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FACT SHEET

The Truth About Debanking: It's Neutral Risk Analysis That Protects Main Street Americans and the Banking System from Fraud and Criminal Activity

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All of a sudden "debanking" is a hot topic. Congressional hearings are being held, and the media is breathlessly reporting every claim, no matter how baseless or fact-free. The truth is that banking regulators are properly doing their jobs to protect the banking industry from the serious threats that crypto poses.

What is Debanking? And, Why is it Suddenly in the Spotlight?

The term "debanking" refers to banks closing accounts based on the risk profile of a customer. For example, a bank may determine an account that is being used for illegal purposes and may then decide to close the account.

The crypto industry is currently claiming that it is being discriminated against and debanked for illegitimate reasons, as if it is an innocent victim of needlessly biased banks and banking regulators. However, banks and regulators have properly taken a very cautious, skeptical view of crypto given its shocking history of criminal and illegal conduct, including prominently money laundering, as well as its extreme volatility and boom-bust cycles that have harmed millions of Americans. Tellingly, few have been concerned about the real debanking that has been going on for a long time: for decades minority communities, low-income families, and other underserved individuals have been denied access to the banking system. This is the real debanking problem that victimizes Main Street Americans who are forced to turn to unregulated, high-cost alternatives for banking services such as check cashers or payday lenders, and even crypto.

In early February 2025, the debanking debate gained momentum with two congressional hearings (here and here). Also, on February 5, 2025, the crypto industry and its political allies coordinated the release of hundreds of pages of formerly nonpublic confidential documents regarding the FDIC's supervision of crypto-related activities. The crypto industry claims that these documents prove that the banking regulators are guilty, but actually they show that the regulators recognize the grave risks that crypto brings and are working to stop it from infiltrating the traditional banking system and causing a crisis.

How Dangerous is Crypto, Really?

While crypto has existed for nearly two decades and offered numerous promises of innovation and other benefits that will improve the financial system, the promises have not materialized. So far, its primary accomplishment has been to inflict excruciating losses on millions of investors who have seen billions of dollars disappear in fraudulent crypto schemes and ensuing bankruptcies. For example, the Federal Bureau of Investigation ("FBI") received more than 69,000 complaints related to financial frauds involving crypto in 2023, with estimated losses totaling $5.6 billion.

The truth is that crypto presents a long list of risks that endanger American families, banks, the financial system, the economy, and financial stability, which banks and regulators should include in their risk analysis, including:

- Valuation integrity and pricing volatility,
- Vulnerability to runs,
- Fraud,
- Harm to minorities and underserved communities, and
- False claims of FDIC deposit insurance protection.

What Should the Banking Regulators Be Doing in Response to Crypto?

The crypto industry has followed a standard playbook of using all the levers of the influence industry to buy access and special treatment for its special interests at the expense of the public interest. Despite this, regulators must continue to focus on **content-neutral risk-based analysis** that is aimed at making sure that banks properly identify risks and protect their customers by appropriately mitigating those risks.

Contrary to crypto's baseless claims, regulators don't care where risks come from, be it credit or market risk, cybersecurity threats, money launderers, or crypto predators and lawbreakers. Instead, they have two fundamental duties:

- First, ensure that banks comply with applicable laws, and;
- Second, promote safe and sound banking practices, and take corrective action when banks engage in unsafe and unsound practices.

What Are Some Viable Responses to the Debanking?

While the banking regulators' actions and overall approach to crypto have been consistent with their duties to enforce the law and protect the banking system, there are several opportunities to improve the clarity of expectations of banks.

- More Clarity on the Rules and Expectations of Banks: As former Consumer Financial Protection Bureau ("CFPB") Director Rohit Chopra detailed, clearer bright-line limits could help to combat inappropriate instances of debanking.

- Greater Disclosure Requirements for Banks: Current banking rules put limits on the amount of information on the reasons for a bank account closure that can be shared publicly. If banks were required to specify the reason for an account closure, however, there would be less chance of misunderstanding or jumping to conclusions about malicious intent or discrimination when an account is closed.

The crypto industry has also called for the creation of a watchdog entity that would oversee the actions of the banking regulators. This already exists with the Office of the Inspector General ("OIG"); creating another organization that would monitor the actions of the banking regulators would be duplicative, inefficient, and likely biased.

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