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**Behind Voyager Failure: How Crypto Broker Went Bankrupt Like a Bank?**

**On July 5, Voyager filed for bankruptcy under Chapter 11 to create an efficient path to resume account access and return value to customers.**

In an industry where counterparties are tied tightly together by a weave of debt and leverage, dominoes can fall fast and furiously. Let's take a close look at the fall of Voyager.

At its height, Voyager Digital boasted 3.5 million users (roughly the level of Coinbase in 2015) and $5.9 billion in assets, comparable to a respectable wealth management firm or small regional bank.

97% of Voyager's clients stored less than $10,000 on the platform, indicating a broad base of individual investors. It was a crypto lending and trading powerhouse – one of the few digital asset brokerages listed on stock markets anywhere in the world (albeit in Canada rather than the U.S., its home country).

Voyager's future, until recently, looked bright. Leadership seemed barely able to conceive of a bear market, much less its consequences. Speaking in 2021, CEO Steve Ehrlich said that "I think the market looks completely different today from what it looked like in 2017. We all remember 2017."

As it turns out, 2021 was actually a lot like 2017 – both were quickly followed by a brutal crypto market crash. Ehrlich's sunny optimism has yielded a rotten harvest.

The Jersey City, N.J.-based company is now known to have made immense unsecured loans to Three Arrows Capital (3AC). That failed hedge fund now appears to have defaulted on all of its obligations, and its founders are reportedly fugitives.

That alone was apparently a mortal wound. On July 1, Voyager froze customer funds. Just days later, it filed for bankruptcy protection in New York.

Voyager is in a bleak situation. “The Debtors are facing a short-term ‘run on the bank,’” according to a statement Ehrlich filed alongside bankruptcy papers. But, also according to Ehrlich (who did not respond to a request for comment for this story), Voyager has a brighter future: “Debtors have a viable business and a plan for the future.” (Under Chapter 11, the company is seeking to reorganize rather than liquidate.)

So how did a once mighty and well-regarded crypto lending outfit get here?

Short version: Voyager was pretty good at attracting deposits. When it came to lending that money out … not so much.

## Why did Voyager Digital go bankruptcy?

In the company’s chapter 11 bankruptcy filing, Ehrlich gave a rare public play-by-play of a crypto lender’s mistakes. It’s a story that, at least by Ehrlich’s telling, begins with the collapse of the Terra blockchain ecosystem and the ensuing contagion.

In an industry where counterparties are tightly bound together by a weave of debt and leverage, dominoes can fall fast and hard. Voyager is casting itself as a victim of the cryptopocalypse, undone not by any direct exposure to the likes of Terra’s UST stablecoin and LUNA token, but merely through unlucky business partners.

Voyager said it quickly moved to hedge its risk as crypto winter began in early 2022, in part by reducing loans and mitigating counterparty risk. All the better to protect against Terra’s spectacular May collapse. This effort was successful “in most instances.”

Until it wasn’t.

Things turned sour in June. Three Arrows Capital, a widely respected Singapore-based hedge fund with loans across the industry and bets across the space, “was in jeopardy” of failing to pay up. Its own “massive” bets on LUNA had imploded into a black hole of losses.

Three Arrows was also underwater on positions in Lido staked ether (stETH) and the Grayscale Bitcoin Trust. (Grayscale is owned by Digital Currency Group, which also owns CoinDesk.) Notably, Ehrlich does not mention either of these in his bankruptcy narrative, possibly reflecting a troubling lack of insight into the operations of a company to which he offered a $650 million unsecured loan.

Either way, Three Arrows was down bad across the board. It was also one of Voyager's single largest lending customers.



## What business does Voyager actually engage in?

To understand Voyager's collapse, you first have to understand what its business actually was.

To depositors, it looked an awful lot like a bank with a few twists. Up front, users deposited cryptocurrency rather than government fiat. Around the back, while Citibank or the teachers' credit union might generate revenue by turning deposits into home loans, Voyager was engaged in (it turns out) much riskier lending.

Voyager is one of several retail-facing crypto institutions that generate interest on deposits by loaning crypto assets out to traders and institutions. Investment firms and hedge funds like Three Arrows Capital rely on these loans to make big trades. They take in capital from lenders, long or short a cornucopia of (risky) assets, invest in early-stage companies – and if all goes well, earn massive returns relatively quickly.

Some of these returns funnel back to their lending partners as interest payments. In turn, those partners, lenders like Voyager, pass a slice of the interest to customers. The process creating that chain of events that led to these yield payments is almost irrelevant – and certainly not transparent – to depositors. All they see is a nice payout in their accounts.

Until, that is, something goes wrong.

When asset prices tumble or a counterparty defaults on a massive loan, the lenders are left with gaping holes in their balance sheets. The systemic downturn has blown up not just Voyager but also Celsius and Babel Finance, all of which have frozen withdrawals and most of which now appear insolvent.

That has had real ramifications for real people, many of whom came to Voyager and its ilk with modest savings, in search of higher yield. What they may be realizing too late is that these crypto lenders are not the same as banks, and it's unclear exactly how or if their deposits will be recovered. Voyager, for its part, is now under regulatory scrutiny for allegedly misrepresenting insurance on customer deposits.

Among crypto lenders, Voyager is also notable because it's the first to take the bankruptcy route. As part of that process, Ehrlich has filed a lengthy statement detailing the company's challenges. It provides an unvarnished glimpse into the same shaky foundations of all the crypto lenders.

## And how it ended?

One of those details is the rates paid by borrowers. According to Ehrlich's statement, Alameda Research would pay up to 11.5%, Three Arrows Capital 10% and Genesis 13.5%. (Genesis is owned by Digital Currency Group, which also owns CoinDesk.) Three Arrows was by far the biggest counterparty, with over $650 million borrowed. This "integral part of the business" is how the cash cow mooed.

Note also 3AC's low interest rate relative to other borrowers. That would seem to reflect above-average faith in the fund, and multiple lenders did make generous loans to Three Arrows co-founders Kyle Davies and Su Zhu on friendly terms. Voyager stands out, though, for extending such a huge loan without requiring collateral from Three Arrows. That gesture of trust, as we've since learned, was woefully misplaced.

But the lending business rallied like no other during the pandemic, when speculative mania from retail traders pushed everything from GameStop stock to dogecoin into silly season. From early 2020 to early 2022, the Voyager platform ballooned from 120,000 to 3.5 million users. Voyager benefited from low U.S. dollar interest rates and skyrocketing enthusiasm for the world's hippest, hottest, most boom-and-bust prone risk-on asset.

But as bubbles do, crypto-mania hit its limit in late 2021, and assets started hemorrhaging value. The war in Ukraine, rising inflation and rate hikes from the U.S. Federal Reserve further shook crypto’s up-only drumbeat. Between November of 2021 and April of 2022, crypto asset prices slumped by roughly 33% across the board.

Then the wild card reared up. Starting in early May, the UST stablecoin began a “death spiral” that wiped billions of dollars in wealth from the global crypto economy. Within days, a blockchain that Ehrlich claims was “widely viewed as a project with significant promise” and had major backing from investors of all stripes, had gone all but kaput.

Meanwhile, two less dramatic but similarly threatening sinkholes were opening. Starting in early 2021, the Greyscale Bitcoin Trust began trading at a significant discount to the underlying bitcoins. And stETH, effectively a promissory note for ETH on the upcoming Ethereum 2.0 system, began trading at a discount to ETH. Both of these developments meant investors had to take big losses if they wanted to turn positions in those assets into ready cash.

One big holder of both GBTC and stETH was, you guessed it, Three Arrows Capital. 3AC’s loss of its entire $200 million initial stake in LUNA might not have been fatal if it hadn’t already been underwater on those other positions. But in any event, Three Arrows, for years one of the most respected trading firms in crypto, did the unthinkable: It simply disappeared.

Voyager had previously loaned $350 million in the stablecoin USDC and 15,250 bitcoins to Three Arrows. As the market continued to slide, Voyager made multiple demands for repayment in late June. But Three Arrows did not respond and was also ghosting other partners. $650 million of Voyager funds, effectively including a lot of customer deposits, was simply gone.

The dominoes were falling. Terra’s downfall led to Three Arrows’ default led to Voyager’s reckoning.

This wasn’t some normal crypto winter.

Contagion season had arrived.

To stop the bleeding, Voyager in mid-June brokered a nearly $500 million loan facility with Alameda intended to support the company’s short-term finances. It was at best a Band-Aid, a “partial solution” to contagion-fueled liquidity issues exacerbated by the greater crypto market rout.

Making matters worse, Celsius, another crypto lending giant, was falling apart at the same time. Celsius froze customer withdrawals on June 12, shaking broader confidence in lenders and the markets and prompting Voyager's own clients to run for safety. Lowering daily withdrawal limits from $25,000 to $10,000 per day on June 23 was meant to stop the race to the exit and buy Voyager time.

But it wasn't enough in the face of what Ehrlich describes as "an influx of customer withdrawals" that threatened "the Company's ability to serve customers who remained on its platform." As the market continued to fall, Voyager's situation grew ever bleaker. On July 1, it froze all customer withdrawals and trading to "avoid irreparable damage to the Debtors' business and ensure that its trading platform operated smoothly for all customers." (Not being able to withdraw, it must be noted, seems in itself like less than smooth operation.)

Voyager went into what might be described as panic mode. By mid-June, it retained legal counsel; a consultancy joined the fray by month's close. The Canada-listed public company needed "potential strategic solutions" to its looming liquidity crisis – and it needed them fast. That could include selling businesses or raising capital.

Some temporary breathing room came in the form of a June 20 unsecured loan facility worth roughly $500 million from trading powerhouse Alameda Research. Alameda founder Sam Bankman-Fried (also the CEO of the FTX exchange) has become crypto's backstopper-in-chief during the market rout. Voyager initially borrowed $75 million, to be (theoretically) paid back by late 2024.

Meanwhile, the investment bankers reached out to "60 potential financial and strategic partners" – that is, potential saviors – according to Ehrlich. They got 22 leads toward a rescue deal, but only one proposal emerged. The offer was too much of a lowball for Voyager to stomach. No other options appeared.

"It became clear that a potential strategic transaction would only emerge after the Company petitioned for chapter 11 relief," Ehrlich states.

Voyager tells the court it plans to mount a comeback. A Chapter 11 restructuring would allow Voyager to shed debt and restructure itself, rather than having to liquidate its assets. "Voyager will move as swiftly as possible through these cases to maximize the value of its business and allow customers to fully use the Company's platform," Ehrlich writes. A "robust marketing process" is already underway to signal Voyager cannot be counted out.

That marketing effort will need to be very strong indeed, as both broader conditions and some of Voyager's own actions have seriously undermined whatever public trust it enjoyed. A restructuring plan announced on Monday would compensate users for lost cryptocurrency with Voyager stocks and Voyager tokens (whatever those are).

That is unlikely to make users particularly happy, although it might give them a backdoor incentive to continue working with the crumbling service.

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