DFPI Fines Crypto Lending Platform, Nexo Capital Inc., $500,000 in Penalties

January 14, 2026

What You Need to Know: DFPI takes action after an unlicensed company makes risky loans to California consumers – secures $500,000 in penalties.

SACRAMENTO – The California Department of Financial Protection and Innovation (DFPI) announced that Nexo Capital Inc. (Nexo) will pay $500,000 in penalties for violating California financial laws, including making loans to California residents without a valid license. The company offered crypto-backed loans and services.

A DFPI examination of Nexo, a Cayman Islands corporation, led to the discovery that the company offered consumer and commercial loans to at least 5,456 Californians without first considering their ability to make repayments. For example, before making a loan, Nexo Capital generally did not evaluate the borrower's ability to make timely repayments, existing debt, credit history, or other documents relating to the borrower's overall financial condition. This lack of underwriting policies increases the risk of borrowers defaulting on the loan. It is a violation under the California Financing Law (CFL)

"Lenders must follow the law and avoid making risky loans that endanger consumers — and crypto-backed loans are no exception," said DFPI Commissioner KC Mohseni. "DFPI will continue to hold companies accountable when they break the law and put consumers' financial security at risk."

The loans were made between July 26, 2018, through November 22, 2022.

In addition to the violations stated above, DFPI cited Nexo for two specific violations under the California Consumer Financial Protection Law (CCFPL):

- Engaging in unlawful acts and practices with respect to a consumer financial product or service.

- Offering or providing consumers with a financial product or service not in conformity with a consumer financial law or otherwise committing acts or omissions in violation of a consumer financial law.

In addition to the penalty, Nexo must, within 150 days, transfer all funds belonging to California residents to Nexo Financial LLC, a US-based affiliate that holds a CFL license with the DFPI. Nexo Financial is required to comply with CFL licensure and disclosure requirements.

This is not the first enforcement action DFPI has taken against Nexo.
In a separate action in 2022, the DFPI co-led a North American Securities Administrators Association task force to investigate Nexo's crypto interest-earning program. The DFPI negotiated a $22.5 million multistate settlement with Nexo on behalf of over 50 United States jurisdictions for violations of state securities laws.

About DFPI

The Department of Financial Protection and Innovation protects consumers, regulates financial services, and fosters responsible innovation. DFPI protects consumers by establishing and enforcing financial regulations that promote transparency and accountability. We empower all Californians to access a fair and equitable financial marketplace through education and by helping to prevent potential risks, fraud, and abuse. Learn more at dfpi.ca.gov.

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