each loan with virtual currency (digital assets); therefore,  
25 BlockFi does not take into account credit score, income verification, debt-to income ratio, employment  
26 verification or credit verification.”

27 22. California Code of Regulations, title 10, § 1452, provides, “When making or  
28 negotiating loans, a finance company shall take into consideration, in determining the size and

1 duration thereof, the financial ability of the borrowers to repay the same, to the end that the borrowers  
2 should be reasonably [able] to repay said loans in the time and manner provided in the loan contracts.”

3 23. The Exam revealed that between its licensing on August 16, 2018 and August 30, 2022,  
4 BlockFi contracted for at least 7,781 loans without considering the borrower’s financial ability to  
5 repay the loan in the time and manner provided in the loan contracts, in violation of California Code of  
6 Regulations, title 10, § 1452.

7 *B. Charging Borrowers Interest Before Loan Proceeds Were Disbursed*

8 24. The Exam revealed that BlockFi charged interest prior to the date the loan proceeds  
9 were disbursed to borrowers. The method of interest accrual was not disclosed to the borrowers in the  
10 loan agreement.

11 25. Section 22161(a)(5) prohibits violations of Cal. Bus. & Prof. Code § 17200.

12 26. The Commissioner finds that BlockFi’s practice of charging borrowers interest prior to  
13 the date that the proceeds were disbursed was unsafe or injurious under the CFL and was deceptive  
14 under Cal. Bus. & Prof. Code § 17200 in violation of § 22161(a)(5).

15 *C. Failing to Report Consumer Credit and Failing to Provide Credit Counseling*

16 27. The Exam revealed that for loans with a bona fide loan amount of at least \$2,500 and  
17 less than \$10,000, BlockFi did not:

- 18 a. establish procedures to report borrowers’ payment performance to at least one
- 19 consumer reporting agency in violation of § 22304.5(c)(1); or
- 20 b. offer borrowers a credit education program or seminar in violation of § 22304.5(c)(2).

21 *D. Failing to Report Accurate APR in Borrower Disclosures*

22 28. The Exam revealed that BlockFi overstated the annual percentage rate (APR) in loan  
23 documents in violation of §§ 22337 and 22161(a)(5).

24 **V.**

25 **Applicable Law**

26 29. Section 22161(a)(5) provides:

27 (a) A person subject to this division shall not do any of the following:

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(5) Engage in any act in violation of Section 17200 of the Business and Professions Code.

30. Section 22304.5(c)(1) and (2), provide, in pertinent part:

(c) The following rules shall also apply to finance lenders that make loans subject to this section:

(1) The finance lender shall report each borrower's payment performance to at least one consumer reporting agency that compiles and maintains files on consumers on a nationwide basis.

[ . . . ]

(2) Before disbursing loan proceeds to a borrower, the finance lender shall [ . . . ] offer the borrower a credit education program or seminar . . .

31. Section 22337(a) provides:

Each licensed finance lender shall:

(a) Deliver or cause to be delivered to the borrower, or any one thereof, at the time the loan is made, a statement showing in clear and distinct terms the name, address, and license number of the finance lender and the broker, if any. The statement shall show the date, amount, and maturity of the loan contract, how and when repayable, the nature of the security for the loan, if any, and the agreed rate of charge or the annual percentage rate pursuant to Regulation Z promulgated by the Consumer Financial Protection Bureau (12 C.F.R. 1026).

32. Section 22714(a) provides in pertinent part:

The commissioner shall suspend or revoke any license, upon notice and reasonable opportunity to be heard, if the commissioner finds any of the following:

[ . . . ]

(2) The licensee has violated any provision of this division or any rule or regulation made by the commissioner under and within the authority of this division.

[ . . . ]

(4) There has been repeated failure by the finance lender, when making or negotiating loans, to take into consideration in determining the size and

1 duration of loans, the financial ability of the borrower to repay the loan in  
2 the time and manner provided in the loan contract, or to refinance the loan  
3 at maturity.

4 33. California Code of Regulations, title 10, § 1452 provides:

5 When making or negotiating loans, a finance company shall take into  
6 consideration, in determining the size and duration thereof, the financial  
7 ability of the borrowers to repay the same, to the end that the borrowers  
8 should be reasonably to repay said loans in the time and manner  
9 provided in the loan contracts.

10 **VI.**

11 **Prayer for Orders Revoking CFL License and Levying Penalties**

12 34. Based on the foregoing, BlockFi has violated the provisions of the CFL by:

- 13 a. contracting for at least 7,781 loans without considering borrowers' ability to repay the
- 14 loan in the time and manner provided in the loan contract, or to refinance the loan at
- 15 maturity, in violation of California Code of Regulations, title 10, § 1452;
- 16 b. charging borrowers interest before the loan proceeds were disbursed in violation of §
- 17 22161(a)(5).
- 18 c. failing to report consumer credit in violation of § 22304.5(c)(1);
- 19 d. failing to provide credit counseling to borrowers in violation of § 22304.5(c)(2); and
- 20 e. failing to report accurate APR in borrower disclosures in violation of §§ 22161 and
- 21 22337.

22 35. WHEREFORE, IT IS PRAYED under the authority of Financial Code § 22714 that  
23 Respondent BlockFi Lending LLC's California Financing Law license be revoked for its violations of  
24 the California Financing Law and the rules promulgated thereunder and for its repeated failure, when  
25 making or negotiating loans, to take into consideration in determining the size and duration of the  
26 loans, the financial ability of the borrower to repay the loan in the time and manner provided in the  
27 loan contract, or to refinance the loan at maturity.

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36. WHEREFORE, IT IS FURTHER PRAYED that Respondent BlockFi Lending LLC be ordered to pay a fine of \$175,000.00 for its violations the of the California Financing Law and the rules promulgated thereunder.

Dated: October 28, 2024  
Los Angeles, California

CLOTHILDE V. HEWLETT  
Commissioner of Financial Protection and  
Innovation

By \_\_\_\_\_  
DANIELLE A. STOUMBOS  
Senior Counsel  
Enforcement Division