Risks When Non-banks Are Handling Your Money

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This article is not so much about whether banks are good or bad in comparison to money moving through the blockchain and crypto realm. It is about potential skullduggery by big businesses that control so much of the tech world, our information, privacy, and even our financial services these days. Risks when non-banks are handling your money came to mind when we read a *Bloomberg* article about the potential for **regulation by the Consumer Financial Protection Bureau** of folks like Meta and Apple.

Why Is There a Consumer Financial Protection Bureau?

The **Consumer Financial Protection Bureau** was created in the aftermath of financial wreckage of the 2008 to 2009 Financial Crisis in order to protect consumers. A major cause of the crisis was the huge number of “subprime” mortgages at that time. People who wanted to buy a house were talked into taking on mortgages that they could not afford. This happened because banks and other lenders offered “balloon mortgages” where people paid exceedingly low interest rates for five years with the idea that the interest rate would be adjusted in five years to the current rate.

This allowed people to get into a house that they otherwise could not afford. It allowed folks to buy a home when otherwise their income would not have been sufficient to do so. When interest rates went up these balloon mortgages expired and the next interest rates made payment of the mortgage impossible. 9.2% of all US mortgages were foreclosed or delinquent by August of 2008 and by September of 2009 it was 14.4%. More than a million families lost their homes. Investigation after the fact showed that bank employees and employees of other lenders were rewarded for fast-talking folks into financial situations that they could not afford.

Then the banks and other lenders sold these subprime mortgages to others so that they would not have to bear the risk of the collapse of the housing market when it happened. The role of the CFPB is to oversee the financial and help prevent a repeat of a Financial Crisis on a larger scale and simply protect consumers on a day by day basis.

CFPB Concerns with Crypto Money Transfers

An awful lot of money gets transferred via the internet. Crypto transfers being cheap and efficient have become part of this equation. Specifically, Apple Inc., Meta Platforms Inc., Alphabet Inc. and other companies that offer payment apps and digital wallets would fall under US Consumer Financial Protection Bureau supervision if a new rule goes into effect. It would treat non-banks like banks and put them under CFPB oversight. The worry is that anyone handling more than five million money transfers a year has the potential to hurt a lot of people and even disrupt the financial system if they screw up either intentionally or unintentionally. Considering the beliefs in the crypto world prior to 2022 and the huge monetary losses during crypto winter, this is not an entirely crazy concern. If the new rule goes into effect the CFPB would monitor payment apps for compliance in regard to US money-transfer laws and deal with abusive, deceptive, or unfair conduct on the parts of big tech, non-bank agencies. If they would find unlawful conduct that hurts consumers they could step in and deal with it.

Plugging a Potential Hole in the Financial Dike

Banks have Federal Deposit Insurance. Apple, Meta, and other big tech companies do not. Banks are subject to a whole raft of requirements like having sufficient reserves to cover financial emergencies while Meta and the rest are not. All of the rules and regulations that banks have to deal with came to be because of specific, real world issues that end up causing monetary loss and often heartbreak to their customers. The point of the proposed CFPB rules is to head any such problems off at the pass and prevent financial disasters both big and small. As a rule, banks are in agreement with this proposal as it would make everyone in the money transfer game play by the same rules.

The Issue Is Not Crypto or the Blockchain

The issue with overseeing non-banks in the money transfer game has nothing to do with their using the blockchain to do business. It has to do with big tech companies moving into a new tech niche. It has to do with the potential for the likes of Meta, Apple, and Alphabet finding innovative ways to take a little bit more of your money than they ought to. It has to do with these folks potentially convincing you to do stupid things with your money and then walking away just like the banks that talked folks into subprime mortgages which they promptly sold to avoid the predictable financial disaster that followed.

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