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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 PROTECTION )  
15 AND INNOVATION, )  
16 Complainant, ) ACCUSATION TO REVOKE  
17 v. ) CALIFORNIA FINANCING LAW  
18 BLOCKFI LENDING LLC, ) LICENSE PURSUANT TO  
19 Respondent. ) FINANCIAL CODE SECTION 22714  
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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 section 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 offers 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 act as a financial service company that generates revenue through digital  
20 asset trading, lending, and borrowing. The BlockFi entities derive capital for these activities, at least in  
21 part, by using digital asset collateral posted by BlockFi borrowers.

22 **II.**

23 **BlockFi Agrees to Cease Offering and Selling Crypto Interest Accounts in the United**  
24 **States**

25 7. On February 23, 2022, BlockFi entered a Consent Order with the Department (Consent  
26 Order) to resolve allegations that it offered and sold unqualified, non-exempt securities nationwide,  
27

28 <sup>1</sup> All citations herein are to the Financial Code unless otherwise noted.

1 including in California, in the form of interest-bearing digital asset accounts called BlockFi Interest  
2 Accounts (BIA). Through BIAs, investors could purportedly lend digital assets to BlockFi and, in  
3 exchange, receive interest “paid monthly in cryptocurrency.” BlockFi represented that it generated the  
4 interest paid to BIA investors by deploying investors’ digital assets in various ways, including loans  
5 made to institutional investors and investing in digital assets, equities, and futures.

6 8. Pursuant to the Consent Order and agreements entered concurrently with other  
7 regulators, BlockFi agreed to desist and refrain from offering and selling BIAs to new investors in all  
8 50 states, including California. Additionally, BlockFi agreed to desist and refrain from accepting  
9 further investments or funds in the BIAs by current United States investors, including those in  
10 California.

### 11 III.

#### 12 **BlockFi Entities Limit Platform Withdrawals, the Commissioner Suspends BlockFi’s CFL** 13 **License Pending an Investigation, and BlockFi Files for Bankruptcy**

14 9. On or around November 8, 2022, FTX Trading Ltd. and affiliated entities paused  
15 withdrawals from their platforms.

16 10. On or around November 10, 2022, BlockFi publicly announced on its Twitter account,  
17 @BlockFi, that it was “limiting platform activity, including pausing client withdrawals.” In other  
18 words, customers could not withdraw their funds from BlockFi’s platform.

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

20 12. On November 11, 2022, the Commissioner issued a notification to BlockFi that she  
21 would, three days after service of the notification and subject to a request for hearing by BlockFi,  
22 suspend BlockFi’s CFL license for a period of 30 days, pending investigation, pursuant to section  
23 22710 (the Notice). The Commissioner served and BlockFi acknowledged receipt of the Notice on  
24 November 13, 2022.

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

1 line with FTX.US.”

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

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

8 16. Also on November 28, 2022, BlockFi reported that it had paused all platform activity,  
9 ceased all lending activity, and would not be liquidating existing customer loans. According to  
10 BlockFi:

- 11 a. all loans are placed into administrative forbearance and any amounts due, including interest
- 12 and maturity payments, are on hold until further notice;
- 13 b. interest rates on BlockFi loans are set to 0% from November 11, 2022, onwards;
- 14 c. loans would not be reported as delinquent to any credit bureaus;
- 15 d. borrowers are not expected to make any payments at maturity while the loans are on hold;
- 16 e. there are no late fees associated with any payments; and
- 17 f. autopay has been turned off if it was enabled.

18 **IV.**

19 **BlockFi’s Failure to Take into Consideration Financial Ability of Borrowers to Repay Loans**

20 **(Tit. 10 Cal. Code Regs. § 1452)**

21 17. On or around October 17, 2022, the Commissioner, through her CFL Examinations  
22 Unit, commenced a regulatory examination of BlockFi.

23 18. California Code of Regulations title 10, section 1452, provides, “When making or  
24 negotiating loans, a finance company shall take into consideration, in determining the size and  
25 duration thereof, the financial ability of the borrowers to repay the same, to the end that the borrowers  
26 should be reasonably [able] to repay said loans in the time and manner provided in the loan contracts.”

27 19. BlockFi’s consumer loan contracts and a majority of its commercial loan contracts  
28 require borrowers to repay loans in monthly installments consisting of a set amount of U.S. dollars due

1 on the same day of each month.

2 20. The Commissioner’s examination reveals that at all relevant times, BlockFi did not  
3 evaluate a borrower’s financial ability to make the agreed upon monthly installment payments.

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

8 22. The Commissioner’s examination reveals that between its licensing on August 16, 2018  
9 and August 30, 2022, BlockFi contracted for at least 7,781 loans without considering the borrower’s  
10 financial ability to repay the loan in the time and manner provided in the loan contracts, in violation of  
11 California Code of Regulations, title 10, section 1452.

12 V.

13 **Applicable Law**

14 23. Section 22714, subdivision (a), provides in pertinent part:

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

18 [. . .]

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

22 [. . .]

23 (4) There has been repeated failure by the finance lender, when making or  
24 negotiating loans, to take into consideration in determining the size and  
25 duration of loans, the financial ability of the borrower to repay the loan in  
26 the time and manner provided in the loan contract, or to refinance the loan  
27 at maturity.

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**VI.**

**Prayer for Order Revoking CFL License**

24. BlockFi has violated provisions of the CFL by contracting for at least 7,781 loans without considering the borrower’s ability to repay the loan in the time and manner provided in the loan contract, or to refinance the loan at maturity, in violation of California Code of Regulations, title 10, section 1452.

25. The Commissioner’s examination and investigation remain ongoing, and the Commissioner expressly reserves the right to amend this accusation to add additional charges of violations of the CFL.

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

Dated: December 15, 2022  
Los Angeles, California

CLOTHILDE V. HEWLETT  
Commissioner of Financial Protection and  
Innovation

By \_\_\_\_\_  
DANIELLE A. STOUMBOS  
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