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How Crypto Insiders Turned 'Debanking' Into a Political Storm

Concerns that crypto companies are being purposely cut off from the global banking system have become a political cudgel at an opportune moment for the industry.


By Erin Griffith and David Yaffe-Bellany
Erin Griffith covers start-ups, and David Yaffe-Bellany writes about the cryptocurrency industry.

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Early last year, Ryne Saxe started fielding demands from banks that worked with his San Francisco-based start-up, Eco. They laid out a litany of new compliance and reporting requirements that Eco had to follow.

The problem? Eco was a cryptocurrency company, part of an industry facing heavy scrutiny from regulators. The banks said they were under pressure from government agencies to follow new guidance about crypto clients. Then Bill.com, Eco's payroll provider, canceled the company's account, citing a new policy, Mr. Saxe said.

After eight months of pressure, Mr. Saxe shut down Eco's app and changed his business plan so that it did not rely on partnerships with banks. Eventually his Bill.com account was restored.

"It was like hell," he said. "We were getting progressively debanked."

For years, crypto start-ups like Eco have struggled to find and keep bank accounts in the United States, leading entrepreneurs to cry foul. In angry social media posts, they have accused the government of orchestrating a campaign to squelch the crypto industry, calling the crackdown unconstitutional and un-American. They have sued banking regulators and raised the issue with members of Congress.

Those concerns have reached a boiling point. Last month, Marc Andreessen, an influential venture capitalist, appeared on Joe Rogan's podcast, which reaches more than 10 million listeners, and accused Democrats of "terrorizing" crypto start-ups by pressing banks not to work with them. His complaints were amplified by Elon Musk, as well as crypto executives like Brian Armstrong, the Coinbase C.E.O., and Tyler Winklevoss, who said the government and the banking sector were engaged in "evil behavior."

Brian Armstrong, the chief executive of Coinbase, has been vocal about the issue of debanking. Jason Henry for The New York Times

The complaints about "debanking" have at times omitted crucial context or exaggerated the consequences for start-ups. But crypto executives have turned the issue into a political cudgel at an opportune moment for the industry.

Under President-elect Donald J. Trump, an outspoken Bitcoin enthusiast, the industry is expecting policy changes that would create a looser regulatory environment for crypto companies. Last week, Mr. Trump appointed the venture investor David Sacks, a crypto supporter, as his "White House A.I. and Crypto Czar."

Already crypto executives are pushing Mr. Trump and Mr. Sacks to make personnel selections and implement policies that would improve the industry's standing in the United States. An end to the debanking of crypto start-ups is near the top of the list.

No one has collected systematic data on how many crypto companies have lost bank accounts. But Mr. Andreessen, a founder of the venture capital firm Andreessen Horowitz, said the issue had affected 30 tech founders backed by his firm. (The firm has more than 100 crypto start-ups in its portfolio.)

Last year, three top financial regulators sent a letter to banking organizations, warning them to exercise caution in their dealings with crypto companies. Nic Carter, who founded the crypto investment firm Castle Island Ventures and has written extensively about debanking, labeled the effort "Operation Chokepoint 2.0," alluding to an Obama-era Justice Department campaign to prevent banks from working with payday lenders and other businesses.

Marc Andreessen, a venture capitalist, has accused Democrats in Washington of “terrorizing” crypto start-ups by pressing banks not to work with them. David Paul Morris/Bloomberg

The outcome has been “crippling for businesses,” said Austin Campbell, an adjunct business professor at New York University who has consulted for crypto companies.

Still, many crypto firms that lost accounts have managed to open new ones. The regulators’ warning said that banks were “neither prohibited nor discouraged” from offering services to any specific class of customer, and many banks that shed crypto clients may have had good reasons for doing so. The crypto industry has a track record of scams, fraud and high-risk financial practices that have harmed consumers, prompting lawsuits and criminal prosecutions.

“Providing services to crypto companies exposes traditional commercial banks to reputational, regulatory and financial risks,” said Eswar Prasad, an economist at Cornell University. “Banks are typically averse to taking on clients who have dubious financial standing.”

A spokesman for Bill.com, the financial operations platform, declined to comment on Eco and said the company notifies any customer who violates its policies. A representative for the Office of the Comptroller of the Currency, one of the regulators that oversees banking, said the agency did not direct banks to "open, close or maintain individual accounts."

Fifteen years ago, cryptocurrency pioneers weren't interested in working with banks. They wanted to create a new type of money that wouldn't require banks or other intermediaries to store funds and process transactions. The technology was supposed to serve as a refuge for people who struggled to hold down traditional bank accounts.

But as crypto grew into a multibillion-dollar industry, crypto companies became increasingly reliant on existing financial infrastructure. They needed bank accounts to pay employees, accept funds from venture firms and convert digital currencies into dollars and back.

Long before regulators began a crackdown, the role of digital currencies in illicit finance, from drug dealing to ransom payments, made banks suspicious. Megan Knab, a tech professional in New York, became interested in crypto in 2017 and linked her digital wallet at the crypto exchange Gemini with her account at a major bank. Soon, she said, she received a one-sentence email saying her bank account had been closed.

"I had to go into a physical bank branch to withdraw cash to get the balance out," Ms. Knab said.

Sadie Raney, the chief executive of the crypto hedge fund Strix Leviathan, said that the first time she tried to pay employees in 2017, her payroll provider, Xero, blocked the payments with no warning. The company told Ms. Raney that it had a blanket ban on doing business with crypto companies, she said.

"It's always been a nightmare," Ms. Raney said. (A Xero spokeswoman said the company couldn't comment on individual cases, but that it still had customers "related to cryptocurrency.")

Eventually crypto companies turned to a small group of banks that was enthusiastic about working with the industry. The best-known was Silicon Valley Bank, which specialized in servicing tech start-ups. Signature Bank and Silvergate Bank also became popular with crypto firms.

But in 2022, the implosion of the FTX crypto exchange put the banking industry under pressure to stop working with crypto companies, as the government embarked on a crackdown that pushed some start-ups out of the country. Not long after FTX folded, federal banking agencies and the White House issued guidance encouraging banks to separate "risky digital assets from the banking system."

"It was so broad and so vague," Katie Haun, the founder of the crypto investment firm Haun Ventures, said of the guidance. "One bank told a portfolio company, 'The juice is not worth the squeeze.'"

Two months later, Silicon Valley Bank collapsed, triggering a nationwide banking crisis. Silvergate and Signature went out of business as well.

The week of Silicon Valley Bank's failure, Konstantin Richter, who runs the crypto firm Blockdaemon, went into crisis mode. He had three quarters of his company's assets stored at the bank, he said, and needed somewhere else to put them. He planned to transfer the funds to a separate account at Bank of America.

Then he got a call from Bank of America: It was shutting down Blockdaemon's account, with limited explanation.

"You feel violated," he recalled. "It just feels like an injustice." (The bank declined to comment.)

Mr. Richter ended up moving all of his company's funds to Silicon Valley Bank after it reopened under new ownership. But relying on a single bank can be riskier than spreading assets across multiple institutions.

The point of crypto "is to bank the unbanked, and suddenly you're the unbanked," Mr. Richter said.

Many crypto entrepreneurs who lost bank accounts have found backups. Other companies have been forced to leave the United States in pursuit of stable banking relationships, or have resorted to a patchwork solution, running their businesses with cryptocurrencies and offshore debit cards.

Since Mr. Trump's election victory last month, the crypto industry has been ascendant. Bitcoin's price surged above $100,000 this month, a long-anticipated milestone.

Mr. Carter, the venture investor, said he had spoken with lawmakers about the debanking issue, and that he wants legislation that would protect crypto firms' privileges. Representative French Hill, an Arkansas Republican who serves on the House Financial Services Committee, has called for a congressional probe into bank regulators' treatment of crypto companies.

The industry's talking points are now widely used in Washington: With Republican control in Congress, Mr. Hill wrote on social media this month, "we will be able to halt, reverse, and investigate Operation Choke Point 2.0."

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