

# Block: How Inflated User Metrics and “Frictionless” Fraud Facilitation Enabled Insiders To Cash Out Over \$1 Billion

 [hindenburchresearch.com/block](https://hindenburchresearch.com/block)

March 23, 2023

- Block Inc., formerly known as Square Inc., is a \$44 billion market cap company that claims to have developed a “frictionless” and “magical” financial technology with a mission to empower the “unbanked” and the “underbanked”.
- Our 2-year investigation has concluded that Block has systematically taken advantage of the demographics it claims to be helping. The “magic” behind Block’s business has not been disruptive innovation, but rather the company’s willingness to facilitate fraud against consumers and the government, avoid regulation, dress up predatory loans and fees as revolutionary technology, and mislead investors with inflated metrics.
- Our research involved dozens of interviews with former employees, partners, and industry experts, extensive review of regulatory and litigation records, and FOIA and public records requests.
- Most analysts are excited about the post-pandemic surge of Block’s Cash App platform, with expectations that its 51 million monthly transacting active users and low customer acquisition costs will drive high margin growth and serve as a future platform to offer new products.
- Our research indicates, however, that Block has wildly overstated its genuine user counts and has understated its customer acquisition costs. Former employees estimated that 40%-75% of accounts they reviewed were fake, involved in fraud, or were additional accounts tied to a single individual.
- Core to the issue is that Block has embraced one traditionally very “underbanked” segment of the population: criminals. The company’s “Wild West” approach to compliance made it easy for bad actors to mass-create accounts for identity fraud and other scams, then extract stolen funds quickly.
- Even when users were caught engaging in fraud or other prohibited activity, Block blacklisted the account without banning the user. A former customer service rep shared screenshots showing how blacklisted accounts were regularly associated with dozens or hundreds of other *active* accounts suspected of fraud. This phenomenon of allowing blacklisted users was so common that rappers bragged about it in hip hop songs.
- Block obfuscates how many individuals are on the Cash App platform by reporting misleading “transacting active” metrics filled with fake and duplicate accounts. Block can and should clarify to investors an estimate on how many unique *people* actually use Cash App.

- CEO Jack Dorsey has publicly touted how Cash App is mentioned in hundreds of hip hop songs as evidence of its mainstream appeal. A review of those songs show that the artists are not generally rapping about Cash App’s smooth user interface—many describe using it to scam, traffic drugs or even pay for murder. [[See our compilation video on this here](#)]
- “I paid them hitters through Cash App”— Block paid to promote a video for a song called “Cash App” which described paying contract killers through the app. The song’s artist was later arrested for attempted murder.
- Cash App was also cited “by far” as the top app used in reported U.S. sex trafficking, according to a leading non-profit organization. Multiple Department of Justice complaints outline how Cash App has been used to facilitate sex trafficking, including sex trafficking of minors.
- There is even a gang named after Cash App: In 2021, Baltimore authorities charged members of the “Cash App” gang with distribution of fentanyl in a West Baltimore neighborhood, according to news reports and criminal records.
- Beyond facilitating payments for criminal activity, the platform has been overrun with scam accounts and fake users, according to numerous interviews with former employees.
- Examples of obvious distortions abound: “Jack Dorsey” has multiple fake accounts, including some that appear aimed at scamming Cash App users. “Elon Musk” and “Donald Trump” have dozens.
- To test this, we turned our accounts into “Donald Trump” and “Elon Musk” and were easily able to send and receive money. We ordered a Cash Card under our obviously fake Donald Trump account, checking to see if Cash App’s compliance would take issue—the card promptly arrived in the mail.
- Former employees described how Cash App suppressed internal concerns and ignored user pleas for help as criminal activity and fraud ran rampant on its platform. This appeared to be an effort to grow Cash App’s user base by strategically disregarding Anti Money Laundering (AML) rules.
- The COVID-19 pandemic and nationwide lockdowns posed an existential threat to Block’s key driver of gross profit at the time, merchant services.
- In this environment, amid Cash App’s anti-compliance free-for-all, the app facilitated a massive wave of government COVID-relief payments. CEO Jack Dorsey Tweeted that users could get government payments through Cash App “immediately” with “no bank account needed” due to its frictionless technology.
- Within weeks of Cash App accounts receiving their first government payments, states were seeking to claw back suspected fraudulent payments—Washington State wanted more than \$200 million back from payment processors while Arizona sought to recover \$500 million, former employees told us.

- Once again, the signs were hard to miss. Rapper “Nuke Bizzle”, made a popular music video about committing COVID fraud. Several weeks later, he was arrested and eventually convicted for committing COVID fraud. The only payment provider mentioned in the indictment was Cash App, which was used to facilitate the fraudulent payments.
- We filed public records requests to learn more about Block’s role in facilitating pandemic relief fraud and received answers from several states.
- Massachusetts sought to claw back over 69,000 unemployment payments from Cash App accounts just four months into the pandemic. Suspect transactions at Cash App’s partner bank were disproportionate, exceeding major banks like JP Morgan and Wells Fargo, despite the latter banks having 4x-5x as many deposit accounts.
- In Ohio, Cash App’s partner bank had 8x the suspect pandemic-related unemployment payments as the bank that processed the most unemployment claims in the state, even though the latter bank processed 2x the claims as Cash App’s, according to data we obtained via a public records request.
- The data shows that compared to its Ohio competitor, Cash App’s partner bank had nearly 10x the number of applicants who applied for benefits through a bank account used by another claimant – a clear red flag of fraud.
- Block had obvious compliance lapses that made fraud easy, such as permitting single accounts to receive unemployment payments on behalf of multiple individuals from various states and ineffective address verification.
- In an apparent effort to preserve its growth engine, Cash App ignored internal employee concerns, along with warnings from the Secret Service, the U.S. Department of Labor OIG, FinCEN, and State Regulators which all specifically flagged the issue of multiple COVID relief payments going to the same account as an obvious sign of fraud.
- Block reported a pandemic surge in user counts and revenue, ignoring the contribution of widespread fraudulent accounts and payments. The new business provided a sharp one-time increase to Block’s stock, which rose 639% in 18 months during the pandemic.
- As Block’s stock soared on the back of its facilitation of fraud, co-founders Jack Dorsey and James McKelvey collectively sold over \$1 billion of stock during the pandemic. Other executives, including CFO Amrita Ahuja and the lead manager for Cash App Brian Grassadonia, also dumped millions of dollars in stock.
- With its influx of pandemic Cash App users, our research shows Block has quietly fueled its profitability by avoiding a key banking regulation meant to protect merchants. “Interchange fees” are fees charged to merchants for accepting use of various payment cards.
- Congress passed a law that legally caps “interchange fees” charged by large banks that have over \$10 billion in assets. Despite having \$31 billion in assets, Block avoids these regulations by routing payments through a small bank and gouging merchants with elevated fees.

- Block includes only a single vague reference in its filings acknowledging it earns revenue from “interchange fees”. It has never revealed the full economics of this category, yet roughly one-third of Cash App’s revenue came from this opaque source, according to a 2022 Credit Suisse research report.
- Competitor PayPal has disclosed it is under investigation by both the SEC and the CFPB over its similar use of a small bank to avoid “interchange fee” caps. A Freedom of Information Act (FOIA) request we filed with the SEC indicates that Block may be part of a similar investigation.
- Block’s \$29 billion deal to acquire ‘buy now pay later’ (BNPL) service Afterpay closed in January 2022. Afterpay has been celebrated by Block as a major financial innovation, allowing users to buy things like a pair of shoes or a t-shirt and pay over time, only incurring massive fees if subsequent payments are late.
- Afterpay was designed in a way that avoided responsible lending rules in its native Australia, extending a form of credit to users without income verification or credit checks. The service doesn’t technically charge “interest”, but late fees can reach APR equivalents as high as 289%.
- The acquisition is flopping. In 2022, the year Afterpay was acquired, it lost \$357 million, accelerating from 2021 losses of \$184 million.
- Fitch Ratings reported that Afterpay delinquencies through March 2022 had more than doubled to 4.1%, from 1.7% in June 2021 (just prior to the announced acquisition). Total processing volume declined -4.8% from the previous year.
- Block regularly hypes other mundane or predatory sources of revenue as technological breakthroughs. Roughly 31% of Cash App’s revenue comes from “instant deposit” which Block says it pioneered and works as if by “magic”. Every other major competitor we checked provides a similar service at comparable or better rates.
- On a purely fundamental basis, even before factoring in the findings of our investigation, we see downside of between 65% to 75% in Block shares. Block reported a 1% year over year revenue decline and a GAAP loss of \$540.7 million in 2022. Analysts have future expectations of GAAP unprofitability and the company has warned it may not be profitable.
- Despite this, Block is valued like a profitable growth company at (i) an EV/EBITDA multiple of 60x; (ii) a forward 2023 “adjusted” earnings multiple of 41x; and (iii) a price to tangible book ratio of 13.1x, all wildly out of line with fintech peers.
- Despite its current rich multiples, Block is also facing threats from key competitors like Zelle, Venmo/Paypal and fast-growing payment solutions from smartphone powerhouses like Apple and Google. Apple has grown Apple Pay activations from 20% in 2017 to over 70% in 2022 and now leads in digital wallet market share.
- In sum, we think Block has misled investors on key metrics, and embraced predatory offerings and compliance worst-practices in order to fuel growth and profit from facilitation of fraud against consumers and the government.

- We also believe Jack Dorsey has built an empire—and amassed a \$5 billion personal fortune—professing to care deeply about the demographics he is taking advantage of. With Dorsey and top executives already having sold over \$1 billion in equity on Block’s meteoric pandemic run higher, they have ensured they will be fine, regardless of the outcome for everyone else.

*Initial Disclosure: After extensive research, we have taken a short position in shares of Block, Inc. (NYSE: SQ). This report represents our opinion, and we encourage every reader to do their own due diligence. Please see our full disclaimer at the bottom of the report.*

## Background: Block’s Early Origins

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Block, Inc. (SQ), founded by entrepreneur Jack Dorsey, is a Silicon Valley darling, offering payment and mobile banking services for merchants and consumers.

The company, then named Square, began operations in 2009 and emerged with a disruptive idea: a tiny card reader that could plug into a smartphone’s headphone jack to easily enable artists and vendors to take credit card payments.

From there, the company developed tablet-style point-of-sale systems, a market that grew immensely, resulting in strong competition including from companies like Toast and Clover. Once the point-of-sale market adapted to Block’s disruption, the company looked elsewhere to keep its growth story alive.



(Square’s original square-shaped card-processing device)

In 2013, a month following PayPal’s acquisition of Venmo, Block launched Square Cash, later rebranded Cash App. It aimed to compete with Venmo by providing financial services to consumers, starting with a peer-to-peer mobile app where users could send and receive money.

In 2014, following the surge of the peer to peer lending market, Block began offering short-term loans to its merchant base, with Block receiving a percentage of every transaction until the loans were repaid. [Pg. 5] [1,2,3]

In 2017, Block expanded toward more traditional banking by introducing the “Cash Card,” a prepaid debit card allowing users to transact outside of their virtual Cash App wallet. [Pg. 10]

In 2018, following bitcoin’s spike in price and popularity, Cash App allowed users to move funds in their Cash App wallet into Bitcoin.

By 2019, following Robinhood's surge in popularity, Block also began offering free stock trading. [Pg. 14]

## **Bull Case: Cash App's Rapid Adoption Will Lead to Exponential, High-Margin Growth**

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Prior to 2020, the merchant services side of Block's business drove the company's profitability. As of the end of 2019, merchant services accounted for \$1.39 billion in gross profit, compared to the consumer-facing Cash App, which accounted for only \$457.6 million of gross profit.[1]

That changed during the pandemic, as many merchant businesses locked down and individuals activated millions of Cash App accounts to receive government stimulus and unemployment payments.

By the end of 2019, Cash App had 24 million monthly active users, according to the company's Q4 letter to shareholders. [Pg. 2] By the end of 2020, Cash App reported 36 million monthly actives, which has since grown to 51 million. [Pg. 2]

The explosion of user growth resulted in higher gross profit. By the end of 2020, Cash App gross profit reached \$1.2 billion, a 170% growth rate from the prior year, compared with merchant services gross profit of \$1.5 billion, an 8% growth rate from the prior year.[2]

During the company's Q3 earnings call in November 2021, Jack Dorsey explained how Cash App is an ideal platform to introduce new services to customers because of its low customer acquisition costs, owing to its viral appeal:

“So, we have these incredible viral loop and network effects in peer-to-peer, and now we get to look forward towards being more of a commerce front end.”

In September 2022, Block CFO Amrita Ahuja cited the company's purchase of buy-now-pay-later company Afterpay as an example of this strategy, saying it created “an incredible opportunity for us, particularly when you think about leveraging that capability across Cash App 80 million annual actives.”[3]

Investors are now betting that Cash App's growing millions of users will create a ready market for Block's future high-margin financial products.

“Block expects Cash App Commerce to be one of Cash App's primary gross profit growth drivers in the coming years and is investing accordingly,” Credit Suisse said after a Q3 2022 meeting with Block.

Analysts have highlighted the reliance on Cash App as the key driver of Block's stock going forward.

“In our view, performance of the Cash App business remains the most important driver of the stock,” Bank of America said in an October 2022 report.

As of March 23<sup>rd</sup>, 2023, 23 sell-side analysts had a “Buy” rating on Block shares, 5 had a “Hold” rating, and only 2 had a “Sell” rating, according to [MarketBeat](#).

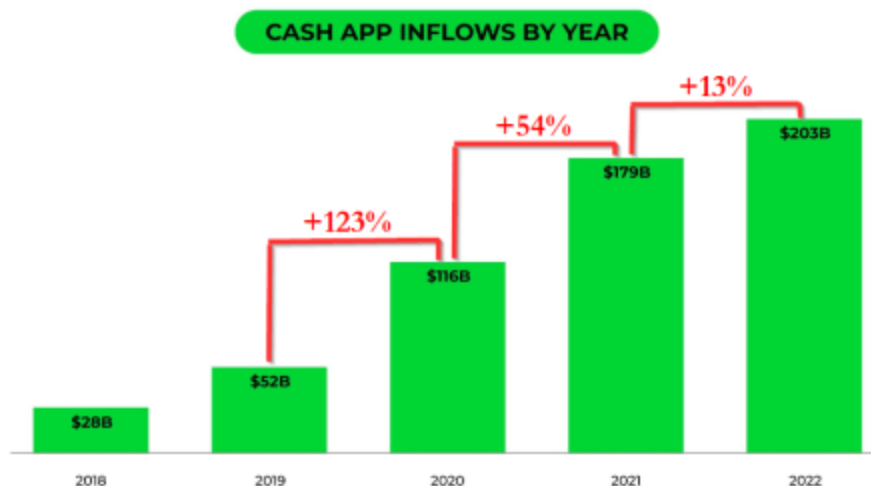
The company’s promise has drawn in popular investors like Cathie Wood, whose ARK Funds hold a combined \$651.5 million in Block stock, comprising just over 5% of the manager’s holdings, according to [Cathie’s Ark](#), a site that tracks ARK’s holdings.

## Reality: Block Has 65%-75% Fundamental Downside From Current Levels, Even If Investors Were To Ignore Our Investigation Entirely

Block’s revenue declined ~1% in 2022 versus the prior year. [Pg. 69] On a GAAP basis, Block posted a net loss of \$540.7 million for 2022. Analysts expect Block will lose \$208 million in 2023, according to FactSet estimates. Block’s 2022 annual report warned:

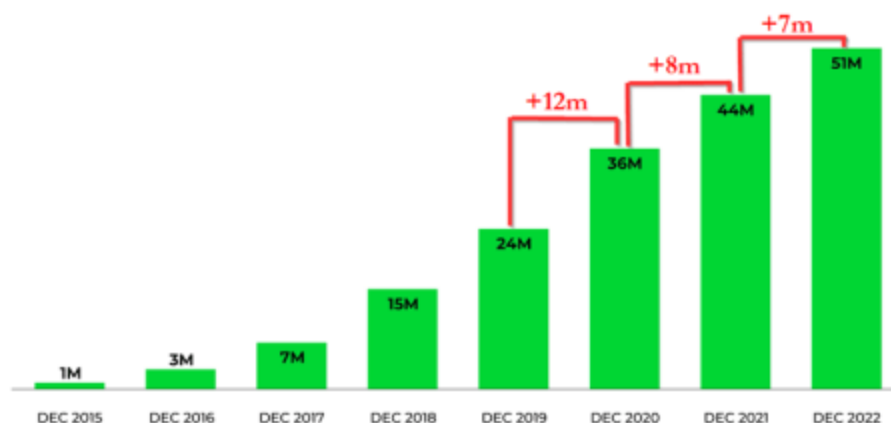
“We have generated significant net losses in the past, and we intend to continue to invest in our business. Thus, we may not be able to maintain profitability.” [Pg. 25]

Cash App, which analysts have said is the most important driver of the stock, has demonstrated signs of stagnation with slowing inflows and account growth.



(Source: Block 2022 Annual Report [Pg. 8], emphasis added in red)

### CASH APP MONTHLY TRANSACTING ACTIVES

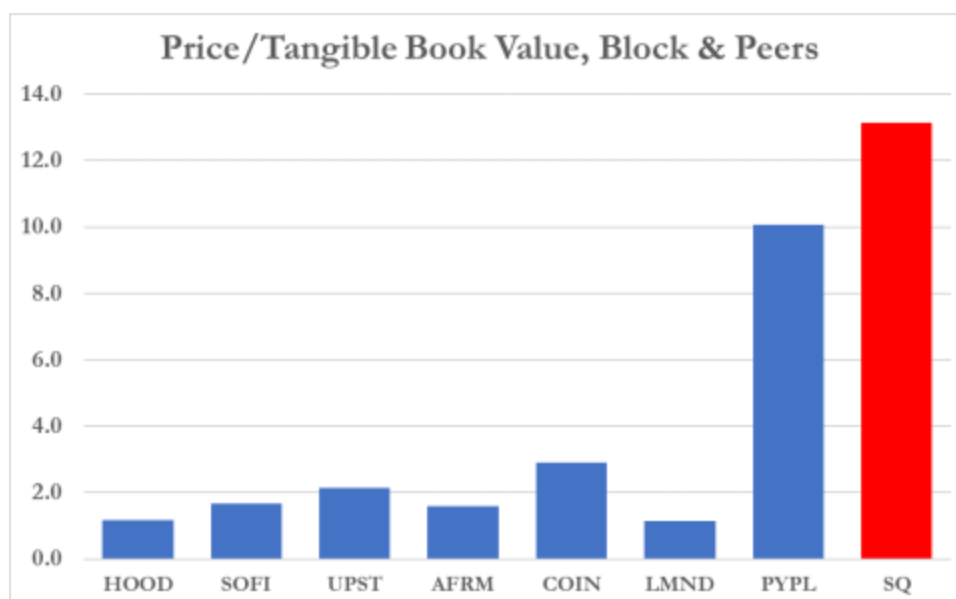


(Source: Block 2022 Annual Report [Pg.7], emphasis added in red)

Despite its revenue slowdown, current unprofitability, its warning of future unprofitability, and signs of stagnation at Cash App, investors have awarded Block valuation multiples that price in an expectation of rapid growth. The company trades at an EV/EBITDA multiple of 60x and a 2023 forward P/E ratio of 40x on “adjusted” earnings, according to FactSet.

By comparison, Block competitor Paypal trades at an EV/EBITDA multiple of 16.6x, and 15.1x adjusted 2023 earnings, suggesting 62%-72% downside for Block were it to trade in line with its peer.

On a tangible book basis, many fintech competitors such as Affirm, Robinhood, SoFi and Upstart trade between 1.6x to 2.1x, whereas Block trades at ~13x tangible book. Even Paypal, which has grown revenue and generated a GAAP profit every year since re-emerging as a public company, trades at a 25% discount to Block on this basis. A re-rating closer to the peer average would represent 77.5% downside for Block.



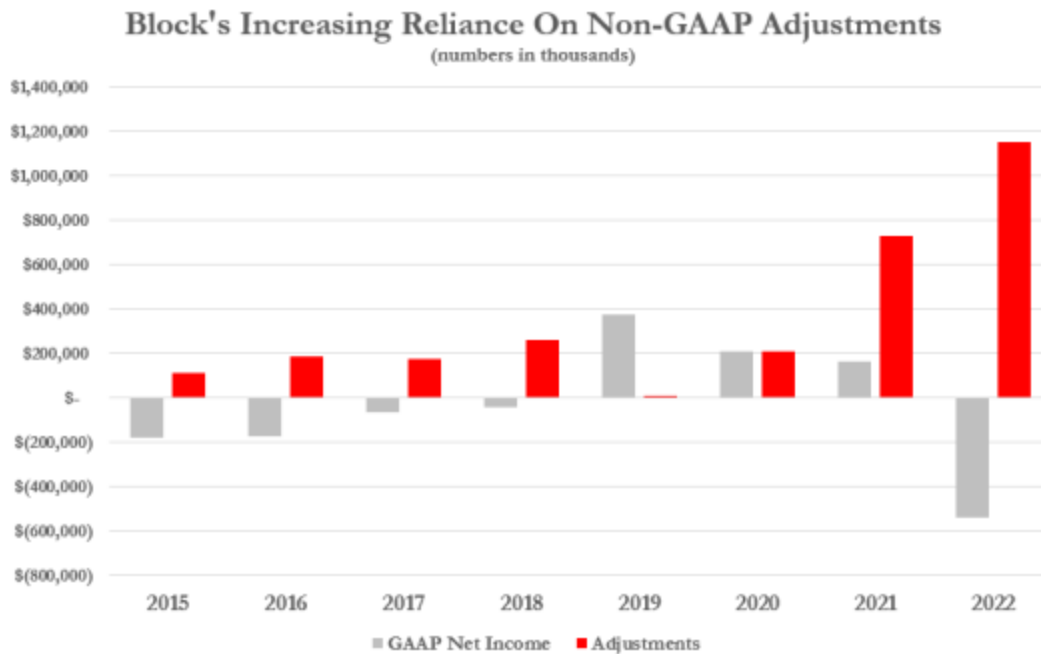
(Source: FactSet)



To make up for these fundamental realities, Block has extensively relied on non-GAAP adjustments to report growth despite weakening metrics.

**Block transformed its \$540.7 million GAAP loss for 2022 into a \$613 million non-GAAP profit**, by adjusting out costs, including over \$1 billion in 2022 share-based compensation, according to [financial information](#) from the company’s website.[4]

Block’s reliance on non-GAAP adjustments to report profit has increased substantially over time.



(Source: Block filings & Hindenburg analysis)

We are entering a period where the endless hype and unrealistic valuations of past years are beginning to face the financial reality of higher interest rates.

We expect this macro headwind, combined with the other issues outlined below, will result in the contraction of Block’s exaggerated claims of profitability and generous valuation multiples.

## Part I: Block’s Embrace of A Key “Unbanked” Customer Base: Criminals

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### Block Has Positioned Itself As A Mission-Driven Company, Serving the “Unbanked” And Others Who Have Been Left Behind By The Traditional Banking System

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Founder Jack Dorsey has [described](#) Block’s business as having a “purpose of economic empowerment.”

The company says it has chosen to serve the “unbanked” and “underbanked”, segments of the population that do not engage in traditional banking due to weak or non-existent credit scores, distrust of banks and high fees.



### Exploring the political and socio-economic consequences of a cashless society

From New York to San Francisco, the cashless conversation is controversial, particularly when it comes to unbanked or underbanked (those without a bank account, or who have an account but still use financial services outside the banking system) individuals who may be excluded from cash-free establishments. Below, experts help explain the impact of a cashless society on this overlooked population.

(Source: Block/Square website “Making Change” detailing the social and political underpinnings of the company)

In 2017, Dorsey described how Block planned to continue servicing the underbanked through Cash App:

“So, from a high level, we want to make sure that we continue to build services for an underserved market. That has been what has really tied the company together for the past — close to 9 years now.”[5]

The effects of that strategy are apparent. A September 2022 Pew Research Center survey shows that Cash App has targeted low-income and minority consumers.

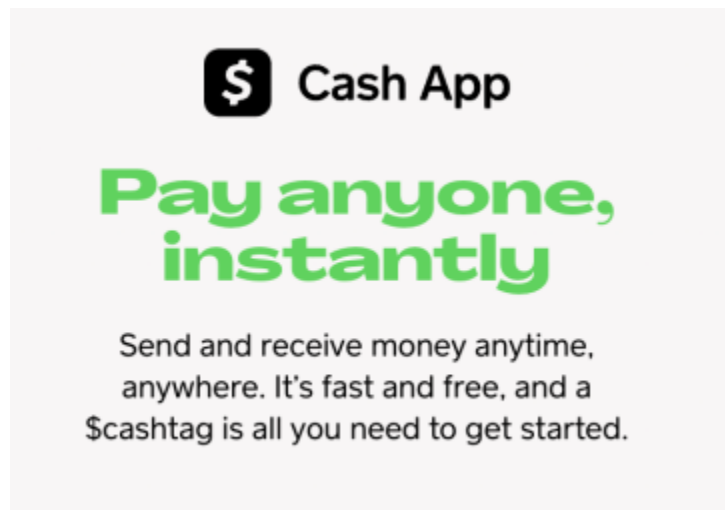
Block says it provides uniquely easy access to sending and receiving funds, by removing friction from the system and “adding some magic”:[6]

“Our focus is really observing what our customers are doing,” Dorsey said of the company’s approach in 2018, “and then taking as much friction out of that as possible while adding some magic at the same time.”[7]

Cash App’s frictionless approach lets users join with just an email or a phone number.

With its principled mission and easy to use Cash App payment platform, Block has gained a reputation as an innovator and one of the most well-known publicly traded fintech companies.

By contrast, what we found is that the company’s payment system does not seem to offer a discernible edge over its key competitors like PayPal/Venmo, Zelle, or Apple. Rather, it seems to have simply embraced non-compliance as a tactic to grow its user base.



(Source: [Cash App](#))

## **“Every Criminal Has A Square Cash App Account” – Former Employee**

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### **The Signs Are Hard To Miss: There Is Even A Gang Named After Cash App, With Members Arrested For Fentanyl Distribution**

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Our research shows that Block has embraced a traditionally very underbanked segment of the population: criminals.

Cash App’s embrace of non-compliance begins by making it easy for users to get on the platform, easy for them to get back on the platform if their accounts are closed, and easy to remain anonymous or operate under blatantly false identities.

As one former said about signing up for Cash App:

| “It’s wide open. And if I was a criminal, I would have done it.”

Another former compliance employee of a Cash App partnership told us, “every criminal has a Square Cash App account.”

There is even a gang named after Cash App: In 2021, Baltimore authorities arrested members of the “Cash App” gang, who were charged with distribution of fentanyl and cocaine in a West Baltimore neighborhood, according to a Baltimore news report, and criminal records.

# Police Arrest Five Members Of Drug Trafficking Organization "Cash App"

by Sinead Hawkins | Thursday, June 24th 2021



(Source: [Fox News Affiliate WBFF](#))

Beyond the gang named after Cash App, numerous department of Justice indictments detail how Cash App is used by gangs, including the notorious Sinaloa cartel, to distribute drugs like fentanyl and methamphetamine. [1,2,3]

In one example, a criminal complaint against an alleged meth distribution ring describes how Cash App is commonly used by gangs to transfer illicit drug proceeds:

17. During the same conversation, between about 12:45 a.m. and 1:02 a.m., OGO messaged VALDOVINOS, indicated that OGO had finished booking his own plane ticket, and asked VALDOVINOS, “Do you want me to send you cash app so you can get yours?” At around 1:17 a.m. and 1:19 a.m., VALDOVINOS replied with: “Yes here I’ll send my cashapp” and [REDACTED] I know from my training and experience that CashApp is a cell phone application that drug traffickers, including OGO and VALDOVINOS, commonly use to transfer payments in connection with their drug trafficking activities. Furthermore, iCloud records show that OGO’s iCloud account contained a picture titled “IMG\_1010.PNG,” dated July 23, 2020 at

(Source: Department of Justice criminal [complaint](#) in a methamphetamine distribution bust that describes prolific use of Cash App by drug traffickers.)

## **CEO Jack Dorsey Found It “Pretty Incredible” That Cash App Is Mentioned in Hundreds of Hip Hop Songs, As a Measure of Its Reach**

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### **Many of These Songs Describe The Role of Cash App in Facilitating Criminal Activity, Including Murder-For-Hire**

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In May 2020, Block CEO Jack Dorsey [spoke](#) at a JPMorgan investor conference about how Cash App was making its way into popular culture through thousands of mentions in hip hop music:

“We have a very mainstream customer for Cash App. And evidence of this is – I talked about this on the call, maybe on the stage before, but the number of hip-hop songs that include the phrase Cash App or even named Cash App is pretty incredible. I think it’s over 1,000 or 2,000 right now.”[8]

At JPMorgan’s 2021 conference, Dorsey again [told investors about](#) the large number of songs named after Cash App and described how music had become a way to share with others how valuable the app is to them personally, providing them with “so much utility.”[9]

A review of songs mentioning Cash App shows that the artists are not generally rapping about Cash App’s smooth user interface and robust software integration toolkit.

Instead, lyrics describe how easy it is to move money through Cash App to facilitate fraud, traffic drugs, or even pay for murder.

**[\[Listen to a compilation of songs mentioning Cash App here\]](#)**



## **“I Paid Them Hitters Through Cash App”: Block Paid To Promote A Video For A Song Called “Cash App”, Which Described Paying Contract Killers Through The App**

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### **The Artist, “22Gz”, Was Later Arrested for Attempted Murder**

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Block promoted the video for 22Gz’s song “[Cash App](#)” which described a turf war in which the artist pays hitmen through Cash App to murder his opposition, then stuffs their bodies in trash bags. The video opens with the artist showing his Cash App as he makes a ‘throat-slitting’ motion.



### 22Gz - Cash App [Official Music Video]



22Gz   
 367K subscribers

Subscribe

85K

Share

(Listen to 22Gz's "Cash App" [here](#).)

The song proceeds:

“I had a gun in my backpack.  
Blicky, the blicky, run down, where that stash at?  
I pay them hitters through Cash App.  
Shooters like Mitchell, put holes in his snapback.  
We stuffin’ bodies in trash bags.”

Block apparently embraced the PR, sponsoring a cash giveaway to promote the video, according to the producer of the video—481 people responded to the contest announcement on YouTube.



📌 Pinned by 22Gz

@22Gz 2 years ago

Drop your \$CashApp name. Giving away 2 bands. 🎯 🎯

3.2K Reply

481 replies

AKLO Studios, the producer of the video, confirmed to us that Cash App was the sponsor.

Hello, Is this AKLO? I'm trying to find out if you did the Cash App video for 22gz.

Yoo yezzir please send an email to [aklo@aklo91.com](mailto:aklo@aklo91.com) if looking for a music video 🙏

Just had a quick question. Trying to confirm if this was supported by Cash App Studios? Writing an article on their grants to artists.

Cash app did a \$1000 sponsored giveaway promotion for the video after we finished making it

The artist, 22Gz, was later arrested in June 2022 and charged with attempted murder after allegedly shooting in a crowded Brooklyn club, leaving 3 people injured.



**billboard**

## **Rapper 22Gz Arrested in NYC on Attempted Murder Charge**

The rapper was arrested at the airport over accusations that he pulled the trigger in a March shooting that left three injured.

By [Bill Donahue](#)   
06/14/2022

We reached out to Cash App studios to see if we could get a more complete list of songs it has sponsored and have not heard back as of this writing.

## **Cash App Was Cited As “By Far” The Top App Used in Reported U.S. Sex Trafficking, According to A Leading Non-Profit Organization**

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## **Department of Justice Complaints Outline How Cash App Has Been Used To Pay For Sex Trafficking, Including Sex Trafficking Of Minors**

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Cash App takes a leading role in supporting criminals involved in human trafficking, according to the Polaris Project, a leading non-profit organization that tracks and combats human trafficking and sex exploitation in the U.S.



In a November 2021 [article](#), Sara Crowe, a senior director at [Polaris Project](#), said of the use of peer-to-peer apps:

“...when it comes to sex trafficking in the U.S., by far the most commonly referenced platform is Cash App.”

Cash App responded by saying it rejects all payments tied to sex trafficking and other crimes, according to the same [article](#).

But a reading of numerous indictments by the Department of Justice, which detail Cash App’s use to facilitate sex, including with minors, seems to refute Block’s response.

[[1](#),[2](#),[3](#),[4](#),[5](#),[6](#)] As just one example, a December 2021 Department of Justice press release details how a North Carolina man paid underage victims through Cash App for sex acts:



United States  
Attorney's Office  
Western District of North Carolina

PRESS RELEASE

## Asheville Man Is Sentenced To 28 Years On Child Pornography Charges

Friday, December 17, 2021

in exchange for money. In April 2020, APD officers arrested Miguel and seized numerous electronic devices. A forensic analysis of the devices revealed that Miguel possessed dozens of videos and images of teenage girls engaging in sexually explicit conduct. Some of the videos also depicted Miguel engaging in sex acts with the minors. As Miguel previously admitted in court, the defendant used the mobile payment service Cash App to pay the underage victims for the child pornography and sex acts.

On January 13, 2021, Miguel pleaded guilty to possession of child pornography and using a minor to engage in sexually explicit conduct for the purpose of producing a visual depiction of such conduct. In making

(Source: Excerpt from Department of Justice [press release](#))

Once again, the signs were hard to miss. Beyond the slew of indictments referencing Cash App, numerous songs describe Cash App as the preferred option to pay for illicit sex, including songs named after the app itself. [[1](#), [2](#), [3](#), [4](#), [5](#), [6](#)]



(Screenshot from the song “Cash App” by Executive Coop, which is entirely about paying for sex with Cash App. Source: [YouTube](#))

According to a former compliance employee, they repeatedly saw patterns indicating Cash App’s use in sex trafficking:

“You see a lot of Lyft or Uber rides late, always late at night like between 11:00 PM and 5:00 AM, multiple rides in one night, things like that.”

“You’ll see things like hotel purchases, and you’ll see (the device) travelling. So it’ll go like Cleveland, Ohio, and like a Motel 6 and then Columbus, Ohio, and Holiday Inn and then the next day they’re in Cincinnati, and then the next day they’re in Kentucky, and then they shoot over to Virginia, and you watch it travel.”

Block seemingly chose to ignore the signs, instead refusing to “unbank” users regardless of the circumstances.

## **Part II: Block Has Allowed Fraudulent Accounts To Proliferate On Cash App, Generating Illegitimate Revenue And Exaggerating User Metrics**

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The acceptance of illegal activity on Cash App, along with lax policies around user account creation, seems to be part of Block’s growth strategy.

Based on more than a dozen interviews with former employees involved in Cash App, pressure from management has resulted in a pattern of disregard for Anti-Money Laundering (AML) and Know Your Customer (KYC) laws.<sup>[10]</sup>

The result has been a proliferation of fake accounts that facilitated scams, resulting in Block benefitting from increased transaction-based revenue along with inflated user metrics.

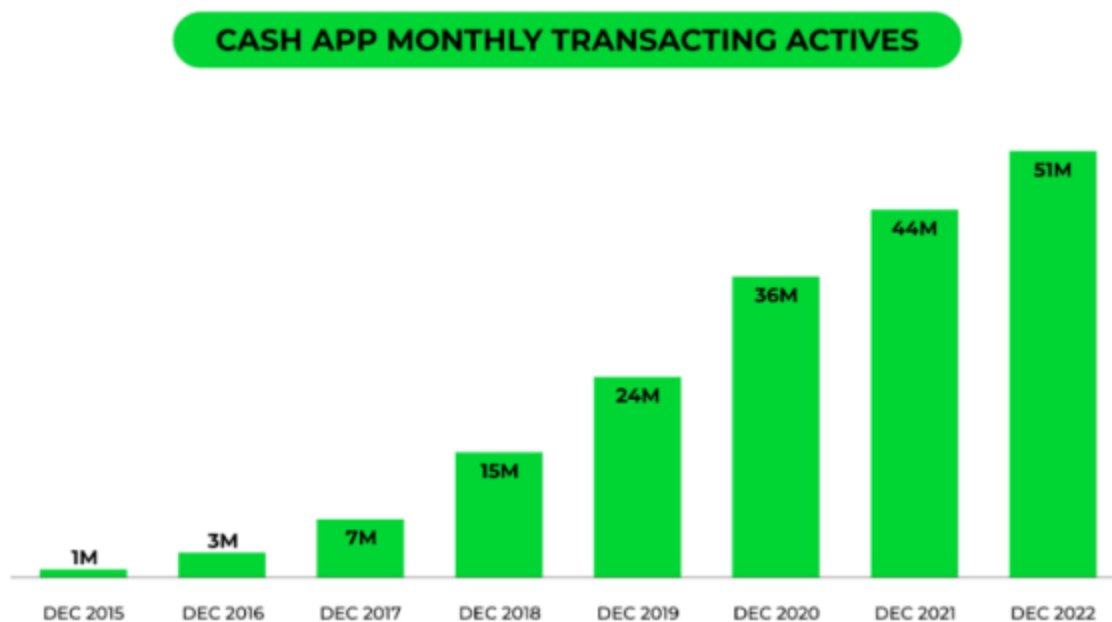
Multiple former customer service reps we interviewed described how Cash App’s user data has been inflated by single individuals that have numerous associated accounts, sometimes numbering in the hundreds. Often these were associated with blacklisted accounts banned for fraud or other policy violations.

## Cash App Claims To Have 80 Million Annual Transacting Active Users, A Highly Inflated Number Given Evidence Of Massive User Duplication On The Platform

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The byproduct of Cash App’s approach to permitting duplicate and scam accounts is that it has reported inflated active user counts for years.

Cash App’s number of transacting active users – or account holders that make use of 1 or more Cash App service in a given time period – is a closely watched metric. [Pg.7] It forms the foundation of Block’s claims to have a strong network effect and ability to cross sell new products and services to its user base. The company recently reported 80 million annual transacting actives, and 51 million monthly transacting actives. [11]



(Block 2022 Annual Report [Pg.7])

According to Block’s 2022 Q1 financial statements:

“Growth in monthly transacting actives on Cash App and customers’ level of engagement with our products and services on Cash App are essential to our success and long-term financial performance.” [Pg.19]

We asked one former Cash App employee how common it was to see Cash App accounts have a dozen or more account connections, a scenario in which Cash App accounts would be overcounted:

Is it typical for an account to look like this one?

Yes. They usually do

I would say 60-70% of the time

We also asked if the former employee believed this indicated that Cash App was reporting inflated account numbers:

#1 It suggests to me that Cash App claims more users than they actually have because 1 person has so many accounts.

Bingo

## Cash App's User Tracking Software Shows That Many Users Have Dozens Or Even Hundreds Of Accounts, Suggesting Reported User Metrics Are Vastly Inflated

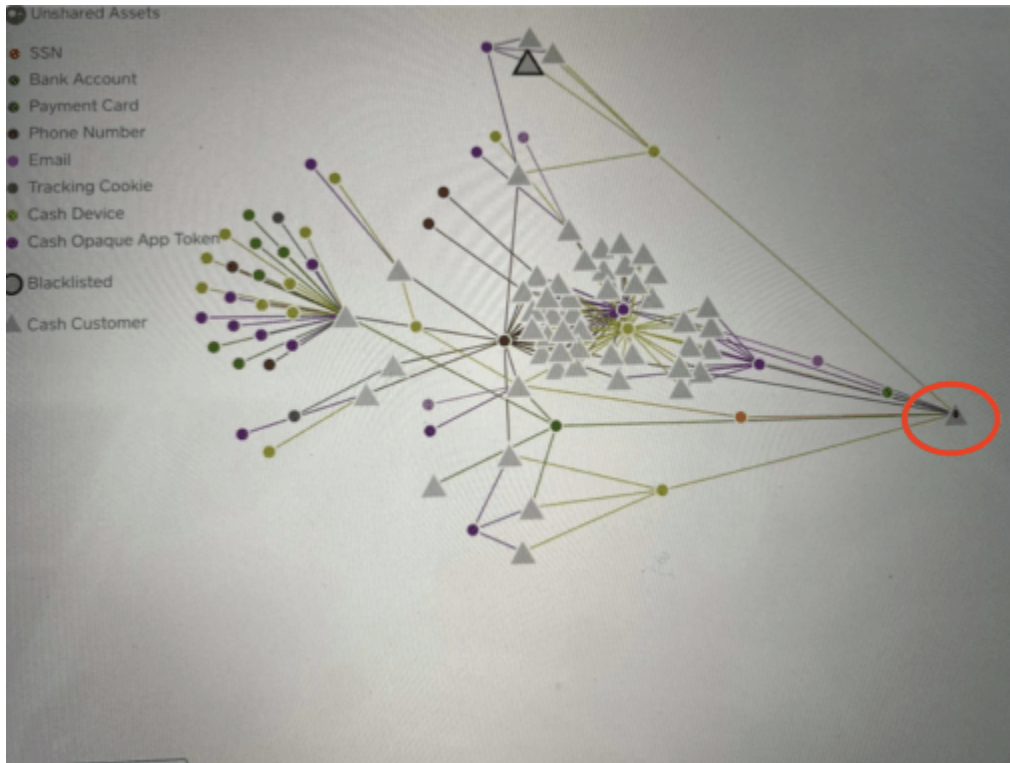
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Cash App has used customer management software that helps visualize how user accounts are linked by various pieces of data, according to former employees. [12]

Many look like the one below, a fairly standard relational diagram with the account under review at the far right represented by a triangle with a black dot inside.

That account is connected to dozens of others by a shared Social Security number, phone number, email address, bank account, or device.

Former customer service reps shared screenshots taken last year to demonstrate the vast number of connections between supposedly distinct accounts.



(Screenshot of Cash App CRM chart showing example of user accounts connected to blacklisted accounts. Source: Former Cash App customer service rep)

Per the legend in the CRM program, each ‘gray triangle’ represents a unique “Cash Customer”.

The connections in this example suggest that accounts can be linked to the same person, with the individual setting up and abandoning accounts or maintaining many accounts at the same time, or a combination of both, according to former employees.

## **“We Would Call It the Web of Lies”: Multiple Account Connections Were Common and Seen As a Red Flag of Possible Fraud**

### **Former Employees Estimated That 40%-75% of Accounts Were Fake, Involved In Fraud, Or Were Additional Accounts Tied To A Single Actual Individual**

One former customer service employee estimated that 60%-70% of the accounts they reviewed during a typical shift would have more than a dozen linked accounts. Another two former employees estimated 40% and 75%, respectively.

Those densely packed connections are a red flag for fraud, a former employee said:

“The people that you see that just have like 10 or so other accounts tied to them, it’s, you know, the assumption is that they must be doing something, you know, risky.”

Such accounts indicate that a person may have created multiple accounts based on stolen information, that they were moving money through a series of accounts to disguise its origin, or that they had been kicked off the system and returned multiple times for policy violations such as trying to defraud other users or the company.

Some accounts had hundreds of other account links. A third former employee summed it up:

“I mean honestly, we would all joke and we would just call it like ‘the web of lies.’”

## Cash App’s “Web of Lies” Starts With A User’s Ability To Create An Account With Just An Email Address Or A Phone Number

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Cash App has different levels of access and features based on how much information a user provides—the starting point requires just an email address or phone number.

During Block’s Q2 2017 earnings call, Jack Dorsey explained how the company relies on automated technology to assure the safety of its platform:

“We’ve used machine learning and data science to manage risk since the beginning of Square. We’re constantly looking for ways to make our services more automated and more self-serve, and machine learning is perfect for that.”

Dorsey explained that due to its superior technology, “we’re able to onboard individuals to Square Cash with just a ZIP Code and an email address or phone number.”

The process allows virtually anyone to join the platform as well as to send and receive funds with others on the platform.

It was always a risky proposition, according to a former compliance employee, who said Block insisted that phone numbers were the modern-day equivalent of Social Security numbers.

“Banking isn’t all that different than it was 100 years ago,” the former employee told us. That’s why reasonable compliance requires collecting more information than a phone number or email: “I need to find you if you ripped me off.”

The company continues to allow people to set up its most basic account by providing only a phone number or email and a zip code.

## Create an Account

1. Tap on Cash App to launch it
2. To create an account, **enter your phone number or an email address**
3. Cash App will send you a secret code via text or email—enter it
4. You can invite friends to sign up with Cash App to earn cash (optional)
5. Enter your debit card info to link your bank account to Cash App
6. Pick a **\$Cashtag**—a unique username you'll use to send and receive money
7. **Enter your zip code**
8. Start using Cash App!

(Source: Cash App setup. Note that step #5 is not required)

Cash App stresses that a bank account is not required to join:



Do I need a bank account to use Cash App? —

No, you don't need a bank account to create a Cash App account or add money to your Cash App balance.

There are a number of ways to send and receive money through Cash App if you don't have or want to link your bank account. You can deposit paychecks, tax returns, and more to your Cash App balance using your Cash App account and routing numbers. And you can even deposit paper money into your Cash App balance at participating retailers.

(Source: [Cash App FAQ](#))

## Block Would Blacklist Accounts, But Not Individuals, Making It Easy For Bad Actors To Get Back On The Platform

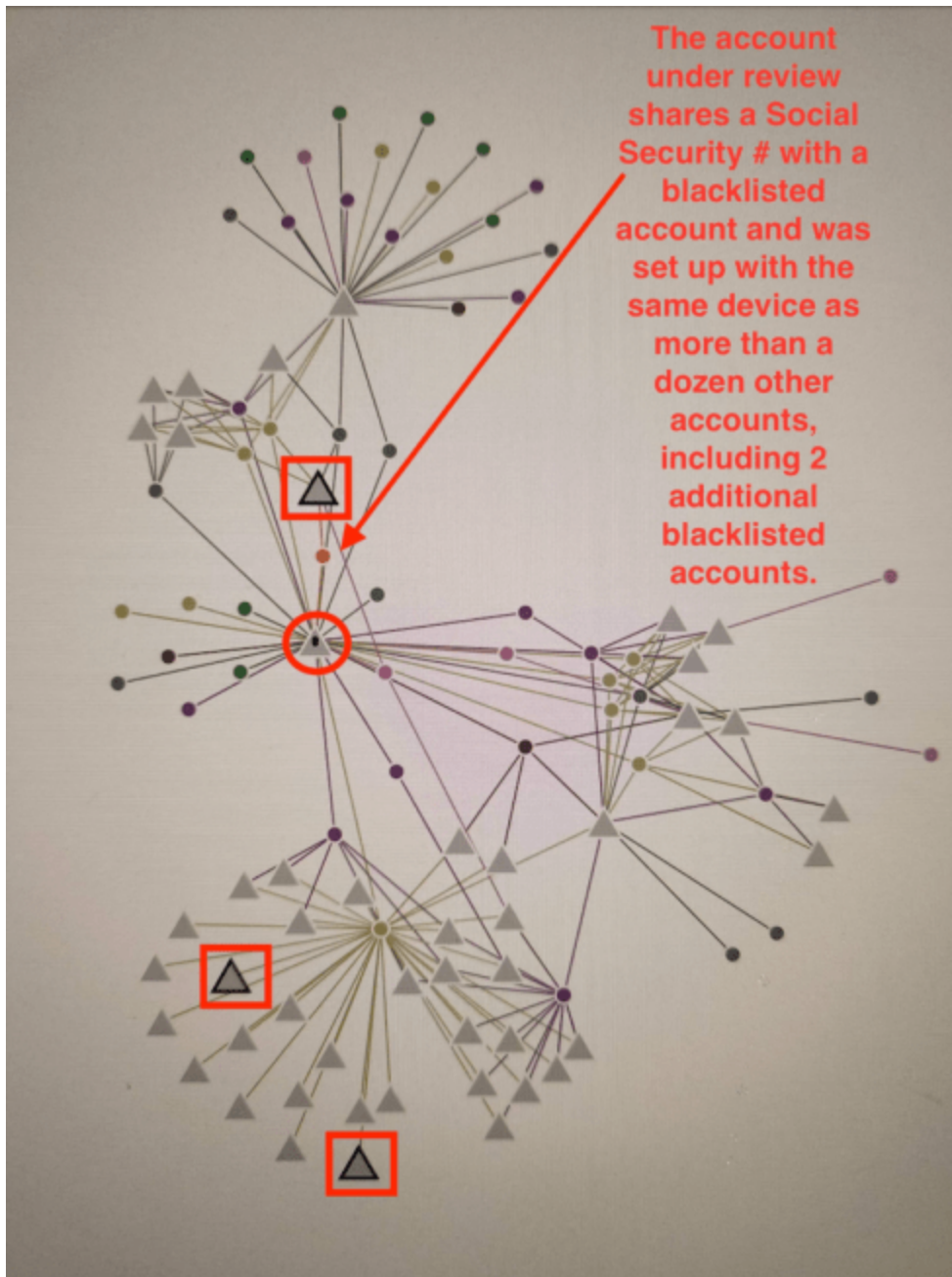
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By basing accounts on email addresses or phone numbers, Block created a system in which users could join the platform multiple times, even after getting kicked off for fraud.

A former employee explained that getting kicked off Cash App was just a temporary problem:

“It wasn't like, TSA's No-Fly list. You know it was kind of like the account will get closed and then they'll try it again and maybe get to use it for a little while longer, until, you know, maybe the next account gets closed.”

The screenshot below shows an account can be active even though it has previously been tied to problematic accounts.



One former employee explained that Cash App did not ban based on Social Security numbers and users could easily come up with new phone numbers or email addresses to get back on the platform. This system applied not only to basic Cash App accounts but to accounts with a Cash Card, Cash App’s prepaid card:

“Cash App will not deny you based on your Social Security number. So, they’ll deny you on your e-mail or your phone number, but if you get a new phone number or a new email, you can come back through to get the card because you’re not blocked by your Social Security number, so you can come right back in.”



None of this is news to scammers—the ability for users blacklisted for fraud to easily get back on the platform is so widely known that it is once again reflected in pop culture.

In 2020, an artist called Teejayx6 released a song titled “Cash App”, which focuses on various methods of scamming, including lyrics about how easy it is to get back on the platform after having an account blacklisted:

“They banned my Cash App because I sent a thousand transactions...I just bought another phone and made a Cash App”.<sup>[13]</sup>



(Source: [YouTube](#))

## **Examples of Obvious Fake Identities Abound: “Jack Dorsey” Has Multiple Accounts, Including Some That Appear Aimed At Scamming Cash App Users**

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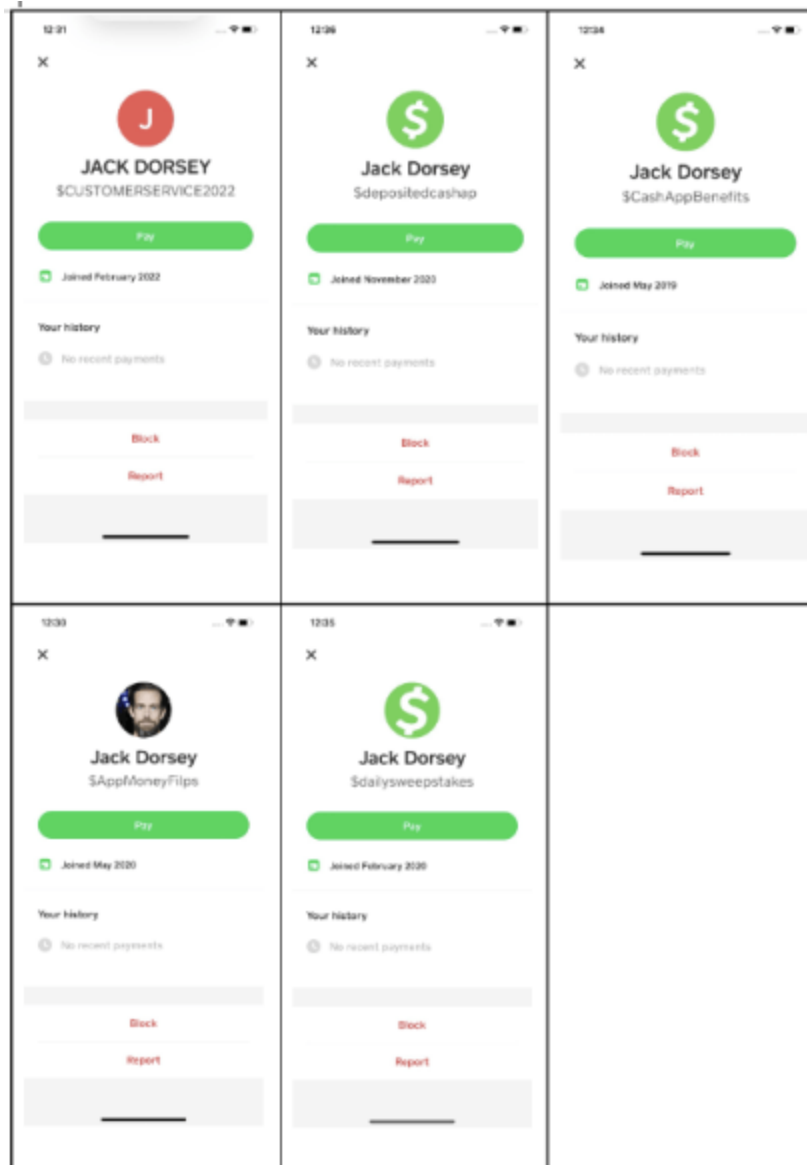
### **There Are Dozens Of “Elon Musk” And “Donald Trump” Fake Accounts As Well**

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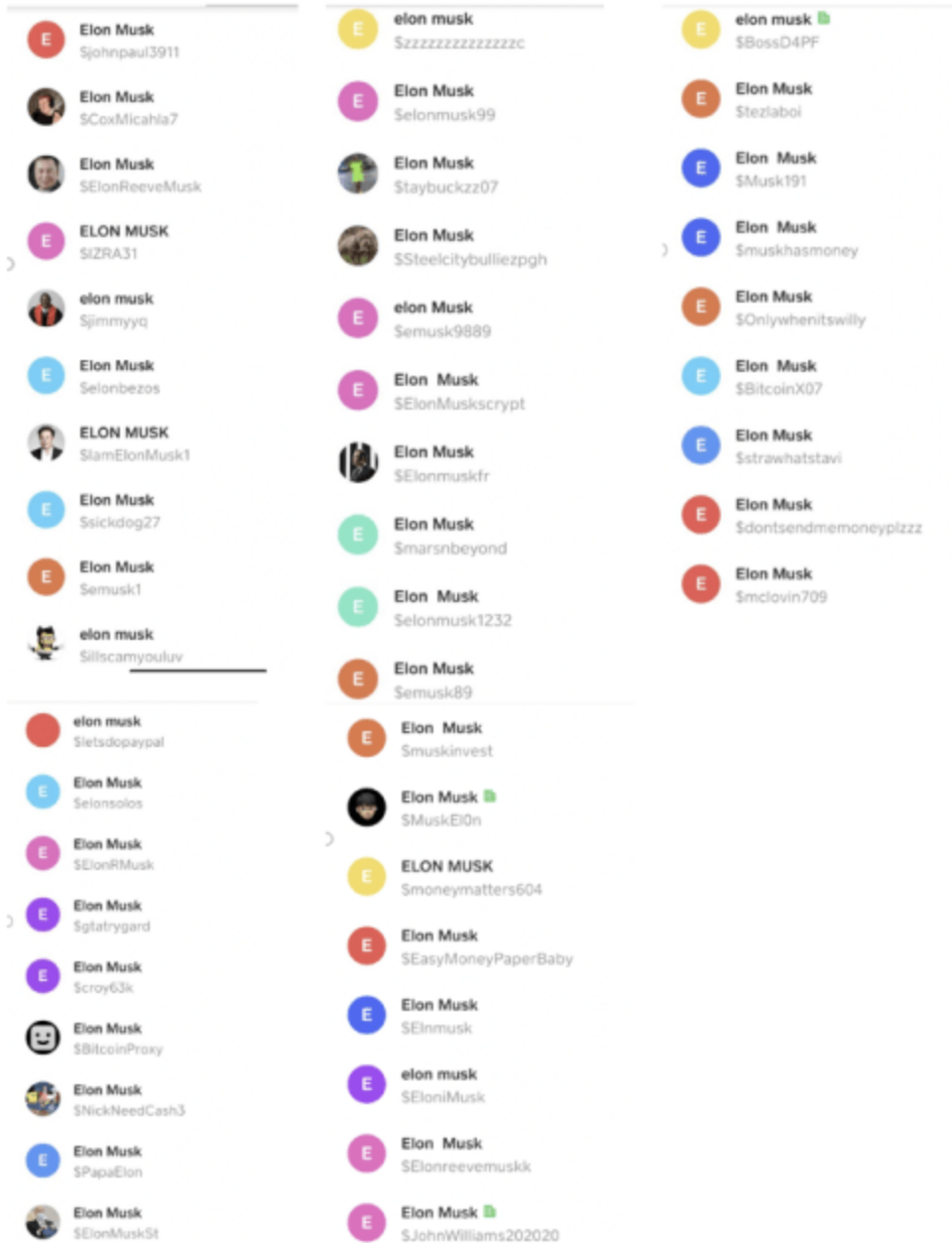
Another sign of illegitimate account creation can be seen in the number of Cash App users who are impersonating others on the platform.

A search for Cash App account holders with the name “Jack Dorsey” turns up numerous accounts, including a number with “cash tags” that could be used to mislead and scam other users.

These include “\$CUSTOMERSERVICE2022” and “\$dailysweepstakes”.



The name “Elon Musk” also appears on dozens of obvious fake or scam Cash App accounts.



We found 50 Cash App accounts under the name “Donald Trump” in late November, including ones with “cash tags” such as “\$donaldtrump24” and “\$TrumpApproveDonation”.

Donald Trump’s official campaign donations appeared to be processed through the “Winred” platform, which doesn’t allow “P2P” payment options, suggesting that any Cash App accounts collecting donations for Trump are fraudulent.

It was easy for wrongdoers to impersonate some of the most well-known and high-profile people in the world. This also seems to be the case for regular users, who have filled social media forums like Reddit and the Better Business Bureau (BBB) with complaints about identity theft, account hacks and fake user scams. [1,2,3,4]

## **Cash App's System Allows Users To Change Their Names To Ones That Don't Match The Names Provided When They Created Their Accounts, According To Former Employees**

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### **To Test This, We Turned Ourselves Into Donald Trump And Elon Musk. We Were Easily Able To Send And Receive Funds**

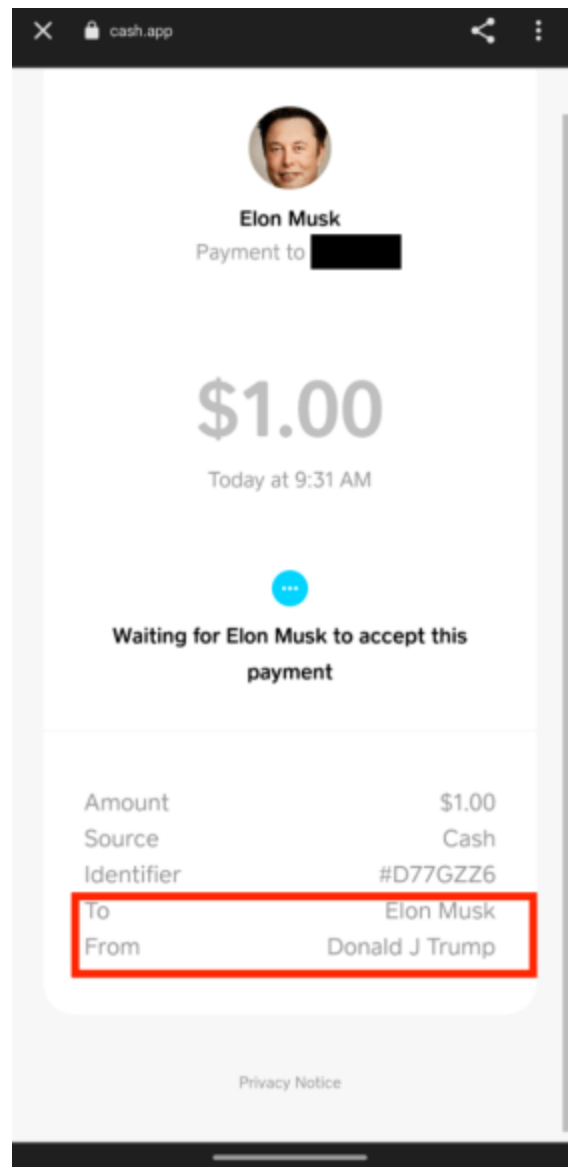
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Cash App's [Terms of Service](#) state that users agree to provide accurate information when setting up their account, and to assure that any information added to the account is "true and accurate."

The [terms](#) explicitly state that users "may not select a \$Cashtag that misleads or deceives others as to your business or personal identity or creates an undue risk of chargebacks or mistaken payments."

Cash App makes no mention of deceptive screen names, and it allows users to change these names and their photo in a few simple steps. Users can obfuscate their personal identity without notifying Cash App or having any changes made to the platform's internal data.

To test this (1) we created two Cash App accounts (2) changed our outward facing personas to Elon Musk and Donald Trump and (3) successfully exchanged funds.



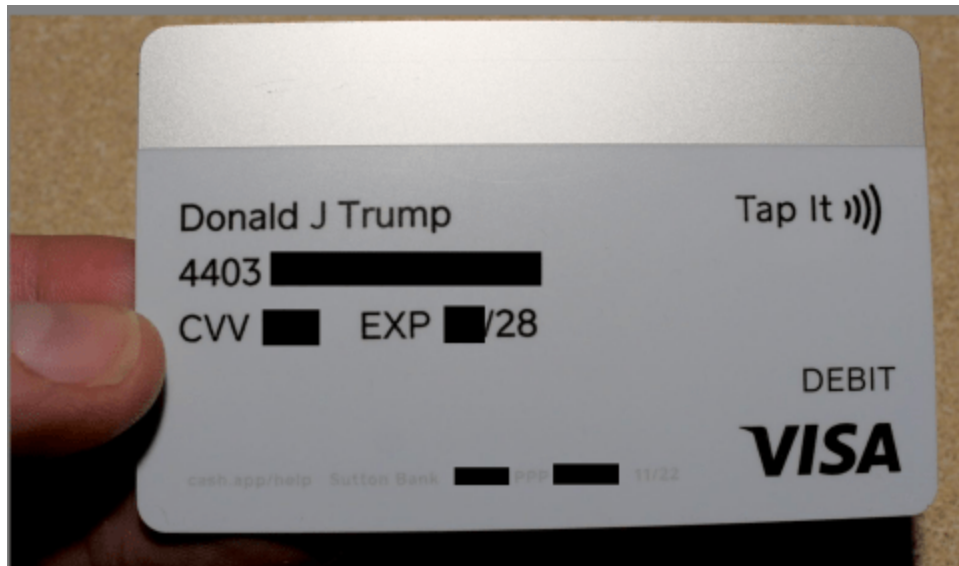
## **We Ordered a Cash App Card For An Obviously Fake Persona, Checking to See If Block's Compliance Would Take Issue**

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## **We Promptly Received Our Donald J. Trump Visa Cash App Card In The Mail**

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Taking it a step further, we ordered a Cash Card under this alias to see if Cash App's compliance would take issue with the obvious irregularity. They promptly mailed us a Donald J. Trump Cash Card.



(Cash Card [number redacted] sent to Hindenburg investigator whose real name is not Donald Trump)

## **How It Impacts Regular Users: A Pastor Complained That Scammers Were Stealing Hundreds of Dollars from His Parishioners Using Counterfeit Accounts**

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### **It Took 2 Months, a News Report, and a Congressman Just to Remove the Phony Accounts. The Money Was Never Recovered**

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Cash App has been exceedingly slow to take any measures to remedy instances of fraud on its platform, even in high-profile situations.

Reverend Bartholomew Orr, the pastor at Brown Missionary Church in Southaven, Mississippi, lost hundreds of dollars to phony Cash App accounts, according to [media reports](#).

In June 2022, Orr discovered that he wasn't receiving money sent by parishioners. He learned that parishioners were directing their money to scam Cash App accounts set up to impersonate his account.



FOX

## ‘It’s sad’: Scammers pose as Mid-South pastor on Cash App

On the day Fox News interviewed Orr about the situation, the counterfeit accounts continued to be active on Cash App.

We spoke by phone with Pastor Orr who said that when he initially approached the company, he was told it would expedite an investigation, but nothing happened:

“I don’t think they actually did anything.”

“When I saw that it was still going on, I called them back, and addressed it, and they said they were going to expedite it again. This particular time, of course, I involved the news, as well as Congressman Steve Cohen’s [R-Tenn.] office.”

The scam accounts disappeared several days later, but neither Pastor Orr nor his parishioners received any of the money sent to those accounts and Orr doesn’t expect they ever will:

“They are saying that whenever someone sends money via Cash App, you know, if you sent it to the wrong person, you just sent it to the wrong person.”

## Block Obfuscates How Many Individuals Are On The Cash App Platform By Reporting Misleading “Transacting Active” Metrics

Block’s disclosures have referenced the issue of “transacting active” account metrics deviating from the number of genuine users on its platform. But its vague disclosure suggests that “transacting actives” may be mildly overstated or even *understated*—basically insinuating that it is a ‘wash’:

“Certain of these accounts may share an alias identifier with one or more other transacting active accounts. This could represent, among other things, one customer with multiple accounts or multiple customers sharing one alias identifier (for example, families).” [Pg. 7]

We believe the explanation is a farce. Cash App could easily provide a more precise estimate of actual unique *people* that use the platform. After all, the company collects social security numbers, bank information, and other unique information for many of its users.

We think Block simply chooses not to report more accurate user information because reporting inflated user metrics helps inflate its stock.

## **Block’s Inflated Usage Metrics Likely Result In Misleading Claims That Cash App’s Acquisition Cost Per New Customer Is “A Miniscule Fraction” Of Competitors’ Costs**

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### **Reality: Overstated Account Numbers Make Cash App’s Reported Customer Acquisition Costs Misleadingly Low**

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Beyond reporting an inflated “transacting actives” metric, large numbers of duplicate and scam accounts can distort another key metric – customer acquisition costs – which Block management uses to showcase its efficiency versus traditional banks.

In March 2021, Block’s CFO Amrita Ahuja explained how Cash App acquires new users for less than \$5 each:

“We saw as a customer acquisition cost across those areas of \$5 in ‘20 – of less than \$5 in 2020. And that’s against the backdrop of our network growing by 50% year-over-year to 36 million monthly actives. That less than \$5 is much smaller than what a traditional financial institution would pay.”

Ahuja explained that Cash App achieves this low cost due to network effects, because “a customer can bring a new customer into Cash App at little to no cost for us” by inviting them to engage in a Cash App transaction.

In May 2022, Block’s Cash App Lead Brian Grassadonia explained that while user acquisitions costs had doubled to \$10, the metric still represented an advantage for Cash App over traditional banks:

“We acquired each new transacting active in 2021 for \$10 on average. This is a fraction of what other financial applications across our industry typically pay and a miniscule fraction of what traditional financial institutions have historically paid to acquire a new customer.” [14]



We strongly suspect Block’s reported cost of acquiring each new “transacting active” account is misleadingly low because single individuals may set up dozens or hundreds of accounts, including fake or scam accounts.

## Since August 2020, Block Has Been Facing An Investigation By The Consumer Financial Protection Bureau (CFPB) Into Its Handling of Fraud

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### Block Has Stonewalled the Investigation For Over 2 Years, According To The CFPB

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### In November 2022, The Courts Ordered Block To Comply With Investigators

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The CFPB has been investigating Block since August 2020, according to recent court records. Block only specifically disclosed the investigation to investors 1.5 years later, in its annual report release in February 2022.

Beyond slow-walking disclosure to investors about the existence of the investigation, the company has been “slow-walking” the investigation itself, according to the CFPB.

In August 2022, more details about the investigation emerged when the CFPB filed a petition to enforce its Civil Investigative Demands, or CIDs (which are similar to subpoenas) [Pg. 2]

9           3.       Despite the Bureau’s continued communications with Block’s counsel to  
10 address claimed issues of burden over the past two years, as well as continued assurances  
11 from Block’s counsel that production would be forthcoming, Block has produced less than  
12 900 documents in response to both of these CIDs. In contrast, each third party who has  
13 received a CID in this investigation has produced thousands or even tens of thousands of  
14 documents without undue delay.  
15  
16           4.       The Bureau cannot sit back while its investigation is stymied by Block’s slow-  
17 walking. To date, over one year since the CIDs were served, Block is unable to provide a  
18 definitive date by which it expects to respond to the Requests for which it has so far failed to  
19 respond entirely and to other Requests for which its responses are deficient.

(Source: Court records in CFPB vs. Block, Inc.)

Block’s disclosure to investors vaguely claimed the investigation by the CFPB and various state Attorneys General focused on its “handling of customer complaints and disputes.” [Pg. 46][Pg. 154]

Contrary to those disclosures, court records show that the CFPB investigation is focused largely on Block’s handling of fraud. Specifically, whether the company:

1. “Deprived consumers of access to their funds or failed to adequately address customer concerns regarding fraud” or
2. “...failed to follow the requirements applicable to resolving errors and liability of consumers for unauthorized transfers...”

In November 2022, Block Inc was ordered to comply with the CFPB’s demand for information, and produce responsive documentation by January 5<sup>th</sup>, 2023. The CFPB investigation remains active as of this writing.

## **Until Recently, Block Failed To Collect Full User Social Security Numbers For Cash Card Users Despite Federal Legal Requirements To Do So, According to Litigation Records, Former Employees, And Our Own Testing**

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### **A Former Employee Said Cash App “Didn’t Want To Be Nosey”**

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Even when higher levels of identity verification were required – like when users applied for Cash App’s prepaid debit card – the onboarding process remained lax.

Under the USA Patriot Act, financial institutions are required to collect taxpayer identification numbers, such as Social Security numbers. [Pg. 3]

Prepaid cards, such as those issued for Cash App, were determined to fall under the same customer identification requirements as bank accounts. [Pg. 4] Yet, Cash App management resisted this requirement, according to multiple former employees:

“That was an argument along the way, and Square – you’re supposed to give your entire nine from the customer, collect that... However, Cash App only collects the last four.”

Another former employee confirmed:

“We didn’t have the full Socials.”

The former employee stories are corroborated by litigation records, including a 2021 consumer fraud case against Block. In July 2021 in that case, a Cash App Engineering Manager submitted a sworn affidavit detailing the step-by-step process for receiving Cash

Cards, which included entering only the last 4 social security digits. A plaintiff's affidavit in the case confirmed the same.

Case 1:20-cv-05119-NGG-TAM Document 35-9 Filed 07/08/21 Page 9 of 38 PageID #: 423

entering her address, and other information. Cherryann Thorne proceeded to request a physical card by entering her address (113 Winthrop Street, Brooklyn, NY 11225), her name, her date of birth (1965 birth year), and the last four digits of her social security number (3141), as reflected (Affidavit of Cash App Engineering Manage Chun Wah Wu in case Deeann Thorne et al. vs. Square, Inc. and Sutton Bank.)

Rather than require all 9 digits of a user's Social Security number, Cash App ran the incomplete information provided through a third-party identity check company called IDology to determine whether the information belonged to a unique individual, according to a former employee.

Why skip this basic legal requirement? A former employee told us:

“They didn't want to verify the customers. They didn't want to be nosey.”

Asking too many questions conflicted with Block's “frictionless” banking, as described by Block's CFO Amrita Ahuja during an investment banking conference in 2020:

“Our ambition here is to provide the values and the services that people get today from traditional financial institutions and to do that in a seamless, easy-to-onboard, frictionless, consumer-friendly way as possible.”

That laissez-faire approach was risky—some friction is desirable, such as ‘friction’ that interrupts fraud. According to a former employee:

“I felt that we were like super lenient with like, the requirements to join the platform, and then it was just like, ‘Oh, we wonder why we're seeing fraud happening.’... that's because it's super easy to defraud this company and to join the platform.”

## **Block Recently Began Requiring Full Social Security Numbers For Cash Card Users And Now Acknowledges That It Is a Legal Requirement, Seemingly An Admission of Prior Illegality**

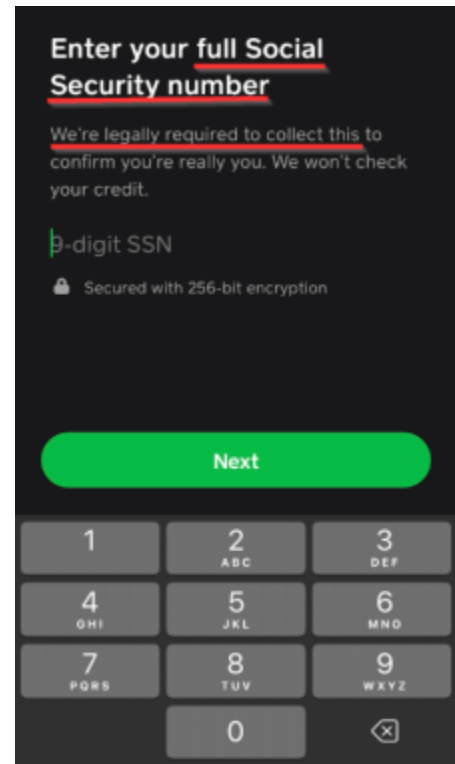
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As of our own testing in June 2022, Block required only the last 4 digits of the social security number in order to sign up for the Cash Card.

As of our recent check in March 2023, however, the company looks to have made a recent change that now requires the full 9-digit Social Security Number in order to secure a Cash Card:

The new prompt recognizes that the full Social Security number is a legal requirement, seemingly an admission of past illegality. The change, which is a positive one, also seems to foreshadow more future compliance steps.

It also raises questions about what Cash App has done to vet all the individuals who were allowed to join the platform during all the years when the company's process failed to comply with the law.



## **Around Spring of 2021, Cash App Staffed A Group Dedicated To Verifying An Accurate User Count, But The Web Is Now Difficult To Untangle, According to Former Employees**

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### **Unreliable Data On Users Hasn't Stopped Cash App From Reporting Inflated Numbers To Investors**

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According to former employees, Cash App took 8 years to focus on trying to untangle the mess of interconnected users and determine an accurate user count, despite the importance of the metric for investors.

Former employees described how the issue is more difficult to solve now that it has gotten out of control. One former employee said that not every linkage suggests two accounts are operated by the same person and that connected accounts don't always indicate fraud.

Sometimes distinct users get linked due to numerous people signing up for the service through a single device, such as a library computer or a phone that might change hands several times, inaccurately connecting the various owners.

One former employee said they personally set up a second Cash App account to track wedding expenses and said it was common for people to have more than one account to for different purposes such as businesses or personal reasons.

The high ratio of accounts per user means investors are not getting a precise view of users, another former employee with a Cash App partnership told us:

“When you turn around and have people that are setting them up fraudulently and pulling them off and setting them up and pulling them off, and setting them up, pulling off, you know, it just inflates their numbers.”

Cash App focused on creating a group – called the “Identity Team”<sup>[15]</sup> – to try to deal with the issue of duplicate accounts, according to a former employee who left in the spring of 2022:

“There is a move towards trying to tie a single identity with multiple accounts and trying to I guess get a more accurate view of how many true users there are on Cash App.”

## **On An Accounting Basis, Cash App Buries Its Peer-To-Peer Fraud Losses In Its “Sales and Marketing” Expense Category**

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### **A Former Cash App Employee Explained That Block Viewed Covering Fraud Losses As A Public Relations/Marketing Issue**

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Given Cash App’s fraud problem, it would be helpful if Block management made it easy to track fraud expenses at the company. Instead, Cash App fraud losses are rolled into broader and questionably relevant expense categories, making it impossible for investors to isolate the cost.

Losses related to Cash Card transactions, along with losses on the merchant side of its business such as fraudulent chargebacks, are appropriately included in Block’s “transaction and loan loss” operating expenses. [Pg.58]

Meanwhile, losses on peer-to-peer Cash App transactions disappear into the unlikely category of “Sales and Marketing” expenses.

Block explains that because its core peer-to-peer money transmission service is free, most expenses are connected to encouraging use of the platform:

“In addition, services, incentives, and other costs to customers that are not directly related to revenue generating transactions are recorded as sales and marketing expenses, as the Company considers these to be marketing costs to encourage the use of Cash App.” [Pg.93]

“These expenses include, but are not limited to, Cash App peer-to-peer processing costs **and related transaction losses**, card issuance costs, customer referral bonuses, and promotional giveaways ...” [Pg. 58] (emphasis added)

A former Cash App employee explained that Block views covering fraudulent transactions as a public relations exercise:

“You don’t want to see the company involved in this type of (fraud) issue because it’s not good press ... there were like a few articles written at some point in 2020 or 2019 ... They were like exactly reporting this and it’s not something that it’s nice to read.”

## **Cash App Fraud Costs Were Like “Running the Heat, But with the Window Open” – Former Employee**

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Not only have Cash App users suffered losses due to fraud on Cash App’s platform, so has Block, which, according to former employees, is waging a losing battle against fraud.

One former employee said their manager explained that Cash App couldn’t make money because of the costs associated with trying to contain fraud:

“I know that we were told ... that [Cash App] pretty much just bleed cost based on all of the stuff that the risk team has to do to stop account take overs and all like the fraudulent Cash App scams and all of that kind of stuff that that goes on. We were told that it’s pretty much like running the heat, but with the window open.”

Another former customer service representative told us that around half of all the calls they took during a typical shift were from users they believed were trying to commit fraud, often by disputing charges on their Cash Card for goods or services they likely received:

“I’m working to weed out the 40 to 50% of fraudulent activity accounts that I’m working with daily.”

They added that not all of the fraud was organized professional criminal activity. Much was rampant low-level fraud against the platform:

“I’m not saying like all of them were hardcore gangsters, you know, but it was at the very least people buying things online and saying that they didn’t.”

Cash App frequently acquiesced, at one point automatically refunding any disputed card charge of less than \$25, the same former employee told us. Representatives began to recognize users who regularly charged food deliveries to the card and then demanded their money back:

“I wish I ate as good as this girl does.’ ... This woman is legitimately eating lunch on us every freakin’ day.”

Another former employee told us:

“I felt like the debit card fraud, that that was kind of on a consistent path higher my entire time there.”

Such was the state of Cash App heading into 2020. Overrun with identity theft, open to business for fraudsters and criminals, often unwilling to respond to pleas for help from users, futile demands for restraint from compliance employees, and obscuring its fraud problems to investors.

It was at this time that Block took on the critical role of moving billions of taxpayer money during the pandemic.

### Part III: How Block Fueled Revenue And User Growth By Facilitating Billions of Dollars of Pandemic-Relief Fraud

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COVID-19 posed an existential threat to Block’s business. Prior to the pandemic, over 65% of Block’s revenue came from merchant-heavy “transaction-based” fees. [Pg.75] With small businesses shut down nationwide in an effort to ‘slow the spread’ of the virus, Block faced a collapse of its core revenue base.

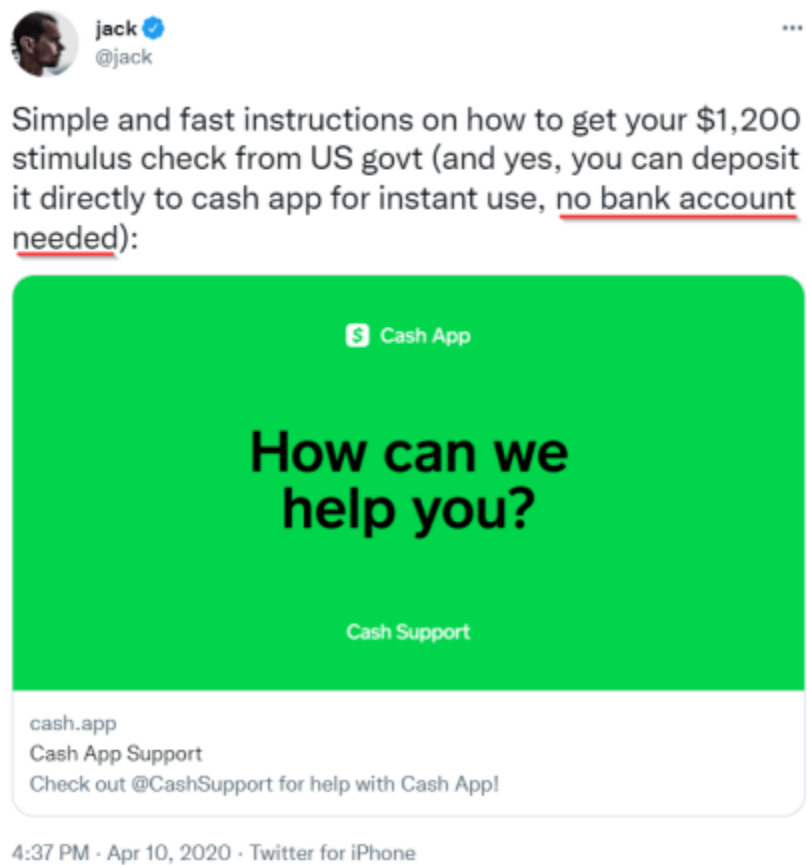
In response, the company shifted its focus to Cash App’s potential use in pandemic relief. Federal COVID relief legislation known as the ‘CARES Act’ was signed into law on March 27, 2020. The law provided payments that included expanded unemployment insurance benefits for those affected by the COVID-19 pandemic.

One day before the CARES Act was signed into law, Dorsey tweeted that Block was prepared to help distribute government money immediately, emphasizing its focus on customers without bank accounts.

Dorsey tweeted: “the technology exists to get money to most people today (even to those without bank accounts)...US government: let us help.”



Cash App soon began offering the service, prompting users to sign up around April 10, 2020. On that day, Dorsey tweeted how Cash App could be used to access government money instantly, stressing yet again that users didn't need a bank account.



Around 11 million people activated the direct deposit feature on their existing Cash App accounts or set up new deposit-enabled accounts within weeks of Dorsey's tweet, helping Block report strong metrics at a critical time. During Block's May 7, 2020, earnings call, Dorsey described Cash App's soaring user growth:

“In April, obviously, the government stimulus provided us an opportunity to help folks receive their money much, much faster. And our teams did work, as we mentioned, with our partner banks to expand the 3 million direct deposit accounts we had in February to 14 million.”

Funds flooded Cash App's system, according to a former customer service representative: “It wasn't a fire hose. It was just like a dam breaking open. I mean, it was just incredible.”

Dorsey's offer to “help” speed those payments, came at a steep cost to users. Block charges a fee of 0.5% to 1.75% for speeding payments that otherwise take 1-3 business days. The translates into a roughly ~205% APR.[16]



The user growth and associated revenue sent Block shares surging from a low of \$32 in March 2020, several days before Dorsey's offer, to \$243.40 a year later, a gain of more than 660%.

## **Cash App's Platform Was Almost Immediately Besieged With Requests From States To Claw Back Unemployment Funds**

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Dorsey's Tweets urging users without bank accounts to receive government money through Cash App served as a siren song for scammers.

Problems emerged just weeks after Cash App accounts began receiving their first government payments, which would eventually include stimulus payments, unemployment payments, rental assistance, and child tax credits.

A former employee explained that Cash App received pushback as states began to realize the magnitude of COVID relief fraud taking place:

“We would just come in one day, open all of our systems, and we would literally get an email that says, ‘We’re going to get a ton of pushback today. North Dakota has, you know, 20,000 accounts that are literally just being pulled back today. You know another state has 100,000 that are being pulled back today.’ So, I mean, we knew that it was going to be a horrible day based on what states, you know, found what fraud that day.”

Pandemic Unemployment Assistance (PUA) was particularly vulnerable to fraud as it was intended for self-employed and gig economy workers who verified their own eligibility for benefits, according to security firm ID.me which published a report on pandemic fraud called “Calculating the Road to Losing \$400 Billion Dollars”. This contrasted with standard unemployment insurance, paid to individuals whose status was easily verifiable through their former employers.

States quickly began to realize that many PUA claims they were processing were filed using stolen identities and sought to claw back funds. A former employee told us:

“The first time we spoke to Arizona, they were at like a half a billion dollars [in fraudulent transactions].”

“Washington right away was like \$200-and-something-million. These were right away, so we’re talking like June [2020].”

## **In Ohio, Suspect Pandemic-Related Unemployment Payments To Cash App's Partner Bank Were 8x Higher Than Those Received By Competitor Huntington Bank, Even As Huntington Processed 2x The**

## Claims, According to Data We Obtained Via A Public Records Request

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The US Department of the Labor Office of the Inspector General (OIG) testified in March 2022 that a total of \$163 billion in improper pandemic unemployment insurance payments were made across all states. [Pg. 6] Other estimates put the fraudulent payments as high as \$400 billion.

While a full reckoning of the losses may never be known, states are beginning to come to grips with the damage. We filed public records requests with various states to learn about their efforts to identify unemployment payment fraud and recover funds from financial institutions.<sup>[17]</sup>

A data sample obtained via a public records request with Ohio showed that Cash App's partner bank Sutton Bank, received around \$956 million of all the PUA funds distributed in that state, making Sutton the 5<sup>th</sup> largest processor overall.<sup>[18]</sup>

The data indicated that "Square" – the parent company's name at the start of the pandemic – was identified with Sutton Bank.

Rank	Financial Institution	Amount
1	Other	\$ 1,901,281,762
2	Huntington	\$ 1,900,061,287
3	Wells Fargo (linked to PayPal)	\$ 1,876,490,244
4	JP Morgan Chase	\$ 1,873,419,710
5	PNC BANK	\$ 1,284,852,113
6	Sutton Bank (Square)	\$ 955,803,624

(Source: Ohio Department of Job and Family Services via public records request)

Sutton Bank received payments for 32,120 claimants that were later determined by the state to be "disallowed" over suspicions of ineligibility including for reasons of fraud.

By comparison, that's nearly 8x the 3,884 disallowed claimants paid by Huntington Bank, the top processor of PUA payments for Ohio at \$1.9 billion—double the amount Sutton Bank processed.

## Cash App's Partner Bank Had Nearly 10x The Number Of Applicants Who Applied For Benefits Through A Bank Account Used By Another Claimant– A Clear Red Flag Of Fraud – According to Ohio Data

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The Ohio data indicated that of the claims flagged as suspicious— and either paid or halted – 31,726 were from applicants using a Sutton Bank account that had been used by at least one other claimant.

In comparison, the Ohio data show just 3,390 transactions flagged as suspect – whether paid or not – that involved applicants using a Huntington Bank account used by another applicant.

As we show further below, Block ignored both internal and external warnings that multiple individuals using the same bank account number to receive government funds was a brazen red flag of fraud.

## **Massachusetts Sought to Claw Back Over 69,000 Unemployment Payments From Cash App Accounts Just Four Months Into The Pandemic, According To Data Obtained Via Public Records Request**

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The Massachusetts’ Department of Unemployment Assistance responded to our public records request with correspondence showing that Sutton Bank was the second largest bank in terms of suspect payments.

At one point, People’s Bank, acting on behalf of the state, attempted to retrieve \$50 million from Sutton, or roughly 10% of the total suspect funds it was seeking to retrieve.<sup>[19]</sup>

**From:** Piscitelli, Keara  
**Sent:** Thursday, July 23, 2020 5:23 PM  
**To:** 'Kamya, Male (EOL)' <[REDACTED]@state.ma.us>; Gainsboro Brooks, Kim <[REDACTED]@peoples.com>; Cohen, Jonathan <[REDACTED]@peoples.com>; 'Waye, Tom (EOL)' <[REDACTED]@state.ma.us>  
**Cc:** Marinko, Elizabeth <[REDACTED]@peoples.com>; Lopez, Jose <[REDACTED]@peoples.com>; Sargalski, Daniel <[REDACTED]@peoples.com>  
**Subject:** RE: Bank ACH Reversal- UPDATE

Good evening!

We made great progress today and I am certain it will continue going forward. First, we trained the team this morning, provided them with a phone script and email template with which to reach out to financial institutions. We also worked together with Loss Prevention to successfully reach the below banks and provide them their files and encryption keys. I will join tomorrow's call, but as I mentioned, am on PTO after that for a period of two weeks. Jose Lopez will be sending you an update nightly, after 5 pm. That update will simply consist of the additional number of banks that were successfully contacted in that day. If we do see any large recoveries, we will report those as well (>\$10MM). Given the amount of research and investigation required by the receiving institution, we are not anticipating return of any funds for a period of at least one full week, maybe longer.

Summary for 7/23/2020

13 of the top 16 banks were contacted. As these comprise the great majority of dollars, I did include the detail today and will do so tomorrow, as well. As you can see, this addresses approximately \$340MM.

**SUMMARY BY BANK**

Bank Name	Overall Totals	Bank Phone	646,088 Quantity	\$471,210,256.31 Total Dollars	Date of C
BANK OF AMERICA		800-446-0135	147,879	\$106,700,456.58	
<b>SUTTON BANK</b>		419-426-3641	69,675	<b>\$49,169,930.12</b>	
BANCORP		866-546-9556	51,024	\$35,718,996.19	
JPMORGAN CHASE BANK, NA		813-432-3700	34,404	\$27,073,961.07	
WELLS FARGO BANK, NA		800-745-2426	30,732	\$23,541,807.38	
TD BANK, NA		877-898-7821	25,972	\$18,765,917.66	
SANTANDER BANK, N.A.		610-463-9182	23,059	\$16,875,953.57	
CITIZEN'S		800-883-4224	20,827	\$15,128,505.52	
STRIDE BANK, NATIONAL ASSOCIAT		580-233-3535	19,102	\$13,387,418.99	

## Suspect Transactions at Cash App's Partner Exceeded Those at JP Morgan And Wells Fargo, Despite Those Banks Having 4x-5x As Many Deposit Accounts, Per Massachusetts Data

Suspect payments sent through Cash App partner Sutton Bank were 82% higher than those of JP Morgan, and 108% higher than Wells Fargo, according to the Massachusetts data shown in the table above. These far larger suspect payments, routed through Sutton, were despite the fact that J.P. Morgan and Wells Fargo had 4x to 5x more deposit accounts than Cash App direct deposit-enabled accounts, according to figures listed on FDIC filings.[20] [Pg. 51] [Pg. 51]

The only bank with more problematic transactions than Sutton Bank was Bank of America, which had slightly more than double the suspect transactions of Sutton Bank, but **8x the number** of Cash App’s direct deposit-enabled accounts in 2020, according to FDIC filings. [21] [Pg. 50]

In short, Massachusetts data makes clear that Cash App’s partner bank was disproportionately processing suspicious COVID-relief transactions.

## Fraud Losses Tallied By Washington State, And Obtained Via Public Records Request, Show Cash App Was Used To Move More Suspected Stolen Funds Than Wells Fargo and JP Morgan Combined

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We also received a response to a public records request with the Washington State Employment Security Department for “records related to confirmed or suspected identity/imposter fraud committed between March 8, 2020, and September 4, 2021”. We received a breakdown of fraudulent payments by bank routing number.

A Secret Service [bulletin](#) and research report by security firm [Agari](#) detailed how the state was subjected to an attack orchestrated by a single massive Nigerian scam ring called “Scattered Canary”, which ran transactions through [Green Dot Bank](#) and related [Go Bank](#). Those banks topped the list of fraudulent payments.

Outside of that, Cash App’s partner bank had more suspected fraud losses than any other banks, including significantly larger banks like Wells Fargo and JP Morgan.

Bank Routing Number	Count of Transactions	Sum of Payments
124303120 (Green Dot Bank)	44858	\$208,348,207
124303162 (Go Bank)	12174	\$58,947,296
<b>041215663 (Sutton Bank)</b>	<b>6911</b>	<b>\$29,442,879</b>
125200947 (KeyBank)	7555	\$15,904,931
026014902 (Metropolitan Commercial Bank)	5600	\$14,921,633
121000248 (Wells Fargo Bank)	2226	\$9,385,538
124071889 (American Express Centurion Bank)	2108	\$7,325,945
073972181 (MetaBank)	1523	\$6,151,989
031101279 (The Bancorp Bank)	1358	\$5,476,547
061092387 (JPMorgan Chase)	1342	\$8,507,150

(Source: Washington State Employment Security Department public records request)[22]

Sutton Bank accountholders received more than double the suspected fraudulent payments of accountholders at Wells Fargo and JP Morgan Chase combined, a total of \$29,442,879, according to the data.

# Block Turned A Blind Eye To Obvious Signs Of Fraud Despite Warnings From Employees And The Government

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## Multiple Key Lapses in Cash App's Compliance Processes Facilitated Billions In Government Payment Fraud

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While pandemic-related fraud was an issue across the banking system, our investigation indicates that obvious lapses in Cash App's compliance processes facilitated its disproportionate pandemic-related fraud.

Rather than responding to warnings regarding these lapses, Block management mostly ignored them in the interest of preserving its growth engine, despite the consequences to taxpayers, according to interviews with former employees.

### Compliance Lapse #1: Single Accounts Were Permitted To Receive Unemployment Payments For Multiple Individuals From Various States

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The biggest pandemic compliance failure by Cash App was the company's willingness to allow multiple individuals to receive payments into a single account, according to numerous former employees.

“There was a lot of pushback on name matching because according to NACHA and ACH rules, you don't have to name match, but if you recognize there's a problem and this account is getting unemployment payments from 7 different states in 72 different names, there's a problem.”

Another former employee recalled alerting management, to no avail:

“Hey guys. There's all these name mismatches. You have John Smith from Indiana going into an account named Fred Flintstone living in California, how does it make sense?”

The issue came up constantly as employees tried to figure out how to deal with accounts getting multiple unemployment payments from across the country, according to the former employee.

“Some people were taking multiple months to get their money and when checks were coming in they were (for) \$8,500 and so people were going out there and they're stealing, you know, hundreds of these and they're going into one account.”

A former employee of the Cash App partnership described checking to see if competitors like Chime were allowing name mismatches while Block “refused” to implement a ban:

“I’m on their (competitors) websites every day, looking at their terms of service. What did they change? What did they do to stop the fraud? The one thing Chime did was they said, ‘Look, if you want to send an ACH, the name of the beneficiary has to match the name of the account holder or it doesn’t go through.’ Square refused to do that.”

Historical web captures of the Terms of Service for Chime show that the service made clear that the name on deposits must match the name of the accountholder.

\*DIRECT DEPOSITS OR CREDITS USING A DEBIT CARD FROM AN OUTSIDE FINANCIAL INSTITUTION: The recipient's name on any such deposits we receive must match the name of the Chime Accountholder. Any such deposits received in a name other than the name registered to the Spending Account will be returned to the originator. Deposits using an external debit card from an outside financial institution will be available within minutes of a successful transaction.

(Historical capture of Cash App competitor Chime’s Terms of Service, dated September 28, 2020)

Rather than address the problem, Cash App executives came up with bizarre scenarios for why such transactions might be legitimate. Possible explanations included Cash App accounts being used as joint accounts for numerous individuals across multiple different states, according to a former employee:

“How does it make sense? ... The arguments were stupid. ‘Oh, they’re joint *because* these people can’t get an account.’ Well, that’s why we have the Cash App... The Cash App—it doesn’t matter. It’s for the un-bankable.”

The benefits of ignoring compliance were obvious, as one former compliance employee noted:

“The bulk of the fraud, which initially started in March of 2020, and oddly enough, it coincides with Square’s stock increasing 200% between March 2020 and October 2020, and it dropped off significantly after the pandemic payments stopped.”

## **Compliance Lapse #2: Cash App Was Not Running Address Verification Safety Checks Intended To Catch Identity Theft, Just As Unemployment Fraud Exploded**

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Cash App also failed to use a compliance measure that would have required address verification before the card could accept ACH payments, according to former employees.

Typically, card issuers require that users be mailed a card and activate the card before use.

This simple precaution can thwart identity thieves as cards are frequently ordered using the address of the identity theft victim. The victim would then be the one who needed to activate the card, which would halt the scam. A former employee explained:

“So, if I open the account in your stolen identity and you’re getting a physical card, you’re getting the physical card because you’re the victim, but you have no idea what’s going on.”

But such fraud prevention measures once again create “friction”, slowing down Cash App users’ immediate access to funds. During the pandemic, when payments and users were exploding, this would have threatened to slow down growth.

A second former employee said they realized this compliance measure was not in place after complaints about unordered cards began to flood Cash App and Sutton Bank. When compliance investigated, it was clear the accounts were active and had already received suspect payments:

“The card was getting shipped to that person. The cards weren’t being activated. That’s when we realized Marqeta shut the feature off and (found) there was (already) fraud on the accounts.”

A third employee said the company also allowed cards to be sent to addresses not on file, a change that allowed scammers to redirect cards away from the addresses of identity theft victims:

“I believe there was a huge influx of customers just complaining about like, cards being stolen, and being delivered at the wrong address. So that’s when they were like, ‘well okay let’s just be a little bit more lenient and allow these customers to get them [Cash Cards] sent to different addresses’, and in my opinion, I do think that enabled for a lot more fraud...”

Once again, a key Cash App compliance gap was celebrated in a popular song about how easy it is to scam with Cash App. The song “Precise” by Money Man describes filling mailboxes in an Atlanta neighborhood with Cash App cards:

“I’m the reason why the block hot.”

“Ima put a Cash App card in every Pine Hills mailbox.”

“If I get locked up, I’m runnin’ my cell block”





(Source: [YouTube](#))

### **Compliance Lapses #3-#5: “It’s Like The Wild, Wild West”: Cash App’s Verification Process Overlooked Other Identity Theft Red Flags, Such As Use of Old Addresses, Unknown Phone Numbers and Dozens of People Sharing A Single Address**

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Before a new Cash Card account was approved, information provided by the applicant was run through a verification process overseen by third party security firm, [IDology](#), which searched for indications that phony or stolen identities were being used to set up accounts, a former employee explained.[23]

The decision to open an account was based in part on an IDology score reflecting consistency in the data.

One scenario that would lower a score but not trigger an automatic rejection, in the former employee’s experience, was an old address on an application, despite the possibility that the applicant may have obtained it as part of a data breach at the time the address was current.

The process also let unrecognized phone numbers through, according to the former employee, opening the door to identity thieves verifying an account using their own phone while still creating the account with stolen information.

Multiple applicants residing at the same address was another scenario that did not cause an application to be rejected outright, according to a former employee:

“One issue that was never identified...is multiple accounts with the same address. So, excluding apartments or college dorms, there would be accounts with the same address. So, 123 Main Street, and there would be, for example, 125 accounts at that same address and the address was a single-family home”.

The former employee summed it up:

“There are really no controls with them. It’s like the wild, wild West.”

## **Rapper “Nuke Bizzle”, Who Made A Music Video About Committing COVID Fraud, Was Later Sentenced To Over 6 Years In Prison on Fraud And Other Crimes**

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### **The Only Payment Provider Mentioned In The Indictment Was Cash App, Which Was Used To Facilitate The Fraudulent COVID Relief Payments**

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The “Wild West” approach was once again reflected in pop culture, making the signs hard to miss.

On September 11, 2020, rapper Nuke Bizzle released a song called “EDD”, in reference to California’s “Employment Development Department”, which distributed pandemic unemployment relief.

The song focused entirely on how easy it was to steal COVID relief funds from the government, with lyrics referencing the approach of using multiple names at the same address:

“If you got the name and number, I got the addy, we can put somethin’ together...  
Unemployment so sweet, we had 1.5 land this week”

The song was accompanied by a later music video that included scenes of Bizzle and his partner hunched over their computers and phones working on scams.



(Source: [YouTube song “EDD”](#) by Fat Wizza & Nuke Bizzle, the latter who was later indicted over COVID relief fraud)

The lyrics focused on the ease of stealing from the government electronically:

“You mean to tell me I can just wait on an email and get certified for a 20 (thousand)?  
Damn, this shit here better than dealin’ (Yea)  
Turned me to a scammer, quickly (Yea)”

On September 23, 2020, less than 2 weeks after the release of Bizzle’s musical confession, he was arrested on charges of fraud. Upon his arrest, officers found 8 COVID relief debit cards in his possession, 7 of which were in the names of other people, according to media reports citing prosecutors.

In the indictment, the only electronic peer-to-peer payment processor mentioned was Cash App, which Bizzle had used to facilitate a portion of the alleged fraudulent payments.

<p><b>LODGED</b> CLERK, U.S. DISTRICT COURT</p> <p style="font-size: 24pt; font-weight: bold;">10/15/2020</p> <p><small>CENTRAL DISTRICT OF CALIFORNIA BY: _____ DEPUTY</small></p>	<p><b>UNITED STATES DISTRICT COURT</b></p> <p>for the</p> <p>Central District of California</p>	<p><b>FILED</b> CLERK, U.S. DISTRICT COURT</p> <p style="font-size: 24pt; font-weight: bold;">Oct 15 2020</p> <p><small>CENTRAL DISTRICT OF CALIFORNIA BY: _____ DEPUTY</small></p>
<p>UNITED STATES OF AMERICA</p> <p style="text-align: center;">v.</p> <p>FONTRELL ANTONIO BAINES, aka "Nuke Bizzle,"</p> <p style="text-align: center;">Defendant(s)</p>	<p>Case No. 2:20-mj-04992 -Duty</p>	

**CRIMINAL COMPLAINT BY TELEPHONE  
OR OTHER RELIABLE ELECTRONIC MEANS**

f. Between June 2, 2020 and September 27, 2020, the UI benefits loaded onto these 92 EBP debit cards were accessed in the following manner:

- i. Approximately \$375,177 was accessed through ATM cash withdrawals.<sup>13</sup>
- ii. Approximately \$205,273.28 was used to pay for purchases of goods and services.<sup>14</sup>
- iii. Approximately \$39,180 was accessed through banking center teller cash withdrawals in Los Angeles, California.
- iv. Approximately \$85,130 was accessed through Money Transfers/Funds Transfer including Cash App<sup>15</sup> transactions.

(Source: USA vs. Baines [Pgs. 1, 25])

Bizzle pleaded guilty and was sentenced to over 6 years in prison.



## Rapper Who Boasted in Music Video About Committing COVID Fraud Sentenced to Over 6 Years in Prison on Fraud, Gun and Drug Crimes

(Source: [Central California Department of Justice](#))

## **Cash App's Compliance Lapses Remained Open For Exploitation By Fraudsters Even After The Secret Service Flagged the Risks of Allowing Such Transactions**

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On July 6, 2020, the Secret Service and the U.S. Department of Labor OIG issued a bulletin warning about “an extensive criminal scheme” to use stolen identities to collect unemployment payments and detailing concerns about just the types of transactions that Cash App was routinely overlooking.



TLP GREEN (Limited disclosure, restricted to relevant community)

### Detection and Mitigation of Unemployment Insurance Fraud Guidance for Financial Institutions

July 6, 2020

#### Overview:

The U.S. Secret Service and U.S. Department of Labor Office of Inspector General (DOL OIG), along with other state and federal agencies, are investigating an extensive criminal scheme involving the use of stolen personal identifying information to fraudulently claim unemployment insurance benefits. Financial institutions should be alert for suspicious transactions, and, when detected, rapidly return or preserve funds and report the suspicious activity. Financial institutions should work with appropriate law enforcement agencies to investigate potential illicit activity and to seize and return fraudulently obtained funds.

This advisory provides an update to alerts previously distributed through the Financial Crimes Enforcement Network (FinCEN). The Secret Service and DOL OIG will continue to work with FinCEN, other federal agencies, industry and trade associations, and state governments to share information regarding this activity in order to prevent fraud losses.

#### Detecting this scheme:

While unemployment insurance fraud is also occurring via physical checks and prepaid debit cards, the overwhelming majority of fraud is being committed via Automated Clearing House (ACH) transfers, sent to the accounts of “money mules” (these are individuals who receive and transfer illegally-obtained money on behalf of criminals; money mules may, or may not, be aware of their participation in an illicit scheme). After funds are deposited in the identified account, these funds are then withdrawn or transferred to other accounts.

Common indicators of this fraudulent scheme, which a receiving depository financial institution (RDFI) may detect, are:

- Account holder name and ACH “remit to” name do not match;
- Total unemployment deposits are in excess of \$5,000 within a month;
- Unemployment deposits are paid to an account holder residing outside of the issuing state;
- The customer’s account(s) receives both deposits of unemployment insurance and regular work-related earnings, such as paycheck deposits;
- Multiple unemployment insurance payments deposited into one account from the same issuing state, or from multiple issuing states;
- Unemployment deposits into one account intended for multiple unemployment benefit recipients;
- Deposited funds are quickly diverted via wire transaction to foreign accounts, particularly to accounts located in countries with poor anti-money laundering controls;
- The customer’s account behavior seems atypical for an individual receiving unemployment benefits.

The Secret Service warned about account holder names and ACH remittance names not matching; payments made by states to account holders who resided out-of-state; and multiple payments for multiple individuals going into the same account – all red flags of fraud which Cash App appeared to have ignored.

# “Square Refused...” To Heed Regulatory Warnings: Cash App’s Compliance Lapses Remained Open For Exploitation By Fraudsters Even After FINCEN Flagged the Risks of Allowing Such Transactions

By October 13, 2020, the Treasury Department’s Financial Crimes Enforcement Network (FINCEN) was also warning about red flags of unemployment insurance fraud.



## FinCEN ADVISORY

FIN-2020-A007

October 13, 2020

### **Advisory on Unemployment Insurance Fraud During the Coronavirus Disease 2019 (COVID-19) Pandemic**

*Detecting and preventing unemployment insurance fraud and other illicit activity related to COVID-19 are critical to safeguarding the integrity of government relief efforts.*

Again, the warnings focused on multiple individuals receiving payments in the same accounts, recipients receiving payments whose names were not listed on an account, and payments by state agencies to individuals who appeared to reside outside of that state.


## FINCEN ADVISORY

- *Employer-employee collusion fraud*: the employee receives UI payments while the employer continues to pay the employee reduced, unreported wages;
- *Misrepresentation of income fraud*: an individual returns to work and fails to report the income in order to continue receiving UI payments, or in an effort to receive higher UI payments, an applicant claims higher wages than he/she previously earned;
- *Insider fraud*: state employees use credentials to inappropriately access or change UI claims, resulting in the approval of unqualified applications, improper payment amounts, or movement of UI funds to accounts that are not on the application; or
- *Identity-related fraud*: filers submit applications for UI payments using stolen or fake identification information to perpetrate an account takeover.<sup>1</sup>

As no single financial red flag indicator is necessarily indicative of illicit or suspicious activity, financial institutions should consider all surrounding facts and circumstances before determining if a transaction is suspicious or otherwise indicative of potentially fraudulent activities related to COVID-19. In line with a risk-based approach to compliance with the BSA, financial institutions also are encouraged to perform additional inquiries and investigations where appropriate.

FinCEN identified the financial red flag indicators described below to alert financial institutions to fraud schemes targeting UI programs, and to assist financial institutions in detecting, preventing, and reporting suspicious transactions related to such fraud.

Financial red flag indicators of UI fraud may include:

 Account(s) held at the financial institution receive(s):

- a. UI payments from a state other than the state in which the customer reportedly resides or has previously worked;
- b. Multiple state UI payments within the same disbursement timeframe;
- c. UI payments in the name of a person other than the accountholder, or in the names of multiple unemployment payments recipients;
- d. UI payments and regular work-related earnings, via direct deposit or paper checks;
- e. Numerous deposits or electronic funds transfers (EFTs) that indicate they are UI payments from one or more states to persons other than the accountholder(s);
- f. A higher amount of UI payments in the same timeframe than similarly situated customers received.

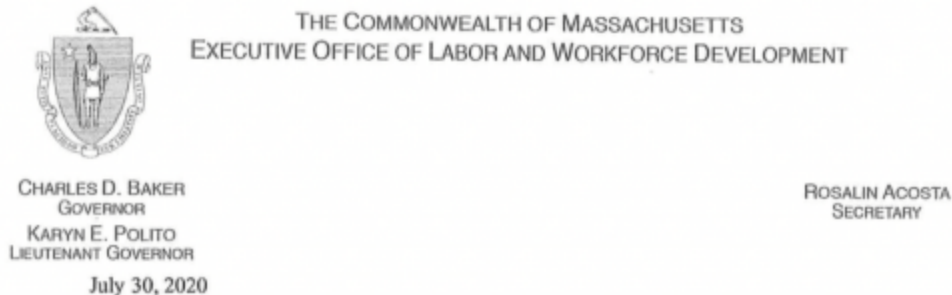
1. See, FinCEN Advisory, [FIN-2020-A005](#), "Advisory on Cybercrime and Cyber-Enabled Crime Exploiting the Coronavirus Disease 2019 (COVID-19) Pandemic," (July 30, 2020). In some situations, fraudsters use the stolen identification information to perpetrate an account takeover. For additional information on identifying account takeover activity, see FinCEN Advisory, [FIN-2011-A016](#), "Account Takeover Activity," (December 19, 2011).

## In Some Cases, Cash App Attempted to Claw Back Funds After States Said They Suspected Payments Were Fraudulent



## By Then, “[The Fraudsters] Would Have Already Cashed Out And Be Long Gone” – Former Employee

A letter obtained via a public records request with the Massachusetts’ Department of Unemployment Assistance described how People’s Bank was working to recover fraudulently obtained funds for the state.



Dear Banking Partner:

The Commonwealth of Massachusetts’ Executive Office of Labor and Workforce Development (EOLWD) is providing this guidance to People’s United Bank, N.A. (PUB) to assist you with questions you may have regarding a request to return funds. PUB is the bank representing EOLWD the Department of Unemployment Assistance (DUA), one of the agencies under EOLWD’s umbrella.

DUA is the state agency that administers the unemployment programs in Massachusetts, including Pandemic Unemployment Assistance (PUA) benefits. As had been reported in the national media, the PUA program has had a number of claims filed by individuals using previously stolen identities.

DUA has engaged in intensive efforts to identify individuals who received benefits, but whose record was sufficiently discrepant to convince the agency that the individual claiming the benefits is not who they say they are. These claimants have received a determination letter indicating that their claim has been denied.

As a result, DUA asked PUB to undertake an effort to recover payments made to those individuals.

DUA understands that you will receive calls from your customers. Please inform them that the money has been returned to Massachusetts DUA. You may direct your customers to contact the PUA Call Center at (877) 626-6800 for assistance.

If you have questions or concerns regarding the above, please feel free to reach out to me.

Very truly yours,

Tom Waye  
COO, Executive Office of Labor and Workforce Development  
Commonwealth of Massachusetts  
One Ashburton Place, Boston, MA 02108  
Tom.waye@mass.gov  
Ph, 617-626-6602

The fraudsters likely made use of Cash App’s instant deposit feature to extract the stolen funds immediately, resulting in a revenue boost for Block while ensuring that the government could not claw back the fraudulent funds.

A former employee of the Cash App partnership described the company's failed attempts to retrieve funds lost to suspected fraud:

“We would send out an in-app message that basically just says, ‘Your account is now in the negative. Please make a deposit.’ And then, we leave it at that. The ones that are sophisticated, so the fraudsters that are sophisticated enough to have linked another fraudulent account, because that’s usually how it happens, they would have already cashed out and be long gone.”

## **Cash App Eventually Implemented Software For Detecting Red Flags of Fraud, But It Was Put In Place ~10 Months After Payments Began And It Continued to Overlook Name Mismatches, According to Former Employees**

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Around January 2021, ~10 months after Cash App began accepting government payments for its users, Block implemented a software application intended to block government ACH transfers when those transactions appeared suspicious, according to former employees.

While it was an improvement on Block's previous thin efforts to safeguard taxpayer money, the system continued to allow the worst red flag – Cash App accounts receiving payments for multiple individuals. One former employee told us:

“They still would allow multiple name mismatches in an account. They still said it was OK. They kept saying, ‘name match alone does not equal fraud’.”

Another former employee said Cash App eventually starting using its software to flag name mismatches but then decided to allow 1 name mismatch before blocking payments.

“They would allow that one payment to go through. And then the next one would be blocked.”

Scammers quickly figured this out, leading to the creation of even *more* Cash App accounts as they set up accounts for *each* transaction.

“Well, the fraudsters figured that out. They would just do one and done. They knew the next one would be declined so they would move on.”

## **Block Management Rarely Mentions Fraud, With No Mentions During Earnings Calls In 2019-2021**

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## **Dorsey Mentioned Fraud Only Twice Later in 2022 When He Praised The Company's Fraud And Risk Controls**

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Despite everything, management has had little to say about fraud when speaking to investors. Earnings call transcripts we reviewed turned up 0 mentions of “fraud” between 2019 – 2021, and only 2 mentions of fraud in 2022.

Those 2 mentions came from Jack Dorsey, who ironically praised the company’s track record of managing fraud on Block’s Q4 2021 earnings call held in March 2022 (emphasis added):

“So, we have limits in place to manage all these things, and a big goal for us is to make sure that we’re looking for opportunities to increase those and to, at the same time, maintain all of the risk controls and fraud and continue to do what we’ve done so well over the years.”

## **Fueled By Revenue From Fraudulent Transactions And Fake Accounts Padding Its User Metrics, Block’s Stock Surged By More Than 639% During the Pandemic**

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Block booked transaction-based revenue, regardless of whether the transactions were fraudulent, and reported blockbuster user growth, regardless of whether the users were genuine or engaging in illegal activity.

Revenue from subscriptions and services, largely composed of fees charged to Cash App users and merchants who accept the Cash Card, surged during the pandemic. They increased to \$2.7 billion at the end of 2021, from \$1 billion at the end of 2019, representing 170% growth.

The company’s Cash App user base also surged to 40 million monthly actives by late 2021, from 24 million monthly actives at the end of 2019, representing nearly 70% growth.

A mass proliferation of fraudulent accounts, caused directly by Block’s own compliance gaps, likely helped propel Block’s surge in reported revenue, along with its high pandemic “monthly transacting active” user counts and lower “customer acquisition costs”.

Growth in these metrics were richly rewarded by investors. Between March 20, 2020, to August 5, 2021, Block’s stock rose more than 639% from \$38.09 to \$281.81, peaking at a market cap of over \$120 billion.

## **Cashing Out—Block CEO Jack Dorsey and Co-Founder Jim McKelvey Went On A Selling Spree During The Pandemic, Offloading More Than \$1 Billion In Block Stock**

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Even as billions of fraudulent transactions were being processing through Cash App’s platform, Block insiders were hitting the exit to the tune of more than \$1 billion in insider stock sales between March 2020, the beginning of the pandemic and December 31, 2021.

During the peak of the pandemic stock spike, Jack Dorsey made 25 sales near Block’s all-time highs.

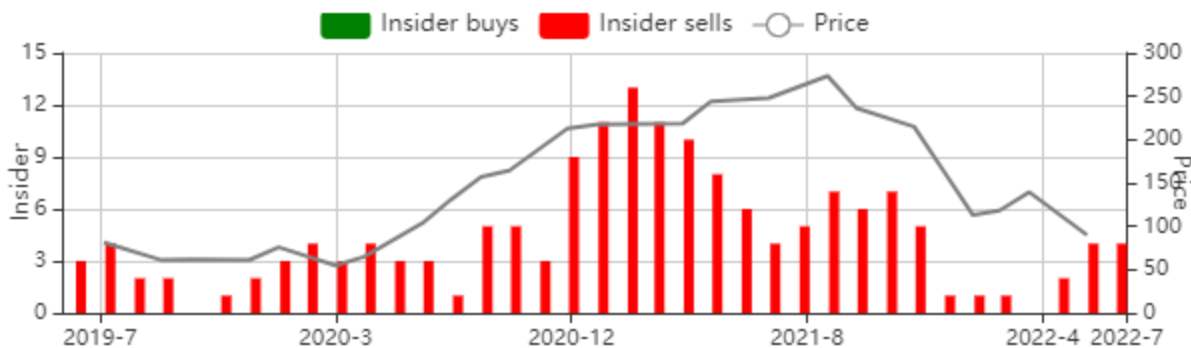


(Source: YCharts, Hindenburg [analysis of insider sales data](#))

According to our analysis, between March 1, 2020, and December 31, 2021, Block CEO Jack Dorsey sold approximately \$574.3 million in stock, at prices as high as \$277.51 per share.

Block co-founder and director James McKelvey sold about \$468.2 million in stock over the same period, at prices as high as \$261.38 per share in August 2021.

In general, Block Insiders increased the size and volume of their sales at just the right time, as the stock rose heading into early 2021.



(Source: Gurufocus.com)

Today, Block trades about 74% lower than its highs, with a market cap of \$44 billion.

## Part IV: Cash App’s “Frictionless” and “Magical” Business Model Is Built On Avoiding Regulations, Gouging Users Through Excessive

## **Fees, And Hying Up Non-Existent Innovation**

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Cash App has convinced investors that it is an innovator and a disruptor. Our review of its key products indicates that it has simply followed the footsteps of most other financial services companies with a focus on predatory pricing, avoiding consumer protection regulation, or simply offering mundane “me-too” services in a competitive field.

## **Cash App Makes A Single Vague Reference To A Key Revenue Source—“Interchange Fees” In Its Quarterly and Annual Reports**

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### **Despite The Opacity On The Subject, A Credit Suisse Report Showed That “Interchange Fees” Represented ~35% of 2021 Cash App’s Revenue, Or Around \$892 Million—A Material Revenue Source**

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Block fails to disclose even the most basic economic elements of its Cash Card business, including Cash App’s reliance on “interchange fees”.

“Interchange fees” are paid by merchants who accept debit and credit card purchases in order to cover the cost of accepting, processing, and authorizing card transactions.[24]

For years Block has limited its disclosure of interchange fees to just a single line of text in its annual reports, with no numbers included:

| “Square earns interchange fees when individuals make purchases with Cash Card.” [Pg. 10]

In 2022, Block’s disclosure provided little additional color:

| “We also earn interchange fees when a Cash App Card is used to make a purchase” and  
| “interchange fees are treated as revenue when charged.” [Pg. 65]

Despite Block’s opacity on the subject, an October 2022 report by Credit Suisse estimated that “spend”, a segment it said was largely made up of Cash Card interchange fees, accounted for \$892 million, or ~35% of 2021 Cash App revenue.

**Figure 28: Cash App Net Revenue & Gross Profit by Segment**

(\$ in millions)	2018	2019	2020	2021
<b>Cash App Net Revenue by Segment (CSe)</b>				
<b>Send</b>	<b>\$212</b>	<b>\$417</b>	<b>\$946</b>	<b>\$1,395</b>
YoY	-	96%	127%	47%
2019-based CAGR	-	-	127%	83%
<b>Spend</b>	<b>51</b>	<b>172</b>	<b>451</b>	<b>892</b>
YoY	-	237%	162%	98%
2019-based CAGR	-	-	162%	128%
<b>Invest</b>	<b>2</b>	<b>8</b>	<b>97</b>	<b>218</b>
YoY	-	387%	1079%	124%
2019-based CAGR	-	-	1079%	414%
<b>Lend (Borrow)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16</b>
YoY	-	-	-	-
<b>Total Cash App Net Revenue</b>	<b>\$265</b>	<b>\$597</b>	<b>\$1,494</b>	<b>\$2,521</b>
YoY	-	125%	150%	69%
2019-based CAGR	-	-	150%	105%

## **Banks With Over \$10 Billion In Assets Have “Interchange Fee” Caps, A Measure Implemented By Congress That Legally Prevents Them From Gouging Merchants**

### **Despite Having \$31 Billion In Assets, Block Has Avoided These Regulations By Routing Payments Through a Small Bank**

We suspect we know the reason behind Block’s opacity on the subject.

In 2010, Congress capped interchange fees under the Durbin Amendment to the Dodd-Frank Act to help ensure the fees were “reasonable and proportional to the cost incurred by the issuer.” The Durbin amendment provides an exemption for small banks, i.e., when the card issuing bank has less than \$10 billion in assets.[25] [Section 235.5]

Block hardly fits that definition of “small”, with \$31 billion in assets, per its most recent annual filing. [Pg.4]

Yet the company skirts the interchange fee cap, increasing the fees on a typical retail transaction by anywhere from an estimated 1.27x to 5x, imposing that inflated cost on many of the merchants and small businesses it claims to be helping.[26] [27]

To qualify, Cash App selected Sutton Bank to issue its prepaid debit card. Sutton Bank is a small bank under the Durbin exemption definition and appears on the Federal Reserve’s list of “Institutions Exempt from the Debit Interchange Standards.” [Pg.154]

While Sutton Bank is considered the *issuer* of Cash App’s pre-paid debit Cash Cards, thereby earning the exemption, the bank’s role is minimal, with Cash App providing marketing of the card, onboarding of users, and customer support. Sutton makes this clear on its website, which thoroughly disclaims its role and responsibilities relating to Cash App, only focusing on the Cash Card itself.



## CASH APP (SQUARE)

PLEASE NOTE THAT WE DO NOT ISSUE, MAINTAIN, OR SERVICE YOUR CASH APP ACCOUNT, WHICH IS OFFERED BY SQUARE, A SEPARATE COMPANY THAT WE ARE NOT AFFILIATED WITH. THIS MEANS IF YOU CHOOSE TO ACCESS THE FUNDS IN YOUR CASH APP ACCOUNT BY ANY MEANS MADE AVAILABLE TO YOU AS A CASH APP CUSTOMER BESIDES USING YOUR CASH CARD, INCLUDING PEER-TO-PEER PAYMENT IF THAT SERVICE IS OFFERED BY SQUARE, YOU AGREE THAT WE WILL NOT BE RESPONSIBLE FOR ANY AND ALL MANNER OF INACCURACY, DELAY, THEFT, OR OTHER LOSS OF FUNDS THAT MAY RESULT.

(Source: [Sutton website](#), thoroughly disclaiming its responsibility to Cash App accountholders, aside from serving as the technical card issuer in order to avoid banking regulations)

In short, Sutton Bank seems largely used as a means for Cash App to fit the requirements for Durbin exemption, thereby allowing it to gouge merchants with higher interchange fees.

## PayPal Disclosed That Its Use Of The Small Bank Exemption Is Being Investigated By The SEC

On July 29, 2021, Block competitor PayPal revealed in its quarterly filing that it had received subpoenas and requests for information from the U.S. Securities and Exchange Commission (“SEC”) about whether the interchange revenue on its debit cards complied with regulations.

[Pg. 110]

“We have responded to subpoenas and requests for information received from the [SEC] relating to whether the interchange rates paid to the bank that issues debit cards bearing our licensed brands were consistent with Regulation II of the Board of Governors of the Federal Reserve System, and to the reporting of marketing fees earned from the Company’s branded card program.”

PayPal shares closed 6% lower on the day of the disclosure, which also coincided with its earnings release.

The company’s situation is similar to Cash App’s relationship with Sutton Bank, with PayPal issuing its prepaid debit card through the Bancorp Bank, which also qualifies as a small bank. [Pg. 11]

Unlike Block, PayPal has stated in its filings since 2015 that its interchange fees are subject to regulatory risk. [Pg. 10]

## **Based On a Recent Freedom Of Information Act (FOIA) Response We Received, Block May Be Part Of An Undisclosed SEC Investigation Relating To Interchange Fees**

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Given that Block and PayPal both seem to avoid interchange fee caps with a similar approach, we submitted a FOIA request to the SEC to see if Block was also the subject of a similar investigation.

We filed a FOIA request using the same language PayPal uses in its filings to describe the SEC’s requests for information. The SEC’s response stated that certain documents related to Block’s reliance on the exemption and related marketing fees were unavailable because they had been compiled for “law enforcement purposes.”





UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
STATION PLACE  
100 F STREET, NE  
WASHINGTON, DC 20549-2465

Office of FOIA Services

November 28, 2022



Re: Freedom of Information Act (FOIA), 5 U.S.C. § 552  
Request No. 23-00256-FOIA

Dear 

This letter responds to your request, dated November 6, 2022 and received in this office on November 7, 2022, for "any documentation related to an investigation by the Enforcement Division into whether the interchange rates received by Sutton Bank (the issuer of Block Inc.'s prepaid debit cards for Cash App users) are consistent with Regulation II of the Board of Governors of the Federal Reserve System. Also any documentation related to investigations into the reporting of marketing fees earned from the Block's branded card program."

We are withholding records that may be responsive to your request under 5 U.S.C. § 552(b) (7) (A). This exemption protects from disclosure records compiled for law enforcement purposes, the release of which could reasonably be expected to interfere with enforcement activities. Since Exemption 7(A) protects the records from disclosure, we have not determined if other exemptions apply. Therefore, we reserve the right to assert other exemptions when Exemption 7(A) no longer applies.

It is the general policy of the Commission to conduct its investigations on a non-public basis. Thus, subject to the provisions of FOIA, the Commission does not disclose the existence or non-existence of an investigation or information gathered unless made a matter of public record in proceedings brought before the Commission or in the courts. Accordingly, the

Note that this disclosure alone does not confirm whether Block itself is under investigation. We have filed an appeal to learn more information and have thus far not received a response. We have also reached out to Block and have not yet received a response.

## Instant Deposit Accounted For An Estimated 31% Of Cash App's 2022 Revenue

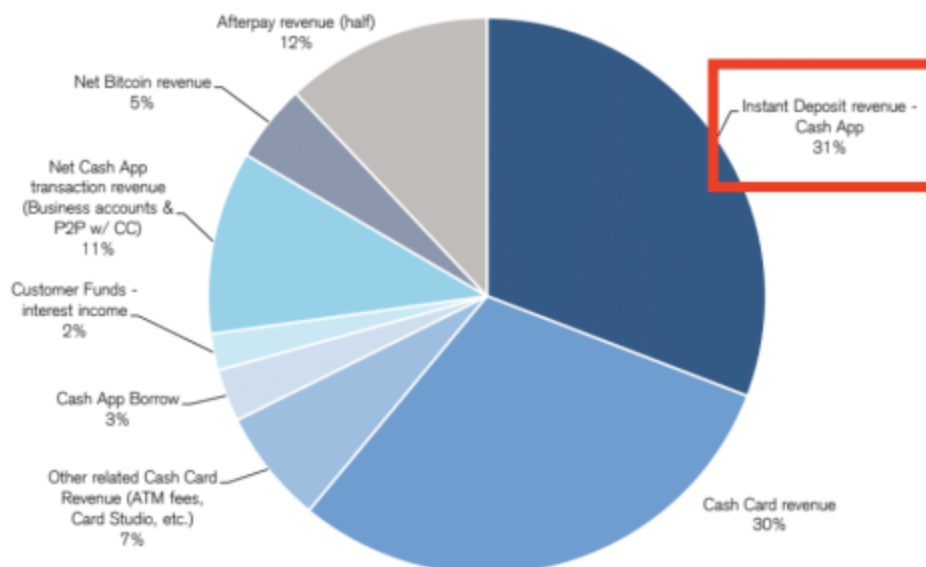
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### The Company Says It Pioneered The Technology, Which Works As If By "Magic"

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Another key contributor to Cash App revenue is its "instant deposit" feature, which Credit Suisse estimated contributed 31% of total Cash App revenue in 2022, according to their analyst note from October 2022.

**Figure 2: Block 2022E Cash App revenue mix, with the two largest components being Instant Transfer and Cash Card (CSe)**



Source: Company data, Credit Suisse estimates

At Block’s Investor Day presentation in May 2022, Block’s head of Cash App, Brian Grassadonia, explained that Block pioneered the service and described sending funds via instant deposit:

“The experience was magic and we knew it was something that people desperately needed.”

## **Instant Deposit Isn’t “Magic” Technology—It’s An Expensive, Standard Offering, That Ubiquitous Competition Offers At Similar Or Better Rates**

Block’s Instant Deposit feature boils down to a basic electronic funds transfer. A former employee debunked the notion of it being “magic” software in the context of its use for COVID relief payments:

“A lot of people see it more as a as a kind of software or infrastructure advantage on (the) fintech side, but in the actual sense of things, it is because we are ready to fund people the money so that we can get that money back.”

One benefit of Instant Deposit, from a scammers point of view, is the ability to move funds out of the system quickly, before complaints are lodged by the sender and before Cash App or Sutton Bank can perform any real scrutiny of the transaction. Once funds leave an account via Instant Deposit, they can be withdrawn at the receiving account within minutes.

Block charges a fee of 0.5% to 1.75% for receiving Instant Deposit transactions, a rate that is comparable or worse than numerous peers and competitors offering similar instant deposit & instant pay features:

Competitor	Instant Deposit?	Fee	Source
Apple Pay	Yes	1.50%	<a href="#">Link</a>
Bank of America	Yes	0%	<a href="#">Link</a>
Block/Cash App	Yes	0.5%-1.75%	<a href="#">Link</a>
Chase	Yes	1%	<a href="#">Link</a>
Google Pay	Yes	1.50%	<a href="#">Link</a>
Stripe	Yes	1%	<a href="#">Link</a>
Venmo/PayPal	Yes	1.75%	<a href="#">Link</a>
Zelle	Yes	0%	<a href="#">Link</a>

Competition in global real-time payments is becoming ubiquitous, with nearly every bank and payment provider offering and expanding the service, according to media reports. (1,2,3)

Payment company [TheClearingHouse](#), which is owned by the largest banks in the world, launched a Real Time Payment (RTP) network 5 years ago—over 285 banks and credit unions, including some of the largest in the world, are already participating as of November 2022.

On March 15<sup>th</sup>, 2023 the Federal Reserve announced it will launch FedNow in July, a service that “will enable every participating financial institution, the smallest to the largest and from all corners of the country, to offer a modern instant payment solution”.

In short, Block’s “Instant Deposit” business amounts to little more than an expensive feature offered by numerous competitors and charging rates that are likely to erode or nearly entirely disappear over time.

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## **Block’s \$29 Billion Deal To Acquire Afterpay: A ‘Buy-Now-Pay-Later’ (BNPL) Service That Management Says Offers Customers “Responsible Payment Options”**

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### **Reality: The Service Was Created To Avoid Responsible Lending Regulations In Its Native Australia**

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In August 2021, Block announced a \$29 billion all-stock acquisition of Afterpay, a Buy Now Pay Later (BNPL) company headquartered in Australia. The deal closed in January 2022.

BNPL is a short-term financing option allowing consumers to pay for purchases in several installments, technically a short term “interest-free” loan, subsidized by charging the merchant a fixed fee and charging consumers late fees if they don’t pay on time.

Brian Grassadonia, Lead of Square’s Cash App business, told investors on August 1, 2021, the day the Afterpay acquisition was announced (emphasis added):

“The addition of Afterpay to Cash App will strengthen our growing networks of consumers around the world, while supporting consumers with flexible, **responsible payment options**...”

The “responsible” notion stands at odds with Afterpay’s origin, which was built around avoiding responsible lending and consumer protection laws in Australia, according to local media reports.



## The \$4b 'buy now, pay later' startup built on a legal loophole

John McDuling & Peter Bateman

September 1, 2018 – 12.05am

(Source: The Sydney Morning Herald, reporting on the origins of Afterpay)

Afterpay does not need to perform credit checks or income verification, typically required for traditional loans, due to technicalities such as charging “fees” rather than interest and limiting the length of its loans to 8 weeks.

### **With No Credit Checks Or Income Verification, Afterpay Lures Customers Into Extending Beyond Their Means**

Jack Dorsey praised Afterpay’s benefits to consumers when the deal was announced:

“Square and Afterpay have a shared purpose. We built our business to make the financial system more fair, accessible, and inclusive”.

Afterpay’s approach to making the financial system “more fair” seems to be by enticing low or no-credit consumers into purchases they can’t afford and subjecting them to debt and fees they weren’t expecting.[28]

Numerous media articles have highlighted Afterpay as encouraging irresponsible consumer behavior by providing credit on just about everything, from pair of shoes to a t-shirt. [1,2,3,4,5]



The image shows a screenshot of a Vice article. At the top, there is a black navigation bar with a white hamburger menu icon on the left and the 'VICE' logo in white on the right. Below the navigation bar, the article title is displayed in large, bold, black font: **'You Can Justify Everything': I Became Addicted to 'Buy Now, Pay Later'**. Underneath the title, a short introductory paragraph reads: "A 27-year-old says she used to spend only what she had in her bank account. But when she discovered Afterpay, the situation quickly got away from her." Below the paragraph, there are two author icons: a black circle with 'AC' and the text "By Annabella Cannon", and another black circle with 'MS' and the text "As Told To Maxwell Strachan". At the bottom of this section, the date and time "August 4, 2022, 10:38am" are displayed.



PHOTO COURTESY OF ANNABELLE CANNON.

*Annabelle Cannon used to only spend what she had in her bank account. But after discovering "buy now, pay later" services, that all changed.*

Media reports indicate that the type of consumer seeking to finance small purchases, who may not even have income or credit, may be the same consumer most in need of protection—the very rules Afterpay avoids.

## **Block Encourages Borrowers To Think About Buying Now And Paying Later As Not “Just Another Form of Debt”**

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### **Reality: If A Customer Payment Is Late, Afterpay Begins Charging Fees That Can Reach APR Equivalents As High As 289%**

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Block insists that using Afterpay to finance purchases is somehow not “just another form of debt”.

# Is Afterpay just another form of debt?

One of the main reasons we built Afterpay was to help customers get what they need **without existing in an ongoing state of debt.** When you use Afterpay, you pay for your items in full over a short period of 6 to 8 weeks.

We're **completely different to traditional credit products,** which can push customers into long-term debt at high interest rates. If you do miss a payment, we charge late fees which are low and capped so they can't ever go higher than 25% of your order value. We also stop you purchasing once you've missed a payment. We know our approach works because 79% of our global community have never incurred a late fee and 95% of purchases are paid for on time!

(Source: Afterpay [Help Center](#))

Block suggests that because Afterpay only charges fees if a payment is late that it does not “push customers into long-term debt at high interest rates.” It also refers to its late fees as being “low and capped”.

The reality is that Afterpay’s late fees can reach an APR equivalent as high as 289%, worse than the most punitive debt products.[29]

## Block’s Own Financials Report Afterpay Advances As “Loans” On Its Balance Sheet

### In Other Words, Afterpay Is Just Another Form Of Debt

Further evidencing that Afterpay is a loan, we can turn to Block’s own financial statements, which classify Afterpay payments as loans.

The company’s “consumer receivables” are represented by “amounts due from consumers for outstanding installment payments on orders processed on the Company’s BNPL platform,” per its 10-K. [Pg. 120]

The following table presents an aging analysis of the amortized cost of consumer receivables by delinquency status (in thousands):

	December 31, 2022
Non-delinquent loans	\$ 1,643,874
1 - 60 days past due	295,830
61 - 90 days past due	20,612
90+ days past due	62,134
Total amortized cost	\$ 2,022,450

(Source, Block 2022 10-K describing its BNPL receivables [Pg. 121])

The above table also shows about \$ 153.7 million in Afterpay receivables that are past due, representing about 7.6% of all loans outstanding. [30]

## Afterpay Delinquencies More Than Doubled From June 2021 (Just Prior To Block’s Acquisition) to March of 2022, According To Fitch

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### Provisions For Bad Loans Also Spiked By 46% From 2021 to 2022

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From a financial perspective, the Afterpay acquisition looks to be a dud. Prior to Block’s acquisition, Afterpay reported remarkably low delinquency rates. Those have surged following the acquisition, according to a report citing Fitch Ratings data:

“In the U.S., Fitch Ratings reported that delinquency rates for BNPL provider Afterpay jumped from 1.7% to 4.1% between June 2021 and March 2022, while the delinquency rates for significant credit cards remained unchanged at around 1.4%”.

In addition to rising delinquency rates, provisions for credit losses increased from \$109.9 million in 2021 to \$203.7 million in 2022.[31] [Pg. 9, Pg. 122]

	<b>From Acquisition on January 31, 2022 to December 31, 2022</b>
Allowance for credit losses, beginning of the period <sup>(i)</sup>	\$ 115,552
Provision for credit losses	203,670
Charge-offs and other adjustments	(168,664)
Foreign exchange effect	732
Allowance for credit losses, end of the period	\$ 151,290

(Source: Block 2022 10-K [Pg. 122])

The spiking delinquencies and credit losses, which affect consumers of the product, seem to undermine Block’s claim that it is a responsible consumer product subsidized by fees from merchants.

## Afterpay Is Now Facing Tighter Regulation: In February, 2023 Australian Regulators Said They Support “Onerous Regulation” For BNPL

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### In The U.S., The Treasury Department And The CFPB Have Begun To Bring BNPL Into Compliance With Existing Lending Rules, Saying BNPL Is “Like Other Forms Of Credit”

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Regulation is bearing down on Afterpay in its native Australia and in the U.S.

In February, 2023, the Australian Securities and Investments Commission submitted a statement to the Australian Treasury Department supporting “onerous regulation” in the BNPL sector, as reported by the Australian Financial Review. Moody’s vice president Stephen Tu was quoted on the pending regulation:

“In Australia, the once fast-growing BNPL sector is facing scrutiny...More regulatory burdens will result for all BNPL providers, including Afterpay”.

On November 17<sup>th</sup>, 2022, The U.S. Department Of Treasury released a report focused on non-bank consumer lenders, which states (emphasis added):

*“Treasury recommends that the CFPB review its authorities to consider **if and how the agency might provide direct supervision of larger non-bank consumer lenders, including BNPL and installment loan providers.**”* [Pg. 115, Section 5:4.21]

On March 2nd, 2023 the CFPB released a study on the usage and demographics around BNPL. It underscored how BNPL lends to those who tend to be significantly less creditworthy and more prone to use BNPL as an option of last resort:

“...BNPL borrowers were, on average, much more likely to be highly indebted, revolve on their credit cards, have delinquencies in traditional credit products, and use high-interest financial services such as payday, pawn, and overdraft compared to non-BNPL borrowers.

“Lower credit scores lead to higher interest rates on traditional credit products, which make Buy Now, Pay Later loans with no interest an attractive alternative that many borrowers seek.”

The release of the report was accompanied by a statement from CFPB Director Rohit Chopra, who made clear that additional regulations are coming for BNPL, which contrary to Block’s insistence, is “like other forms of credit”:

“Since Buy Now, Pay Later is like other forms of credit, we are working to ensure that borrowers have similar protections and that companies play by similar rules.”

For BNPL borrowers to have equal protections, BNPL companies like Afterpay would need to follow the same suitability / credit check procedures and reporting that credit card companies follow. This would add to the administrative and compliance burdens on BNPL providers and likely significantly curtail loan growth.

## **Conclusion: A Fintech Darling Like All Others**

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Traditional bankers walk around in suits and ties, making them relatively easy to spot in the wild. This is a helpful feature for normal people who can then treat them with appropriate skepticism, knowing that bankers often work overtime to take advantage of people, avoid regulation, and extract money from the government.



By comparison, Jack Dorsey cloaks himself in tie-dye t-shirts and a guru beard, all while professing to care deeply about the demographics he is taking advantage of.



It has been an effective modern marketing approach—Dorsey has been celebrated by regular people, Silicon Valley elite, and investment bankers alike on his path to becoming a multi-billionaire.

But a close look at Block shows that it has not actually changed the game—like traditional financial services companies, its key focus seems to be on dressing up predatory loans and fees as revolutionary products, avoiding regulation and embracing worst-of-breed compliance policies in order to profit from its facilitation of fraud against consumers and the government.

The company seems to be betting that the consequences will either be a ‘cost of doing business’ or at the very least, come *later*.

Either way, we expect the luster will wear off and investors will realize that Block is really a money-losing, undifferentiated loan & fee originator. Like many of its peers in fintech and banking, it will eventually trade closer to its net tangible book value.

In the meantime, Dorsey and top executives already sold over \$1 billion in equity near the top, ensuring they will be fine regardless of the outcome for everyone else.

## **Disclosure: We Are Short Shares of Block Inc. (NYSE: SQ)**

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### **Legal Disclaimer**

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[1] Click "Historical Financial Information" from Block's [Investor Relations](#) page to download these metrics.

[2] Click "Historical Financial Information" from Block's [Investor Relations](#) page to download these metrics.

[3] The quote is sourced from a transcript from Block’s appearance at Goldman Sachs’ Communacopia + Technology Conference held in September 2022 (for readers paywalled from the above link).

[4] Block only recently acknowledged that its employee stock-based compensation is a real expense that it would need to account for in its non-GAAP metrics going forward, leaving a substantial hole to fill.

[5] Quote from Square Inc.’s Q3 2017 earnings call (for readers paywalled from the above link).

[6] Quote from Block Inc’s 2022 Investor Day Presentation.

[7] Quote from Square Inc.’s Q3 2018 earnings call (for readers paywalled from the above link).

[8] The quote is sourced from a transcript from Block’s appearance at JPMorgan’s Technology, Media and Communications conference held in June 2020 (for readers paywalled from the above link).

[9] The quote is sourced from a transcript from Block’s appearance at JPMorgan’s Technology, Media and Communications conference held in June 2021 (for readers paywalled from the above link).

[10] Block, as a money services business, is subject to the requirements of AML laws. Block does not have direct obligations under KYC laws although its bank partners do.

[11] The quote is sourced from a transcript from Block’s appearance at Goldman Sachs’ Communacopia + Technology conference held in September 2022 (for readers paywalled from the above link).

[12] This software is also described on employee LinkedIn profiles. (Examples: 1, 2)

[13] Teejayx6 pioneered a hip hop subgenre called “scam rap”/ “scammer rap” where he raps about identity theft, credit card fraud, and other scams. Local Detroit media reported that in addition to his music, Teejayx6 also sells a “Fraud Bible”, an online directory categorizing various scams, which has an entire sub-directory titled “Cash App Method”. The ability for blacklisted users to get back on the Cash App platform with new information like a debit card or phone number is also widely reported on consumer forums (example).

[14] Note that Cash App users are prompted at sign up and throughout the app that they can receive \$15 for inviting new friends, an amount *higher* than the \$5-\$10 claimed customer acquisition costs.

[15] The “Identity Team” appears to fall under a broader department called “Health”, according to job descriptions for the team. [1,2] The job descriptions say the “Health” group said the department’s purpose is to “build products and features to detect and prevent the improper use of Cash App across all of our core product areas” and that the group would seek to limit “access for bad or otherwise unauthorized actors.” (Also see: Cash App Health Engineering Team)

[16] Block charges a fee of 0.5% to 1.75% for speeding the payment, which normally takes 1-3 days. Taking the midpoint of the fee (1.125%) and midpoint of the number of days (2) this would equate to a simple APR equivalent rate of ~205%.

[17] Several state unemployment agencies, including those in Illinois and Maryland, told us they were unable under state law to claw back payments without filing a lawsuit. Other states, including Minnesota, informed us they could not release any information that was part of a banking transaction without a court order.

[18] According to a former employee, the vast majority of government stimulus and unemployment payments processed by Sutton Bank were for Cash App customers, though fintech start up Albert may have accounted for a small amount of the volume.

[19] Massachusetts publicly released data on total fraudulent and suspect unemployment payments made in between April 2020 and January 2021, putting the figure at \$687 million. Assuming Sutton maintained its proportional 10%, the activity would have accounted for around \$69 million in problematic transactions.

[20] This search can be replicated by going to FFEIC’s website, selecting “call report”, filtering report date to “06/30/2020” and searching institution name “Wells Fargo Bank, National Association” and “JPMorgan Chase Bank, National Association”.

[21] This search can be replicated by going to FFEIC’s website, selecting “call report”, filtering report date to “06/30/2020” and searching institution name “Bank of America, National Association”.

[22] Banks were matched with routing numbers provided by the Washington State Employment Security Department via <https://bank.codes/us-routing-number-checker/>

[23] Cash App banking partner Sutton publicly references its use of Idology for KYC identity verification checks.

[24] The company provides no details regarding the interchange rate charged to merchants who accept the Cash Card, nor how that rate is shared between multiple partners, including Visa, Marqeta (its processing partner) and the official card issuer, Sutton Bank.

[25] The exception specifically states; “[The] Exemption for small issuers... [applies] if (i) The **issuer holds the account that is debited**; and (ii) The issuer, **together with its affiliates**, has assets of less than \$10 billion.”

[26] Cash Card uses Visa’s rate table for its interchange rates.

[27] We used a typical CPS/Retail transaction of \$50 for fee comparison. Per the Visa rate table [Pg. 5] for prepaid cards: Exempt Interchange fees = ( $\$50 * 1.15\% = \$0.58$ ) + \$0.15 fixed fee = \$0.73 vs Standard Interchange fees = ( $\$50 * 0.05\% = \$0.03$ ) + \$0.21 fixed fee = \$0.23 resulting in an additional \$0.50 fee per transaction being imposed on merchants.

[28] In addition to late fees, Afterpay users are also subject to overdraft charges on automated bank withdrawals if they don’t have sufficient funds in their accounts at the time the payment is processed.

[29] Afterpay’s terms state that “the aggregate sum of Late Fees associated with a particular order will not exceed 25% of the order value at time of purchase”. As an illustration, for a \$96 purchase, of which \$72 is financed through Afterpay, if the three payments are late there would be an \$8 late fee on each of the payments resulting in \$24 of fees. This is equivalent to a 289% simple APR, based on 42-day loan (6 weeks term for “pay in four”.) This calculation does not consider any outside overdraft bank fees that also may be assessed on each failed payment attempt, increasing fees to the user.

[30] This figure reflects total delinquent loans minus \$229.4 million cash in transit as of 12/31/2022.

[31] Afterpay 2021 Provisions For Credit Losses reported in AUD and converted to USD at prevailing rate. \$151,112,000 in AUD for 12/31/2022. AUD to USD rate on that day was 0.72711=USD \$109,875,046.

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