

Banking and Finance Law Daily Wrap Up, FINANCIAL INTERMEDIARIES— CFPB files ‘Statement of Interest’ in Synapse bankruptcy, (Jun. 24, 2025)

Banking and Finance Law Daily Wrap Up

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By [Colleen M. Svelnis, J.D.](#)

The Bureau's statement supports the Chapter 11 Trustee's motion to convert to Chapter 7 due to a significant shortfall in returning funds to consumers affected by the bankruptcy.

The Consumer Financial Protection Bureau has filed a [Statement of Interest](#) with a bankruptcy court regarding Synapse Financial Technologies, in support of the Chapter 11 Trustee's motion to convert to Chapter 7 due to a significant shortfall in returning funds to consumers affected by the bankruptcy. Synapse, a “banking-as-a-service” provider, was a middleman, standing between other fintechs and partner banks. The company entered bankruptcy in April 2024, after it was, at a minimum, not keeping sufficient records of its transactions. As a result, tens of thousands of customers lost access to their funds when it proved initially impossible to reconstruct which deposits held at partner banks belonged to which fintech customers (*In re: Synapse Financial Technologies, Inc.*, No. 1:24-bk-10646-MB (Bankr. C.D. Cal. June 20, 2025)).

The Trustee's Motion details the account reconciliation process conducted over many months focused on returning funds to end users affected by the bankruptcy of Synapse Financial Technologies, Inc. (Synapse). However, an apparent shortfall in the tens of millions of dollars remains. The Bureau believes that converting the case to Chapter 7 would be in the best interest of consumers who were not fully compensated, stating “if the Court is inclined to grant the Trustee's Motion, the Bureau believes that it is in the best interest of the consumers who were not fully compensated for the Court convert this case to chapter 7 rather than dismiss it.”

Conversion to chapter 7. Section 1112 of the Bankruptcy Code provides that a case may be converted to chapter 7 or dismissed “for cause.” A motion to convert or dismiss a chapter 11 case requires a two-step analysis: first, to determine whether “cause” exists to convert the case to chapter 7 or dismiss the case, and second, which option is in the best interest of creditors and the estate. If the Court finds “cause,” the CFPB argues that conversion, rather than dismissal, would be in the best interest of the Bureau “and more significantly, the victims of Synapse's potential CFPA violations.”

Notably, the CFPB argues that if the case is converted to Chapter 7 and the Bureau determines that Synapse did engage in unfair practices in violation of the CFPA, the Bureau will seek to negotiate a settlement, including a nominal civil penalty, with the Chapter 7 trustee, which may allow the Bureau to utilize the Bureau's Civil Penalty Fund to provide redress to harmed consumers.

The Bureau cited several reasons for its support of the motion, arguing that the conversion of the case to chapter 7 rather than dismissal is in the best interest of the consumers who were not fully compensated.

The Bureau has received hundreds of complaints from consumers that were end users at non-bank financial platforms (Fintech Platforms) that utilized Synapse's proprietary systems to provide financial services to end users through Synapse's partnerships with depository institutions. Those consumers had their accounts frozen / after Synapse initiated this case and many have since received only a fraction of their money previously held in the partner financial institution's account.

The Bureau also stated that it has reason to believe that Synapse may have engaged in unfair practices by failing to properly track and reconcile consumer funds across the partner financial institutions in violation of Sections 1031 and 1036 of the Consumer Financial Protection Act, 12 U.S.C. §§ 5531, 5536. Accordingly, the Bureau may have an unsecured claim against Synapse for monetary and other relief to address consumer harm resulting from its conduct. Redress could then potentially come through the Bureau's Civil Penalty Fund. The

Bureau stated that it has the authority to use its Civil Penalty Fund to provide relief to victims but noted that the penalty awarded in such an order can be nominal.

If the case is dismissed, in order to pursue relief, the Bureau would need to file a complaint and litigate its claims against the Debtor in federal district court, a process that may take significantly longer, even if the Bureau obtains a default judgment. This process would likely further delay any relief to harmed consumers and decrease the likelihood the Bureau would be able to identify and potentially compensate victims.

Attorneys: Ron Bender (Yoo & Golubchik L.L.P.) for Synapse Financial Technologies, Inc. John D. Buretta (Cravath, Swaine & Moore LLP) for Jelena McWilliams.

Companies: Synapse Financial Technologies, Inc.

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