BlockFi's Crypto Lending Collapse

Idea In Short

BlockFi built a business on a simple pitch: deposit cryptocurrency, earn interest on it, or borrow cash against it without selling. Zac Prince and Flori Marquez founded the company in 2017, and it grew quickly by lending customer deposits to institutional borrowers and charging interest on crypto-backed loans, reaching a 3-billion-dollar valuation by 2021. The model depended on borrowers repaying and collateral holding its value, and both assumptions failed in 2022. A Securities and Exchange Commission settlement in February 2022 forced BlockFi to unwind its flagship interest product, and the collapse of the hedge fund Three Arrows Capital that summer left it needing a bailout from FTX. When FTX itself collapsed in November 2022, BlockFi filed for bankruptcy days later. This article covers how BlockFi's business worked, what broke it and how creditors were eventually repaid.

A New York startup built on crypto-backed loans

Zac Prince and Flori Marquez founded BlockFi in New York in 2017, aiming to bring conventional lending products, loans, interest-bearing accounts and later trading, into the crypto market.[1] Its earliest and most defining product let customers borrow cash or stablecoins against Bitcoin, Ethereum and other crypto holdings as collateral, giving investors access to liquidity without triggering a taxable sale of their assets. That crypto-backed lending product built BlockFi's early reputation and became the foundation the rest of the company's offerings were built around.

Raising capital as crypto boomed

BlockFi expanded quickly during the 2020-2021 crypto rally, adding an interest-bearing account product, a trading platform and a rewards credit card, while its workforce and customer base grew alongside rising crypto prices. The company closed a 350-million-dollar Series D funding round in March 2021, led by investors including Bain Capital Ventures, that valued BlockFi at 3 billion dollars.[2] That capital and its rapid growth positioned BlockFi as one of the more visible names in crypto lending heading into 2022, alongside competitors like Celsius and Gemini.

A settlement that undercut its core product

In February 2022, the Securities and Exchange Commission charged BlockFi with failing to register its interest-bearing product, BlockFi Interest Accounts, as a security, and with making misleading statements about the risk in its loan portfolio.3 BlockFi agreed to pay 100 million dollars combined to the SEC and 32 states and to stop offering its interest accounts to new retail customers, forcing the company to rework the product that had driven much of its customer growth. The settlement was, at the time, the largest penalty regulators had levied against a crypto company, and it signaled that regulators viewed crypto interest products as securities requiring registration, a stance that shaped how competitors structured similar offerings afterward.

> BlockFi's core promise, a fixed return on crypto deposits, required lending that money to borrowers regulators had not fully vetted either.

The Three Arrows default that forced a bailout

BlockFi's lending business depended on institutional borrowers repaying their loans, and Three Arrows Capital, a large hedge fund, was one of its biggest counterparties. When Three Arrows collapsed in mid-2022 amid the broader crypto market crash, BlockFi absorbed losses reported to total roughly 80 million dollars, twice what the fund had borrowed just weeks earlier. The losses left BlockFi short of liquidity, and in late June 2022 it accepted a rescue package from FTX that started as a 250-million-dollar credit facility and grew into a 400-million-dollar line of credit, paired with an option for FTX to acquire BlockFi outright.4

When the rescuer became the reason for collapse

The FTX credit line was meant to stabilize BlockFi, but it tied the company's survival directly to FTX's own balance sheet. When FTX filed for bankruptcy on November 11, 2022, following revelations about its use of customer funds, BlockFi immediately paused customer withdrawals, citing its exposure to FTX and its trading arm, Alameda Research. BlockFi filed for Chapter 11 bankruptcy protection on November 28, 2022, listing West Realm Shires, FTX's US entity, as one of its largest creditors with a 275-million-dollar unsecured claim.5

Years of litigation before creditors were repaid

BlockFi's bankruptcy case ran for nearly two years, involving disputes with both FTX and Three Arrows Capital over what each owed the other. A bankruptcy court approved BlockFi's liquidation plan in September 2023, and the plan became effective the following month, with the company committing to wind down operations rather than restart them.6 Distributions to customers began in February 2024, and the bankruptcy administrator later sold BlockFi's claims against FTX at a premium to face value, which helped push recovery rates for many creditors into a range of roughly 35% to 63% of what they were originally owed.

Key Partners

Venture capital firms including Bain Capital Ventures, Valar Ventures, Galaxy Digital and Coinbase Ventures backed BlockFi's growth through multiple funding rounds. Institutional and corporate borrowers, including hedge funds like Three Arrows Capital, were essential counterparties that BlockFi lent customer deposits to in order to generate the interest it paid out. FTX became a critical, and ultimately fatal, partner in mid-2022 when it extended BlockFi a rescue credit line in exchange for an option to acquire the company.

Key Activities

Issuing crypto-backed loans to retail and institutional borrowers was BlockFi's founding activity and remained central to its business throughout its operating history. Managing its interest-bearing account product required continuously deploying customer deposits into loans, corporate lending arrangements and other yield-generating activities to fund the interest it advertised. The company also operated a trading platform that let customers buy, sell and convert crypto assets, generating fee revenue alongside its lending business.

Key Resources

BlockFi's crypto asset reserves, both its own holdings and customer deposits placed into its lending pool, were the raw material its entire business depended on. Its regulatory relationships and compliance infrastructure, built up through registrations across US states, were a resource the company actively invested in, even before the SEC settlement forced further changes. Venture capital funding, which totaled several hundred million dollars across its funding history, gave BlockFi the balance sheet to expand aggressively during the 2020-2021 crypto rally.

Value Propositions

For crypto holders, BlockFi offered a way to earn interest on digital assets without selling them, appealing to long-term holders who wanted yield rather than exposure to trading. For borrowers, the platform offered cash or stablecoin loans issued same-day against crypto collateral, without the credit checks or paperwork of a traditional bank loan. For institutional clients, BlockFi offered access to a pool of crypto capital it could lend out, along with trading and custody-adjacent services aimed at businesses rather than individual retail users.

Customer Relationships

BlockFi supported customers through live chat, email and phone support, along with a mobile app for managing accounts on iOS and Android. The company built its reputation partly on responsive customer service during its growth years, a factor that distinguished it from some competitors in the crowded crypto lending space. Social media channels served as an additional touchpoint, particularly for company announcements and, later, for updates during the bankruptcy process.

Channels

BlockFi's website functioned as its primary channel for account opening, deposits, loan origination and trading. Its mobile apps for iOS and Android extended that access to customers managing their accounts away from a desktop browser. Word of mouth and crypto community engagement, particularly during the 2020-2021 bull market, served as an informal but significant channel for new customer acquisition.

Customer Segments

Individual crypto holders looking to earn interest on their holdings without selling them made up a large share of BlockFi's retail customer base. Crypto traders using the platform's margin and lending features to increase their buying power formed a related but distinct segment. Institutions and corporate borrowers, including hedge funds and trading firms, represented a smaller but financially significant segment, since a small number of large loans, including the one to Three Arrows Capital, made up an outsized share of BlockFi's lending book.

Cost Structure

Interest payments owed to depositors on their crypto holdings represented one of BlockFi's largest recurring costs, since the company had to fund those payments regardless of how its loans performed. Technology infrastructure, compliance and legal costs grew substantially after the 2022 SEC settlement required the company to register products and adjust its operations. Salaries and compensation for a workforce that expanded quickly during the 2020-2021 boom added further fixed costs that became harder to sustain once crypto prices fell and lending losses mounted.

Revenue Streams

Interest earned on crypto-backed loans issued to retail and institutional borrowers was BlockFi's primary revenue stream. Trading fees and spreads on its exchange platform generated a secondary stream of income. Withdrawal fees, charged as flat amounts or a percentage of the transaction, and rehypothecation, the practice of reusing pledged collateral to generate additional returns, rounded out BlockFi's revenue model before its collapse.

- 1BlockFi's founding and business description
- 2BlockFi's Series D funding round
- 3SEC settlement announcement
- 4BlockFi's FTX bailout and Three Arrows exposure
- 5BlockFi's Chapter 11 filing
- 6Court approval of BlockFi's liquidation plan

Summary

BlockFi's collapse traces back to a structural problem common across crypto lenders of its era: paying depositors a fixed, advertised interest rate required lending that money out to borrowers whose creditworthiness was hard to verify and whose collateral could lose most of its value in days. When Three Arrows Capital defaulted in mid-2022, BlockFi absorbed the loss and needed an emergency credit line from FTX to keep operating. That credit line became a second point of failure once FTX itself collapsed weeks later. BlockFi's Chapter 11 case closed with creditors recovering a meaningful share of what they were owed, aided by a well-timed sale of its claims against FTX, but the company itself never resumed operations. Its history is now cited as a case study in what happens when a lending business promises fixed returns on an asset class with no fixed value.