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SoFi faces pressure from high-alert lawmakers on its digital asset offerings

Article

The news: US senators sent a letter to the CEO of **SoFi Technologies** questioning the firm's digital asset activities, per PYMNTS.

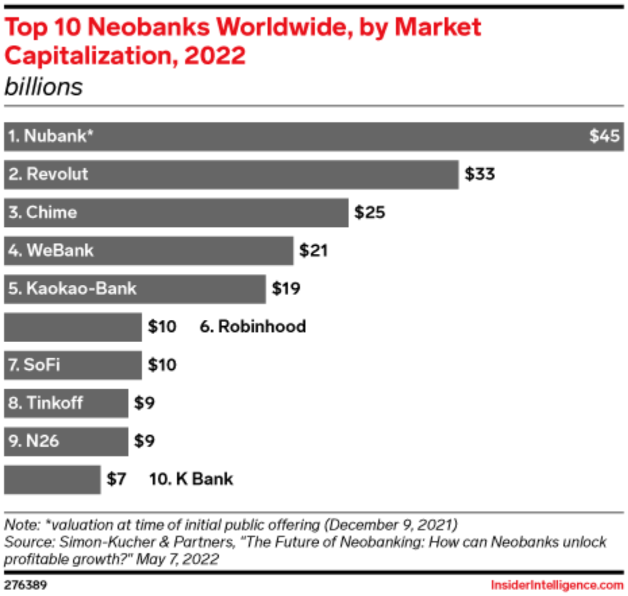
How'd we get here? Four members of the Senate Banking Committee also sent the letter to Fed officials and financial regulators, asking them to look into SoFi's recent digital currency activities.

- The Federal Reserve granted SoFi the status of a financial holding company after its purchase of BHC Golden Pacific Bancorp at the beginning of the year.
- As a result of gaining that status, SoFi was prohibited from conducting certain crypto transactions and was given two years to divest from its nonbank **SoFi Digital Assets** subsidiary.
- Lawmakers, spooked by a summer of crypto chaos, started questioning SoFi when, instead of divesting, its digital asset arm offered a new service that allows customers to invest part of their direct deposits into digital assets free of charge.
- The senators also listed other concerns about SoFi Digital Assets, including how it calculates capital requirements, and why it's still offering a digital coin that it labeled a "crypto pump-and-dump."

The senators demanded a response to their letter by December 8. SoFi took to Twitter to state that it has not violated any federal banking regulations, that it consistently communicates with its financial regulators, and that it looks forward to providing a timely response to the letter.

Why does it matter? So far, the crypto upheaval that has defined 2022 has been contained within the digital asset markets. Lawmakers and regulatory authorities have been keeping an eye on what's unfolding, but have done little in the way of regulating the space. So why are they concerned about SoFi?

- As a financial holding company, it's no longer allowed to engage in certain digital asset activities. By continuing to conduct digital currency transactions, it's putting its traditional banking consumers as well as taxpayers at risk. In the event the Digital Assets arm faces a liquidity crunch—similar to what happened at FTX—SoFi would likely get that liquidity from its traditional banking deposits, or would need a taxpayer bailout.
- If SoFi were to tap into its traditional banking business for crypto liquidity, it could contribute toward compromising the traditional asset markets as a whole. Damaging fears of contagion could sweep through the industry.



The bottom line: SoFi likely will respond to the letter by defending its actions, but this isn't a battle the company should pick. On the heels of the FTX collapse, SoFi's steadfastness in publicly defending its digital asset activities is bad optics at best. Even if the company hasn't violated any regulations, consumers and regulators are on high alert about these assets and will be quick to jump on any seemingly suspicious behavior. Keeping a low profile is the best course of action for SoFi.

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