

# Profitable INVESTING Tips

## Stock Market Investing Tips, Techniques, and Resources



### Crypto Bank or Pawnshop?

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As noted in a recent article in *The New York Times*, banking regulators are concerned about companies that offer cryptocurrency loans and deposit accounts (in crypto) with potentially very high yields. Although the goal of the cryptocurrency world is to create a world in which one would never need any traditional currencies, that has not been the case until now. Companies like BlockFi offer deposit accounts, loans, and credit cards all based in cryptocurrency rather than dollars, euros, yen, or pounds. Because you need to deposit cryptocurrency with these folks in order to get loans or earn interest, the State of California raised the question with such company if they want to be a crypto bank or a pawnshop?

### What Is a Bank?

In simple terms, a bank is an institution that takes deposits and pays interest, loans money and charges interest, invests to maintain obligatory financial reserves, offers debit and credit card services linked to a customer's account and has FDIC backing for account categories and banks. Banks in the USA and elsewhere are regulated by the government because of their important role in the economy. And, all accounts are backed by a guarantee by the Federal Deposit Insurance Corporation to \$250,000 per bank, per ownership category.

### Is a Crypto Bank Really a Bank?

As we noted, companies like BlockFi offer loans, interest-bearing accounts, and credit/debit cards. They do not offer anything like FDIC insurance on their accounts. However, savings accounts can provide returns approaching 90% and there are no background checks for loans as everything is based on how much of a crypto currency is on deposit. Because cryptocurrencies are so volatile there is the potential for huge gains and devastating losses. Some of this potential and risk is lessened by using cryptocurrencies called stable coins which are pegged to the dollar. The biggest difference from a bank is probably the fact that crypto institutions are routinely hacked and there is no protection against loss of all of your assets on deposit.

### What Is a Pawn Shop?

This question comes to mind because when BlockFi first applied for a banking license in California they were advised to get a license as a pawnbroker. This is because, like a pawn shop, a customer gives the crypto bank cryptocurrency on deposit and then can borrow money in dollars up to half the value of the account. A pawn shop or pawn broker is a business that loans money to people using personal property as collateral. Because BlockFi accepts cryptocurrency and not gold jewelry the folks in California who do pawn broker licenses said BlockFi did not qualify as a pawn broker.

### Benefits and Risks of Crypto Banks

The benefits of using a crypto bank include not having to worry about credit checks when you want a loan,

having your assets in a “currency” with the potential for exceptional growth, and not having to sell your cryptocurrency and pay [taxes on your cryptocurrency profits](#) when you need cash. The primary risk is that someone will hack the bank and take all of its assets. Then you will not have the FDIC protection afforded by a traditional bank account for a bank that goes belly up. Or, your crypto bank may be doing just fine but your cryptocurrency hits the skids and now you have a third of the value in dollars that you used to have just when you need cash.

### **What If the Fed Starts Issuing Cryptocurrency?**

What to do about cryptocurrencies has been the subject of discussion at the highest levels including the US Federal Reserve. Fed Chairman Powell noted that if the USA had its own digital currency you would not need any of the current digital currencies. Because “you cannot fight the Fed” this could be the most compelling argument against banking with a crypto bank!

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