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9 Attorneys for Complainant

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 )  
PROTECTION AND INNOVATION, )  
15 )  
16 Complainant, ) DESIST AND REFRAIN ORDER  
17 v. ) AND ORDER TO DISCONTINUE  
BLOCKFI LENDING LLC, ) UNSAFE OR INJURIOUS  
18 ) PRACTICES  
19 Respondent. )  
20 )  
21 )  
22 )

23  
24 TO: BLOCKFI LENDING LLC  
25 201 Montgomery Street, Suite 263  
26 Jersey City, New Jersey 07302  
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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 § 22712.

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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28 <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 collecting interest on customer loans. According to  
22 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 most of its commercial loan contracts require  
19 borrowers to repay loans in monthly installments consisting of a set amount of U.S. dollars due on the  
20 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 negotiating  
28 loans, a finance company shall take into consideration, in determining the size and duration thereof,

1 the financial ability of the borrowers to repay the same, to the end that the borrowers should be  
2 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 borrowers’ financial ability to repay  
5 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 loan proceeds were disbursed was unsafe or injurious under the CFL and was  
14 deceptive 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, in pertinent part:

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 22712 provides, in pertinent part:

(a) Whenever, in the opinion of the commissioner, . . . any licensee is violating or has violated any provision of this division, any provision of an order, or any regulation adopted pursuant to this division, the commissioner may order that person or licensee to desist and to refrain from engaging in the business or further continuing that violation. In addition, the commissioner may include a claim for ancillary relief. . . If, within 30 days after the order is served, a written request for a hearing is filed and no hearing is held within 30 days thereafter, the order is rescinded. . .

(b) Notwithstanding subdivision (a), if, after an investigation, the commissioner has reasonable grounds to believe that a person is

conducting or has conducted business in an unsafe or injurious manner, the commissioner shall, by written order addressed to that person, direct the discontinuance of the unsafe or injurious practices. The order shall be effective immediately, but shall not become final except in accordance with the provisions of Section 22717.

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

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

VI.

**Desist & Refrain Order and Order to Discontinue Unsafe or Injurious Practices**

34. NOW BASED ON THE FOREGOING, AND GOOD CAUSE APPEARING, it is hereby ORDERED under the provisions of Financial Code § 22712(a) that BlockFi Lending, LLC immediately desist and refrain from the violations stated above, including violating Financial Code §§ 22161(a)(5), 22304.5(c)(1) and (2), 22337, and California Code of Regulations, title 10, § 1452.

35. NOW BASED ON THE FOREGOING, AND GOOD CAUSE APPEARING, it is hereby ORDERED under the provisions of Financial Code § 22712(b) that BlockFi Lending, LLC immediately discontinue the unsafe and injurious practice stated above.

Dated: October 28, 2024  
Los Angeles, California

CLOTHILDE V. HEWLETT  
Commissioner of Financial Protection and  
Innovation

By \_\_\_\_\_  
MARY ANN SMITH  
Enforcement Division

