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10 **UNITED STATES BANKRUPTCY COURT**
11 **CENTRAL DISTRICT OF CALIFORNIA**
SAN FERNANDO VALLEY DIVISION

12 In re
13 SYNAPSE FINANCIAL TECHNOLOGIES,
14 INC.,
15
16 Debtor.

Case No. 1:24-bk-10646-MB

Chapter 11

**CHAPTER 11 TRUSTEE'S THIRD
STATUS REPORT**

DATE: June 21, 2024

TIME: 10:00 a.m. PT

PLACE: 303

21041 Burbank Boulevard

Woodland Hills, CA 91367 and

Via ZoomGov
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1 TO THE HONORABLE MARTIN BARASH, UNITED STATES BANKRUPTCY JUDGE,
2 THE OFFICE OF THE UNITED STATES TRUSTEE, AND INTERESTED PARTIES:

3 I, Jelena McWilliams (the “Trustee”), the duly appointed, qualified and acting chapter 11
4 trustee for the estate of Debtor Synapse Financial Technologies, Inc. (“Synapse” or the “Debtor”),
5 hereby submit my third “Chapter 11 Trustee’s Status Report” (the “Report”), and represent as follows:

6 **I.**

7 **TIMELINE OF EVENTS**

8 **A. Filing of the Chapter 11 Case and Appointment of Chapter 11 Trustee**

9 On April 22, 2024, the Debtor filed a voluntary chapter 11 petition, schedules and statement
10 of financial affairs. That same day, the Debtor filed an emergency motion for an order approving the
11 sale of all its assets for \$9.7 million to Tabapay Holdings LLC and requested that a hearing take place
12 on April 29, 2024. [Dkt. No. 8]. The Debtor represented that it is a technology company and “has
13 proprietary technology and software which essentially allows financial technology platforms called
14 ‘fintechs’ to provide certain financial products and services to the fintechs’ customers (referred to as
15 end users or depositors) through certain banking providers and financial technology providers.” Id.
16 The Debtor also filed a motion to approve a settlement reached with Evolve Bank & Trust (“Evolve”),
17 one of its partner financial institutions.

18 On May 1, 2024, the Court entered an order approving bidding procedures and set a hearing
19 to approve the sale for May 9, 2024. [Dkt. No. 92]. The Debtor reported at the May 9 hearing that the
20 settlement with Evolve had not been consummated due to disputes over Evolve funding a settlement
21 payment. The buyer reported that it was unwilling to proceed with the sale without the Evolve
22 settlement.

23 On May 13, 2024, Evolve filed a motion for an order restoring access to the “Debtor’s
24 Dashboard System” or, alternatively, “Authorizing Evolve to Close all of the Debtor’s Demand
25 Deposit Accounts at Evolve Associated with Debtor’s Programs”. [Dkt. No. 137]. Evolve alleged that
26 it had been denied access to the Debtor’s computer systems and had been forced to freeze end user
27 accounts. Id.

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1 On May 13, 2024, the Court conducted a status conference on the sale and a hearing on
2 Evolve’s motion. Although extensive arguments were made by counsel and their clients assessing
3 relative blame, it was undisputed that end users had lost access to funds.

4 On May 14, 2024, the Court conducted another status conference regarding access of end users
5 to their funds and for continued use of cash collateral. The Debtor and secured creditors stated that
6 they had agreed to the use of cash collateral through Friday, May 17.

7 On May 15, 2024, the United States Trustee for the Central District of California (the “U.S.
8 Trustee”) filed a motion on an emergency basis requesting that the Court enter an order converting the
9 Chapter 11 Case to chapter 7 for cause, or, in the alternative, for the appointment of a chapter 11
10 trustee. [Dkt. No. 146].

11 On May 24, 2024, following a hearing, the Court entered an order appointing a chapter 11
12 trustee (the “Appointment Order”), and Jelena McWilliams was appointed by the U.S. Trustee as the
13 Chapter 11 Trustee in this Chapter 11 Case (the “Case”). [Dkt. No. 196].

14 As a result of the foregoing, Jelena McWilliams became the duly appointed, qualified and
15 acting Chapter 11 Trustee, and continues to act in this capacity. On June 6, 2024, the Trustee filed the
16 “Chapter 11 Trustee’s Initial Status Report” (the “Initial Report”), and, on June 7, 2024, the Trustee
17 presented the Initial Report at a Status Conference before the Court. On June 13, 2024, the Trustee
18 filed the “Chapter 11 Trustee’s Second Status Report” (the “Second Report”), and, on June 14, 2024,
19 the Trustee presented the Second Report at a Status Conference before the Court.

20 **B. Debtor’s History, Subsidiaries and Partners**

21 As discussed in the Initial Report, the Trustee was informed that, beginning in 2014, Synapse
22 opened Demand Deposit Accounts (“DDAs”) on behalf of approximately 100 financial technology
23 platform partners (collectively, the “Fintech Partners”) and their end users at certain banks. Beginning
24 in 2020, Synapse developed its cash management program in connection with its subsidiary, Synapse
25 Brokerage LLC (“Synapse Brokerage”), through which Synapse began opening Cash Management
26 Accounts (“CMA Accounts”) on behalf of Fintech Partners and their end users at certain banks.
27 Additionally, Synapse offered secured loan origination services to end users of its Fintech Partners
28 through its subsidiary, Synapse Credit LLC (“Synapse Credit”). Most end user funds are held in

1 omnibus “For Benefit Of” Accounts (“FBO Accounts”)¹ and the remaining funds are held in DDAs
2 across four banks. The four banks are: American Bank, AMG National Trust, Evolve Bank and Trust
3 and Lineage Bank (collectively, the “Partner Banks”).

4 Synapse Brokerage is a fully owned subsidiary of Synapse. Based on research, discussions
5 with Synapse Brokerage constituents, and the sworn testimony of Mr. Pathak at the Creditors’
6 Meeting, Synapse Brokerage was founded with the view to establishing programs for Cash
7 Management Accounts and Money Market Accounts. Operationally, Synapse Brokerage has not yet
8 established such programs but has only deployed a sweep network at American Deposit Management
9 Company (“ADMC”) for the purpose of increasing the pool of FDIC insurance coverage available to
10 depositors and earning interest on sweep network deposits, which was distributed among Synapse,
11 Fintech Platforms and end users according to respective agreements among Synapse and its customers.

12 Synapse Credit is a fully owned subsidiary of Synapse. Based on research, discussions with
13 Partner Banks and Fintech Platforms and the sworn testimony of Mr. Pathak at the Creditors’ Meeting,
14 Synapse Credit is a state-by-state lending entity that provided one-time or revolving secured loans to
15 individuals and businesses. The loans were secured by one-to-one collateral that was either held in
16 Fintech Platform reserves in the Synapse ecosystem or deposited by end users, depending on the type
17 of loan program under which the loan was issued.

18 At the time of this Report, neither Synapse Brokerage nor Synapse Credit is debtor in this Case
19 or any other bankruptcy case. As both entities are wholly owned subsidiaries of Synapse, the Trustee
20 has indirect authority over both entities vis-à-vis the Debtor’s sole equity ownership of the
21 subsidiaries. However, the Trustee does not have legal authority to directly manage the businesses of
22 or otherwise control Synapse Brokerage and Synapse Credit.

23 It is possible that certain property of the Synapse estate resides at Synapse Brokerage or
24 Synapse Credit, such as due portions of revenue-sharing agreements or interest owed by a subsidiary
25 to the parent. The Trustee and proposed counsel are working to identify such property of the estate,
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28 ¹ A “For Benefit Of” or “FBO” account is a type of custodial account. It is a pooled account that
allows a company to manage funds on behalf of, or “for the benefit of,” one or more of their users
without assuming legal ownership of that account.

1 recovery options and mechanisms by which recovered property can be used to fund reconciliation
2 efforts and other administrative expenses.

3 **C. Update on Ledger Reconciliation and Release of End User Funds**

4 Since the Second Report, the Partner Banks have continued to commit extensive resources,
5 upload data to a joint data room, and convene for regular meetings to ensure coordination and make
6 progress on the reconciliation of end user funds. In the absence of business-as-usual operations at
7 Synapse, the Trustee has continued to facilitate workarounds like interbank data sharing and
8 reconciliation against Fintech Partner trial balances. At the time of this Report, these efforts have
9 enabled the partial reconciliation and return of Synapse-related end user accounts and funds, as
10 detailed below. To date, AMG has distributed nearly all of the FBO funds it holds and Evolve and
11 Lineage have both distributed most of the DDA funds they hold.

12 Additionally, Evolve and Lineage have voluntarily provided their own reports with additional
13 details of their reconciliation efforts to date, which are attached to this Report as Exhibit B and Exhibit
14 C, respectively.

15 **1. *DDA Reconciliation and Distributions***

16 As discussed in the Second Report, the Trustee has been informed that all Partner Banks
17 believe that the DDAs they hold have been fully reconciled across all banks and Partner Banks have
18 commenced repayment of DDA funds as follows:

- 19 • Since the Trustee's appointment, Evolve has distributed approximately \$5.369 million
20 of DDA funds to 3,317 end users across eight Fintech Partner platforms, with
21 approximately \$644,000 in funds remaining to be distributed to 12,339 end users across
22 five Fintech Partner platforms. Evolve has stated it plans to complete DDA funds
23 distribution in approximately two weeks from the date of this Report.
- 24 • Lineage holds \$388,769.25 of the remaining DDA funds to be distributed. Of the total
25 DDA funds held by Lineage, \$235,856.30 are held for one Fintech Partner that is
26 Lineage's direct DDA customer, and \$152,912.95 are held for another Fintech Partner
27 as part of an Evolve DDA program. Since the Trustee's appointment, Lineage has
28 distributed \$198,601 of DDA funds to approximately 1,000 end users associated with

1 one Fintech Partner and is working to distribute the remaining funds as soon as
2 practicable.

3 Neither American Bank nor AMG hold any DDAs or funds for Synapse end users. The Trustee
4 is not aware of any reported shortfall between cash held in DDAs at the Partner Banks and the amounts
5 owed to DDA end users as shown on the Synapse trial balances. The Trustee believes that Partner
6 Banks should be able to successfully repay the remaining DDA funds in the near future.

7 **2. FBO Account Reconciliation and Distributions**

8 The Partner Banks have reported the following results of the reconciliation of FBO Accounts:

- 9 • As of June 19, 2024, American Bank held \$43,339.67 of FBO funds related to a single
10 Fintech Partner. American Bank is in contact with this Fintech Partner to arrange
11 payment instructions and will release these funds as soon as practicable.
- 12 • Before the Trustee's appointment, AMG held approximately \$110 million in FBO
13 funds. Immediately before the Trustee's appointment, AMG reconciled and paid out
14 approximately \$55 million of FBO funds. As of the time of the Second Report, AMG
15 held \$57,732,939.67 in FBO funds for: (1) Fintech Partners that have not yet been paid,
16 and (2) to re-issue payments that failed or were returned through May 24, 2024. As of
17 the time of this Report, AMG has released approximately \$99 million of total FBO
18 funds to over 31,000 end users across 12 Fintech Partner platforms. AMG has
19 approximately \$11 million in FBO funds remaining to be distributed across
20 approximately twenty Fintech Partner platforms and/or to reissue failed payments.
21 AMG is continuing to work with Fintech Partners to obtain payment instructions and
22 release funds as soon as practicable. Approximately \$72,000 of the total FBO funds
23 held may be for unidentified Synapse Brokerage FBO customer use. AMG also holds
24 \$150,845.19 in unallocated interest associated with Synapse Brokerage sweep network
25 deposits, which was transferred into AMG FBO Accounts on June 7, 2024.
- 26 • Evolve holds \$46,926,558.83 in FBO funds from net Receiving Depository Financial
27 Institution activity from Synapse Brokerage.

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- Lineage holds an aggregate \$61,869,727.69 attributed to DDA and FBO Accounts in a single FBO Account. Based on Lineage’s reconciliation of \$388,769.25 of DDA funds, the remaining \$61,480,958.44 in this account are FBO funds.

3. *FBO Account Shortfall and Reconciliation Challenges*

As of the time of the Initial Report, reconciliation efforts indicated an estimated shortfall of \$85 million between the cash held in FBO Accounts among all Partner Banks and the Synapse trial balance. At the time of the Second Report, the Trustee has been informed by at least one Partner Bank that further reconciliation indicated an approximate shortfall of \$65 – \$96 million according to reconciliation progress to date. As of the time of this Report, the shortfall estimate continues to be in the range of \$65 – \$96 million. The range in estimated shortfall is due to there being held at certain Partner Banks approximately \$31 million in Synapse-related funds from interest and rebate payments; however, further reconciliation efforts must be completed to determine the extent to which these funds belong to end users.

D. Further Reconciliation Efforts

To facilitate further reconciliation efforts, the Trustee is working to collect and make available all Synapse ledger records, data, and systems on a confidential and read-only basis to all Partner Banks. The Trustee has been informed that the key Synapse systems that support and store ledger records are MongoDB and Amazon Web Services (“AWS”).

As of the date of this Report, the Trustee and proposed counsel have obtained administrative access to MongoDB from Synapse’s former officers. Lineage has offered to engage as an independent contractor, at its own expense, a former Synapse engineer familiar with the MongoDB database to access the database, make available all ledger records on a confidential and read-only basis to all Partner Banks and assist in interpreting ledger data to facilitate further reconciliation. The Trustee believes that this may advance reconciliation efforts and is coordinating with Lineage to this end.

At the time of the Second Report, the Trustee had been informed that master credentials to the Synapse AWS environment were known to only two former Synapse engineers, Samip Merha and Chester Mui. However, the Trustee has now been able to get into contact with Mr. Merha and Mr. Mui who have stated they do not have access to the AWS environment. To that end, the Trustee has

1 continued to work with AWS to gain access to the Synapse environment. Once this access is
2 established, the Trustee and proposed counsel plan to facilitate uploading read-only copies of the data
3 contained in AWS to a secure interbank data room for use by the Partner Banks in further
4 reconciliation efforts. The Trustee also intends to facilitate to the extent possible, ongoing interbank
5 communication and data sharing to enable further reconciliation.

6 To facilitate further reconciliation efforts and particularly to identify the amounts and sources
7 of any shortfall in FBO funds, the Partner Banks have discussed sharing historical interbank transfer
8 records. At least one Partner Bank has reported that their bank transfer records include historical
9 transfers to American Deposit Management Company (“ADMC”) in addition to transfers among the
10 Partner Banks. The Trustee was informed that ADMC managed a cash sweep network to which funds
11 in certain Synapse Cash Management Accounts were regularly swept during a period from September
12 2023 to December 2023. On June 20, 2024, the Trustee met with representatives from the Partner
13 Banks and ADMC to discuss these historical transfers and determine next steps for further
14 reconciliation efforts in partnership with ADMC and other banks in their sweep network as
15 appropriate. The Trustee appreciates Partner Banks’ reconciliation efforts to date.

16 **E. Communications with Regulators**

17 On June 20, 2024, the Trustee sent a letter to the Board of Governors of the Federal Reserve
18 System (the “Federal Reserve”) Chair Jerome Powell, the Federal Deposit Insurance Corporation (the
19 “FDIC”) Chairman Martin Gruenberg, the Office of the Comptroller of the Currency (the “OCC”)
20 Acting Comptroller of the Currency Michael Hsu, the United States Securities and Exchange
21 Commission (the “SEC”) Chair Gary Gensler and the Financial Industry Regulatory Authority
22 (“FINRA”) President and CEO Robert Cook, attached hereto as Exhibit A.

23 The Federal Reserve, FDIC and OCC regulate Partner Banks currently holding Synapse-
24 related funds: Evolve Bank & Trust is Federal Reserve-regulated; Lineage Bank is FDIC-regulated;
25 and AMG National Trust and American Bank, N.A. are OCC-regulated. While end user funds were
26 initially deposited through Synapse, which was not directly regulated by the Federal Reserve, FDIC
27 and OCC, the end users’ deposits now reside with the Partner Banks that they do regulate.
28 Additionally, the SEC and FINRA both regulate Synapse Brokerage.

1 The Trustee requested that these agencies make available to the public resources from their
2 respective consumer protection divisions, with the ultimate goal of helping end users and depositors
3 understand which Partner Bank holds their funds and facilitating end users' interaction and
4 communication with relevant Partner Banks, and, in the case of the SEC and FINRA, to help field end
5 user inquiries with Synapse Brokerage. The Trustee has extended the opportunity to each of these
6 agencies to provide a weekly update to the Court in connection with the trustee's status report every
7 Thursday either as an attachment to the weekly trustee's report or filed separately with the Court.

8 **F. Meetings with Parties in Interest**

9 Since June 14, 2024, the Trustee and proposed counsel have had follow-up meetings and
10 communications with known parties in interest as well as initial meetings and communications with
11 additional constituents.

12 **1. *Bank Partners***

13 The Trustee and proposed counsel continue to have regular meetings and communications with
14 the Partner Banks and their respective counsel, individually and collectively. The purpose of these
15 meetings has been to ensure the progress of and resolve open issues and questions related to ongoing
16 reconciliation efforts. On June 20, 2024, the Trustee met with Partner Banks and ADMC to discuss
17 interbank transfers and ADMC's engagement in ongoing reconciliation efforts.

18 **2. *Debtor's Former Officers, Key Employees and Contractors***

19 The Trustee and proposed counsel continue to be in communication with Mr. Pathak, Ms.
20 Guerin, Pam Wismer, an independent contractor from Ascent CFO Solutions who provided part-time
21 CFO services to the Debtor and Jack Doan, the former chief human resources officer of the Debtor.
22 The purpose of these meetings and communications has been to discuss outstanding questions and
23 issues related to the ongoing reconciliation efforts and to obtain key contacts, systems access and data
24 critical to the reconciliation process.

25 **3. *Financial Technology Platform Partners***

26 The Trustee and proposed counsel have continued to meet and communicate with many of the
27 Fintech Partners of Synapse and their respective counsel, including Changed Inc., Copper, Gig Wage,
28 Grabr, Gravy, IDT, Juno, Latitud, Mercury, Sunny Day Fund, TClub (d/b/a Abound), Yieldstreet and

1 Yotta. The purpose of these meetings and communications has been to connect Fintech Partners with
2 Partner Banks to facilitate reconciliation efforts against Fintech Partner ledgers and provide key
3 updates on reconciliation efforts.

4 **4. *Financial Advisors***

5 The Trustee and proposed counsel have received several in-bound communications from
6 individual and institution experts in finance, accounting and forensics. The Trustee through proposed
7 counsel has met with certain of these firms and is currently discussing terms of engagement with one
8 of them. The Trustee believes that engaging an experienced restructuring financial advisor with
9 restructuring, forensic accounting and asset sale expertise would likely benefit the estate and end users
10 by facilitating protection and retrieval of Synapse data, by potentially enabling the estate to raise funds
11 through asset sales and in many other ways.

12 **5. *End Users***

13 The Trustee and proposed counsel have had additional meetings and communications with
14 affected end users. The purpose of these meetings and communications has been to further understand
15 the impact to end users and inform end users that the Trustee's top priority continues to be restoring
16 access to end user funds as soon as possible.

17 **6. *Kroll, Inc.***

18 The Trustee and proposed counsel have continued to meet with and maintain open lines of
19 communication with Kroll, Inc., which was engaged by the Synapse Audit Committee to conduct an
20 audit and reconciliation of the Synapse ledgers in 2023. The purpose of these meetings and
21 communications has been to further discuss the findings of the audit and reconciliation conducted by
22 the Kroll team as regards Synapse systems, transaction history and governance.

23 **7. *Regulatory and Government Bodies***

24 On June 20, 2024, the Trustee sent a letter to the Federal Reserve, the FDIC, the OCC, FINRA
25 and the SEC. The purpose of this letter and further communications with these agencies has been to
26 request that these agencies make available to the public resources from their respective consumer
27 protection divisions with the goal of helping end users understand which Partner Banks holds their
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1 funds. The Trustee also offered these agencies an opportunity to provide weekly updates on their
2 efforts either as an attachment to the Trustee’s report or as a separate filing with the Court.

3 **8. *Regulatory Counsel***

4 The Trustee and proposed counsel have continued to be in communication with Lowenstein
5 Sandler LLP, regulatory counsel to the Debtor and Synapse Brokerage. The purpose of these meetings
6 has been to discuss the relationship between the trusteeship of Synapse and the regulatory history of
7 Synapse Brokerage, including recent communications that Lowenstein Sandler LLP has had with
8 FINRA and SEC staff concerning Synapse Brokerage.

9 **9. *Brokerage Subsidiary Constituents***

10 The Trustee and proposed counsel have continued to communicate with Jeff Stanley, the
11 former president and chief executive officer of Synapse Brokerage. The purpose of these
12 communications has been to discuss Synapse Brokerage’s operational funds and accounts and their
13 location and the types and location of accounts holding funds belonging to end users of Synapse
14 brokerage.

15 **10. *Vendors and Suppliers***

16 The Trustee continues to receive in-bound communications from creditors with unpaid
17 invoices and the like. The Trustee continues to focus and has instructed proposed counsel to focus on
18 restoration of end user access as a priority over these inquiries. For certain “critical vendors” such as
19 AWS and MongoDB, which host or provide database services, the Trustee has through proposed
20 counsel has reached out to discuss continued service and options to obtain credentials and access to
21 AWS.

22 **11. *Potential Asset Purchasers***

23 The Trustee continues to receive in-bound inquiries from potential purchasers of assets of the
24 Debtor. Though the Trustee has been focusing primarily on restoring end user access to funds, the
25 Trustee through proposed counsel has been working to engage a financial advisory firm with strong
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1 asset sale capabilities. Once the Trustee and the financial advisory firm have agreed on terms of
2 engagement, the Trustee expects that this firm will take steps to advance a sale process.

3 **II.**

4 **SIGNIFICANT ISSUES**

5 **A. Proceeds from Sales, Cash Collateral and Wind-Down Budget**

6 The Debtor continues to appear to have no available liquidity and has no arrangement with
7 secured lenders to access cash collateral in the event that the estate obtains funding. The Trustee and
8 proposed counsel are working to identify sources of funding for the estate and developing a winddown
9 plan that minimizes expenses. As described above, the Trustee and proposed counsel have had further
10 communications with various parties regarding offers to purchase assets from the estate and related
11 financing. The Trustee has had communications to engage a financial advisor with strong asset sale
12 capabilities to evaluate and potentially conduct an asset sale process while in chapter 11. The Trustee
13 and proposed counsel are continuing to evaluate the option to convert to chapter 7 in the future, under
14 which a liquidation may take place alternatively.

15 **B. Conversion**

16 The Trustee believes this Case should remain in chapter 11 for the time being, and, as
17 of the time of this Report, is not seeking conversion to chapter 7.

18 **III.**

19 **CONCLUSION AND RECOMMENDATION**

20 The Trustee continues to facilitate the Partner Bank's additional efforts with regard to
21 reconciliation, settlement payments among banks and identifying the sources of any shortfalls. The
22 Partner Banks have continued to review interbank transfers and have commenced communication with
23 ADMC to investigate the sources of potential shortfalls and reconcile accounts across the broader
24 network of Synapse partners. By the end of June, the Trustee and proposed counsel will complete their
25 work to obtain key systems access, support Lineage's engagement of a former Synapse engineer and
26 populate the existing data room with Synapse ledger records, to facilitate further reconciliation. In the
27 meantime, the Trustee has urged certain regulatory agencies to deploy consumer protection resources
28 to assist with end user inquires. The Trustee and proposed counsel will continue to address other estate

1 administrative matters, including the potential sale of Synapse’s assets, with a view to progress
2 reconciliation efforts and further distribution of end user funds.

3 The Trustee will present the foregoing at the Status Conference scheduled for June 21, 2024,
4 at 10:00 a.m. Pacific Time.

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DATED: June 20, 2024

JELENA MCWILLIAMS
CHAPTER 11 TRUSTEE

By: /s/ Jelena McWilliams

Jelena McWilliams

Chapter 11 Trustee

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Exhibit A

June 20, 2024

Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Michael J. Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street S.W.
Washington, D.C. 20219

Gary Gensler
Chair
United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Robert W. Cook
President and Chief Executive Officer
Financial Industry Regulatory Authority
1700 K Street, N.W.
Washington, D.C. 20006

**RE: Request for Agency Resources to Assist End-Users Whose Funds Were
Affected by the Synapse Financial Technologies, Inc. Bankruptcy**

Dear Chair Powell, Chairman Gruenberg, Acting Comptroller Hsu, Chair Gensler and Mr. Cook:

On April 22, 2024, Synapse Financial Technologies, Inc. (“Synapse”) filed a voluntary Chapter 11 petition, schedules and statement of financial affairs. On May 24, 2024, the United

States Trustee appointed me as Chapter 11 Trustee for Synapse pursuant to an order by the United States Bankruptcy Court for the Central District of California, San Fernando Valley Division (the “Court”). Synapse’s bankruptcy has left tens of thousands of end-users of financial technology platforms that were customers of Synapse stranded without access to their funds. In a hearing announcing the trustee’s appointment, Judge Martin Barash of the Central District of California noted that the immediate goal of the trustee is to reconcile ledgers and return money to end-users and has instructed the trustee to “continue the process of sharing information and hopefully reaching some agreement with the participating banks that allows funds to be returned to end users, to the rightful owners of those funds, as soon as humanly possible.”¹ To that end, I have been assisting partner banks of Synapse (“Partner Banks”) with the reconciliation of their own records with the Synapse ledger and those of the relevant financial technology platforms (collectively, the “Fintech Partners”). For your reference, enclosed as [Attachment A](#) and [Attachment B](#), respectively, are the two status reports submitted to the Court to date.

Partner Banks

It is my understanding that, beginning in 2014, Synapse opened demand deposit accounts (“DDAs”) on behalf of approximately 100 Fintech Partners at Partner Banks. Beginning in 2020, Synapse developed a cash management program in connection with its subsidiary, Synapse Brokerage LLC (“Synapse Brokerage”). Synapse Brokerage established custodial accounts for its Fintech Partners and their end-users to manage funds on behalf of, or “for the benefit of,” one or more of end-users without assuming legal ownership of those accounts (“FBO Accounts”). The Partner Banks have stated that they hold end-users’ funds in FBO Accounts held either in the name of Synapse or Synapse Brokerage and were not aware which end-user’s funds may comprise any one FBO Account. Since all Synapse employees were terminated prior to the trustee’s appointment on May 24, 2024, and the access to Synapse’s database and the underlying data has been difficult to obtain, Partner Banks are engaged in an extensive and elaborate master reconciliation effort to ensure that end-users’ deposits are returned promptly. Partner Banks have informed me that DDAs can be easily reconciled and such end-users repaid, and those efforts are successfully underway. However, identifying which end-users’ funds are held in FBO Accounts is complicated by the structure of those accounts. Moreover, there appears to be a shortfall in the overall FBO Accounts funds in the range of \$65 million to \$96 million according to reconciliation progress to date. Not every Partner Bank has reported an estimated shortfall in its deposits on-hand as compared to the Synapse trial balance and Fintech Partners’ ledgers.

While end-user funds were initially transferred to Synapse, those funds are now deposited with the Partner Banks, which are within prudential banking agencies’ supervisory purview. The Federal Reserve, FDIC and OCC regulate at least one of the Partner Banks currently holding Synapse-related funds: Evolve Bank & Trust is Federal Reserve-regulated; Lineage Bank is FDIC-regulated; and AMG National Trust and American Bank, N.A. are OCC-regulated.

The Partner Banks have been working diligently to reconcile their ledgers, and regulators should encourage these reconciliation efforts to proceed. While this process continues, there is a great need for facilitation of communication with affected end-users, some of whom do not know which Partner Bank holds their funds due to the complexity of the account and payment structures. The Federal Reserve, FDIC and OCC each have consumer protection divisions well

¹ United States Bankruptcy Court for the Central District of California, May 24, 2024 hearing.

equipped to address consumer inquiries and otherwise educate and assist consumers with respect to the agencies' regulated institutions. I respectfully ask that the Federal Reserve, FDIC and OCC make consumer protection staff and other resources available to the public to help end-users understand which Partner Bank holds their deposits and facilitate end-users' interaction and communication with relevant Partner Banks.

Synapse Brokerage

Synapse Brokerage is not in bankruptcy and therefore not within the Chapter 11 process, and it is my understanding that I do not have legal authority to directly manage the businesses of Synapse Brokerage as Chapter 11 Trustee for Synapse. I have been told by former Synapse and Synapse Brokerage employees that Synapse Brokerage and Synapse shared employees, functions and systems. All employees of Synapse Brokerage were terminated prior to my appointment on May 24, 2024, further complicating end-users' efforts to regain their funds or communicate with Synapse Brokerage. At this time, Synapse Brokerage does not have any remaining employees who could interpret Synapse or Synapse Brokerage ledgers to assist in the reconciliation efforts or respond to end-users' inquiries.

Synapse Brokerage is SEC-regulated and a FINRA member. The SEC and FINRA also have extensive consumer protection resources, and I respectfully ask that the SEC and FINRA make their consumer protection resources available to the public, with the ultimate goal of helping end-users whose funds are held in FBO accounts in the name of Synapse Brokerage.

As part of their provision of consumer protection resources, I also respectfully ask the Federal Reserve, FDIC, OCC, SEC and FINRA to establish a public-facing webpage, either jointly or in connection with your agencies' existing websites, that will provide contact information at each agency to which affected end-users may direct their inquiries. I also ask that your agencies have personnel on standby, ready to respond to end-users' questions and process end-users' inquiries as promptly as practicable.

Moreover, I would like to extend the opportunity to each of your agencies to provide a weekly update to the Court in connection with the trustee's status report every Thursday, which is due to the Court no later than 9:00 p.m. Eastern Time.² You are welcome to provide such report to me by 7 p.m. Eastern Time every Thursday for inclusion as an attachment to the weekly trustee's report or file it separately with the Court.

The impact of Synapse's bankruptcy on end-users has been devastating. I understand that, without these funds, many end-users are unable to pay for basic living expenses and food. I appreciate your prompt attention to this request and respectfully request that your agencies act on it as quickly as possible. Please do not hesitate to contact Will Giles (wgiles@cravath.com; 202-869-7728) or Caroline Shinkle (cshinkle@cravath.com; 212-474-1743) with any questions regarding this request.

² [synapse-financial_trustee-order-to-appoint_20240524.pdf \(cravath.com\)](#)

Respectfully,

Jelena McWilliams

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Exhibit B

Evolve Bank & Trust: Update on Ledger Reconciliation and Release of End User Funds

Below is an update regarding efforts by Evolve Bank & Trust (“Evolve”), both independently and in collaboration with other banks involved in the Synapse Financial Technologies, Inc. (“Synapse”) ecosystem (together, “Synapse Ecosystem Banks”), to perform ledger reconciliation and release end user funds in connection with Synapse programs.

I. Evolve DDA Program

Evolve has made significant progress on distributing funds to Evolve DDA customers. As of June 20, 2024, over 88 percent of those funds have been distributed to Evolve DDA customers. Evolve is hopeful that it will be able to finalize distributions in the coming two weeks.

II. Synapse Brokerage LLC (“Synapse Brokerage”) Cash Management Program

Evolve continues to work with the Chapter 11 Trustee and Synapse Ecosystem Banks to perform ledger reconciliation activities and discern an appropriate and compliant methodology for distributing Synapse Brokerage end user funds related to Synapse Brokerage’s cash management program. Below is a summary of the substantial obstacles that Evolve and Synapse Ecosystem Banks face in connection with these efforts.

- 1) Reconciliation is Necessary Across the Synapse Ecosystem. Evolve was not a Program Bank for purposes of Synapse Brokerage’s cash management program and therefore was not holding end user deposits as part of the Cash Management Account program offered by Synapse Brokerage to its customers. However, Evolve is holding approximately \$46MM in accounts that were created so it could continue to perform payment processing activities on behalf of Synapse. As Evolve has communicated on a number of occasions, it has identified numerous material discrepancies in the Synapse Brokerage program ledgers that were provided by Synapse to Synapse Ecosystem Banks that do not align with actual funds movement into or out of Evolve.

As Synapse Brokerage end users had funds and transaction activity at multiple institutions across the Synapse Ecosystem, Evolve sees significant issues with the ability of any bank to fully reconcile funds and distribute them to End Users without more work being performed to collectively gather and analyze all relevant data. Now that the Synapse Ecosystem Banks have access to AWS and MongoDB data from Synapse and Synapse Brokerage, this work is being performed and shared amongst the Synapse Ecosystem Banks. Importantly, any reconciliations have to account for the fact that other Synapse Ecosystem Banks may be Program Banks for purposes of Synapse Brokerage’s Cash Management Program while Evolve is not and never has been a Program Bank. Evolve believes that this has implications for how Synapse and Synapse Brokerage may have calculated their ledgers, as well as other material implications for Synapse Brokerage.

2) Material Irregularities in Synapse's Ledgers Impact All Synapse Ecosystem Banks.

Evolve has continued to assess ledgers in possession of and shared by other Synapse Ecosystem Banks. This work has only continued to underscore the severity of Synapse's ledger irregularities for Synapse Brokerage fintechs and end users, across all institutions:

- For example, Evolve was provided a ledger from Synapse that is dated as of April 11, 2024 for American Bank, AMG and six Program Banks via American Depository Management (ADM). In this ledger it states that these institutions held total balances in the amount of \$109MM for Yotta End Users (\$4.6MM, \$34.5MM and \$69.9MM respectively). In total there was \$120.8MM in funds at these six Program Banks via ADM of which \$69.9MM belonged to Yotta, \$14.2MM was Yield Street and \$21.5MM is Juno's according to the Synapse ledger dated April 11, 2024.
- One month later, the Ledger provided by Synapse for May 17, 2024 shows only \$1.4MM in Yotta End User funds at AMG, \$0 at American Bank and \$0 at the Program Banks via ADM. Evolve has confirmed that it has not received funds from these institutions between April 11 – May 16, 2024.
- A detailed investigation of what happened to these funds, or alternatively, why the Synapse-provided ledger reflected money movement that did not actually occur, must be undertaken to determine their actual disposition. One of the key questions that this investigation must answer is: How did the Synapse ledger amounts for Yotta end users at AMG, American Bank and the six Program Banks via ADM, go down but Yotta end users have not been paid any funds by any of these entities? Again, no funds were sent to Evolve during this time period.

These irregularities in Synapse's ledgering of Yotta end user funds are just one example of the many discrepancies that Evolve has observed, and which give it great pause regarding any Synapse Ecosystem Bank making any payments to Synapse Brokerage end users until a full reconciliation by all banks is complete. Evolve strongly supports, and hopes to participate in, any effort by the Trustee or other banks in attempting to better reconcile the actual/correct ledger amounts in the Synapse Brokerage program.

3) Explanation Needed from Synapse Brokerage. Lastly, given Evolve's role as payment processor for RDFI activity, it can only state the funds it has are net payment activity at Evolve for the Cash Management Account. Synapse Brokerage needs to explain the discrepancies that Evolve (and other banks) have observed, as Evolve is unable to do so given its limited role in the Synapse Brokerage Cash Management Program.

As previously stated, Evolve remains willing to send the funds it has in the Synapse titled FBO to the appropriate institution that has a more complete view as to the entire customer relationship and the amounts owed to them. In parallel, Evolve will continue cooperating with the Trustee and working with the Synapse Ecosystem Banks to perform reconciliation and determine the most appropriate path forward for funds held at Evolve.

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Exhibit C

**Lineage Bank, Franklin, Tennessee
Status Report to Chapter 11 Trustee
June 18, 2024**

1. Introduction

Lineage operated primarily as a third-party payment processor for Synapse Financial Technologies (“Synapse”). Simply put, Lineage originated ACH and wire transfers based on money movement instructions from Synapse. Lineage has reconciled the cash that it processed at the direction of Synapse against Federal Reserve records. Lineage’s cash balance of FBO funds reconciles with Federal Reserve records.

At the time Synapse declared bankruptcy, Lineage had no direct relationships with the fintech customers linked to Synapse or their end users, with the exception of one DDA program with one fintech. Lineage began disbursing funds to the end-users of said DDA program fintech on June 14, 2024.

2. Lineage’s Reconciliation Efforts and Data

Despite multiple and substantial complications with reconciliation, some of which are outlined below, Lineage has expended significant efforts to collect and analyze available data. Lineage’s reconciliation efforts to date include, but are not limited to, the following:

- Compared millions of Synapse-directed ACH transactions processed by Lineage to their corresponding Synapse transactions. This process is ongoing.
- Reconciled its direct DDA customer funds based on the fintech’s ledger and distributed those funds to end-users using a vendor engaged by Lineage.
- Researched and shared concerns with the Trustee and other partner banks regarding numerous and ongoing discrepancies in the Synapse-provided trial balance.
- Reviewed and analyzed data shared by the other partner banks.
- Reviewed and analyzed Synapse data shared by the Trustee.
- Provided the Trustee and other partner banks with requests for information needed and action items critical to the reconciliation process.
- Met and conferred with multiple Synapse-related fintechs.
- Met and conferred with other partner banks.

3. Challenges with Reconciliation

Lineage Bank believes it is in the best interest of transparency and public interest to disclose its current observations about some of the perceived challenges in the reconciliation process.

- Synapse’s business model was dependent on its accessibility to multiple FDIC-insured banking institutions. Against the backdrop of a perceived “modern” and “more accessible” banking framework, Synapse spread end user funds across multiple banks. Thus, a single end user could have a \$50 balance at Bank A, a \$100 balance at Bank B and a \$50 overdraft at Bank C.

- The Synapse-provided trial balance data available to Lineage is contradictory, does not match the flow of funds, and cannot be verified at the fintech platform level or at the individual end-user level based on information available to Lineage.
- Prior to bankruptcy, Synapse frequently moved lump sums of funds from one bank partner to another within the Synapse ecosystem. These interbank transfers often involved aggregates of hundreds of millions of dollars over extended periods. Based on the information currently available to the parties, these large transfers of end user funds by Synapse were not allocated by Synapse to specific end users or fintechs, which greatly complicates reconciliation. Stated differently, these large movements of cash by Synapse from one bank to another were not specifically linked to fintechs or end users at the time the transfers occurred.
- The reconciliation process is further complicated by Synapse's assignment, apparently on an arbitrary basis, of millions in missing funds to partner banks in its post-bankruptcy final trial balance. Synapse's final trial balance reflects millions of missing funds in the Synapse ecosystem. Lineage, the partner banks, and the Trustee presently lack a clear understanding of the exact amount or the origin of this cash shortfall and Lineage Bank cannot determine how or why this shortfall in the ecosystem occurred. This uncertainty, along with one partner bank's distribution of over \$50 million primarily to one fintech's end users prior to the appointment of the Chapter 11 trustee complicates any attempt to fairly allocate the available funds among the affected parties.

###

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is:

Cravath, Swaine & Moore LLP, 2 Manhattan West, 375 Ninth Avenue, New York, NY 10001

A true and correct copy of the foregoing document entitled (*specify*): _____

CHAPTER 11 TRUSTEE'S THIRD STATUS REPORT

will be served or was served **(a)** on the judge in chambers in the form and manner required by LBR 5005-2(d); and **(b)** in the manner stated below:

1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF): Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On (*date*) 6/20/2024, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

Raymond O Aghaian raghaian@kilpatricktownsend.com, ndelman@kilpatricktownsend.com
Ron Bender rb@lnbyg.com
J Scott Bovitz bovitz@bovitz-spitzer.com
Rudy J Cerone rcerone@mcglinchey.com, lgraff@mcglinchey.com;jingargiola@mcglinchey.com
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Beth Ann R. Young bry@lnbyg.com, bry@lnbyb.com

This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.

Service information continued on attached page

2. SERVED BY UNITED STATES MAIL:

On *(date)* 6/20/2024, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

None.

Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on *(date)* 6/20/2024, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

None.

Service information continued on attached page

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

6/20/2024
Date

Robert N. Greenfield
Printed Name

/s/ Robert N. Greenfield
Signature