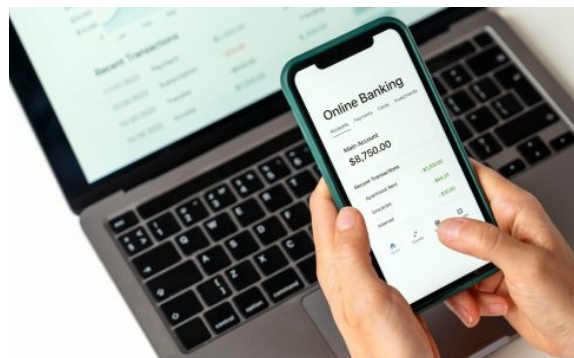


When the Middleman Disappears: Synapse and the Litigation Risk Hiding in Banking-as-a-Service

October 14, 2026
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In May 2024, a Maryland teacher told a federal bankruptcy court in California that he could not reach his own savings. “I have nearly \$38,000 tied up,” he wrote. “This money took years to save up.” His money sat with a crypto app called Juno. Juno ran on technology from Synapse Financial Technologies, a middleware company most customers had never heard of, which had filed for bankruptcy weeks earlier.¹

He was not alone. His problem was the predictable failure mode of Banking-as-a-Service, or BaaS. In a typical BaaS program, the customer opens an account in an app that may carry a bank’s name and logo. A fintech company designs the app and runs much of it. The bank holds the deposits and provides the regulated services. A middleware company like Synapse sits between them, connecting systems, processing transactions, and keeping the ledger that says who owns what. For a community or regional bank without the budget to build its own digital platform, the model is attractive. It is also a structure in which no single company sees the whole picture. When the middle layer fails, the bank must ask the question it should have asked from the start. If the provider disappeared tomorrow, could it still determine what it owes each customer?

Synapse’s Collapse

Synapse occupied that middle layer. Its technology connected nonbank fintech platforms to partner banks, including Evolve Bank & Trust, and supported account infrastructure, payments, and ledger management. By one industry estimate, as many as 100 fintechs and 10 million end users relied on Synapse.¹

The decline was quick. Synapse laid off staff in 2023 and filed for Chapter 11 in April 2024, planning to sell its assets to another fintech. The buyer walked away within weeks.²

Then customers lost access to their money. Synapse’s records could not be reconciled with those of its partner banks. The Consumer Financial Protection Bureau (CFPB) later alleged that Synapse failed to keep adequate records of where consumer funds were and failed to make sure its records matched the banks’. By the CFPB’s account, the banks found that they held between \$60 million and \$90 million less than the balances in Synapse’s records. Synapse, through its bankruptcy trustee, resolved the CFPB matter by stipulated judgment, without any adjudication of fact or law.³

The Lawsuits That Followed

For banks, the more instructive story is the litigation. In November 2024, customers of Yotta, a savings app that offered high-yield accounts through Synapse’s banking partners, and Juno filed a putative class action in Colorado against the four partner banks (Evolve, AMG National Trust Bank, Lineage Bank, and American Bank). They alleged that the banks failed to safeguard customer funds and keep accurate records, and that the banks relied on Synapse to open accounts, process transactions, and manage ledgers. A second putative class action, filed in Tennessee against Evolve and Lineage, accused the banks of

negligent monitoring and mismanagement of consumer deposits. That case was transferred to Colorado and consolidated with the first. The banks dispute the allegations.⁴

Yotta itself sued Evolve in federal court in California, accusing the bank of fraud. The court dismissed Yotta's complaint because Synapse was a required party, and because Synapse was in bankruptcy, it could not be joined. The court did not decide whether Evolve was liable, and it held that Yotta could refile in state court. Yotta has appealed. The obstacle was federal joinder, not the merits. But the ruling shows how central Synapse was to the dispute — so central that a federal court could not resolve the bank's liability without it.⁵

What Banks Will Have to Answer

Synapse is an extreme case. The legal questions it raises are not. They arise whenever a bank-branded product depends on companies the bank does not control.

Start with duty. A program agreement can divide responsibilities among the bank, the fintech, and the middleware company. It cannot bind customers who never signed it, and it does not stop regulators or plaintiffs from going straight at the bank. That argument gets stronger when the app the customer used carried the bank's own name and logo.

These cases will be won or lost based on records. If a bank relied on Synapse's ledger and that ledger cannot be reconciled with its own, the customer sees one balance in the app, and the bank sees another. Plaintiffs will say the gap proves the bank failed to keep accurate records, failed to oversee its vendor, or failed to account for customer funds. And the bank must defend those claims without the one document it needs most: a reliable record of what each customer was owed.

Contracting out a function does not contract out the regulatory obligation. The 2023 interagency guidance from the Federal Reserve, FDIC, and OCC states that a bank's use of third parties does not diminish or remove its responsibility to operate safely and soundly and to comply with applicable law. That guidance covers the relationship from planning and due diligence through contract negotiation, ongoing monitoring, and termination. In September 2026, those agencies and the NCUA proposed to rescind it and replace it with a shorter, principles-based document. The proposal states that it establishes no enforceable standards, and that the agencies do not expect banks to eliminate third-party risk. It is not final, and the 2023 guidance remains the operative standard until it is. Nor does the proposal change the underlying statutes, including the Bank Service Company Act, under which services a third party performs for a bank are examined as if the bank performed them itself.⁶

Expect plaintiffs' counsel to build discovery requests from the FFIEC's Bank Secrecy Act/Anti-Money Laundering Examination Manual and the agencies' third-party risk management guidance. They will ask what the bank knew about its vendor, what controls it required, whether anyone independently tested the account records, and whether the bank had a workable plan for the day the vendor failed. The Synapse plaintiffs are already doing a version of this. Their Colorado complaint points to a June 2024 Federal Reserve enforcement action against Evolve, based on 2023 examinations that found Evolve lacked an effective risk-management framework for its fintech partnerships, to argue that Evolve knew of its problems well before the bankruptcy. The Fed said its action was independent of the Synapse bankruptcy. Regulatory findings do not establish civil liability, but they will shape the claims, defenses, and discovery.⁷

Reducing the Litigation Risk

No contract eliminates BaaS risk. A bank can, however, decide now what kind of record it will have when the dispute arrives.

Diligence should scale with what the bank is handing over. A bank that lets a vendor keep its core records or process its transactions needs to know how those records are created, where they live, and how the bank can check them independently.

Draft the contract for the worst day of the relationship. It should address, in plain terms, recordkeeping and reconciliation; data access and audit rights; indemnification and insurance; and transition assistance. Most important, it should give the bank usable access to the records before a crisis, not merely a right to demand them after one. A right to data means little against a

vendor that has stopped operating.

Then test whether the bank could function without the vendor. That means backups, independent reconciliation, data-export procedures that have actually been run, and an exit plan built for abrupt failure rather than an orderly wind-down. The right controls depend on what is outsourced, but the test is always the same. If the provider disappeared tomorrow, could the bank still determine what it owes each customer?

The bank does not need to write the software. It does need to know which system is authoritative, how balances are calculated, where transaction records reside, and whether those records can be preserved and produced in litigation. If only the vendor can answer those questions, the dependency is itself the risk.

What Comes Next

Synapse did not end Banking-as-a-Service. It exposed the questions every bank in a fintech partnership should already be able to answer. Who performs each function? Who controls the records? What is left when one company disappears?

Those questions get harder as fintechs build artificial intelligence into account monitoring, fraud detection, and customer service, exposing banks to errors by autonomous AI agents and AI-enabled fraud.

Much of the Synapse litigation remains unresolved, and the law governing these relationships is still forming. Banks should not wait for it. They should structure every fintech partnership on the assumption that, when something goes wrong, the bank will have to explain not only what its vendor did, but why it trusted the vendor to do it.

¹ Hugh Son, Fintech Nightmare: “I Have Nearly \$38,000 Tied Up” After Synapse Bankruptcy, CNBC (May 22, 2024), <https://www.cnbc.com/2024/05/22/synapse-bankruptcy-customer-funds.html>; Mary Ann Azevedo, Synapse, Backed by a16z, Has Collapsed, and 10M Consumers Could Be Hurt, TechCrunch (May 25, 2024), <https://techcrunch.com/2024/05/25/with-a16z-backed-synapses-collapse-baas-fintech-is-a-mess-and-10-million-consumers-could-be-hurt/>.

² Mary Ann Azevedo, Synapse’s Collapse Has Frozen Nearly \$160M from Fintech Users—Here’s How It Happened, TechCrunch (Aug. 22, 2024), <https://techcrunch.com/2024/08/22/synapses-collapse-has-frozen-nearly-160m-from-fintech-users-heres-how-it-happened/>; In re Synapse Financial Technologies, Inc., No. 1:24-bk-10646-MB (Bankr. C.D. Cal. filed Apr. 22, 2024).

³ Consumer Financial Protection Bureau, Synapse Financial Technologies, Inc. (Aug. 21, 2025), <https://www.consumerfinance.gov/enforcement/actions/synapse-financial-technologies-inc/>; Stipulated Final Judgment and Order, *Consumer Financial Protection Bureau v. Synapse Financial Technologies, Inc.*, Adv. No. 1:25-ap-01052-MB (Bankr. C.D. Cal. Sept. 12, 2025).

⁴ Class Action Complaint, *Margul v. Evolve Bank & Trust*, No. 1:24-cv-03259 (D. Colo. Nov. 22, 2024); Consolidated Class Action Complaint, *Justus v. Evolve Bank & Trust*, No. 2:25-cv-02385 (W.D. Tenn. Apr. 4, 2025), transferred and consolidated with Margul, No. 1:24-cv-03259 (D. Colo. Sept. 17, 2025). Dispositive motions remained pending in the consolidated action as of early 2026.

⁵ Order Granting Motion to Dismiss First Amended Complaint, *Yotta Technologies Inc. v. Evolve Bank & Trust*, No. 3:24-cv-06456-TLT (N.D. Cal. Feb. 18, 2026) (holding that the action could not proceed in federal court without Synapse as a required party and could be refiled in state court), appeal docketed, No. 26-1535 (9th Cir. Mar. 13, 2026). The court previously dismissed Yotta’s original complaint in May 2025.

⁶ Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation & Office of the Comptroller of the Currency, Interagency Guidance on Third-Party Relationships: Risk Management, 88 Fed. Reg. 37,920 (June 9, 2023); see also FDIC, FIL-29-2023 (June 6, 2023), <https://www.fdic.gov/news/financial-institution-letters/2023/fil23029.html>; Office of

the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation & National Credit Union Administration, Proposed Third-Party Risk Management Guidance, 91 Fed. Reg. 58,536 (Sept. 15, 2026); 12 U.S.C. § 1867(c); see also Crowell & Moring LLP, From Process to Principles: Federal Regulators Propose a New Third-Party Risk Management Framework (Sept. 30, 2026), <https://www.crowell.com/en/insights/client-alerts/from-process-to-principles-federal-regulators-propose-a-new-third-party-risk-management-framework>.

⁷ Board of Governors of the Federal Reserve System, Federal Reserve Board Issues an Enforcement Action Against Evolve Bank & Trust for Deficiencies in the Bank's Anti-Money Laundering, Risk Management, and Consumer Compliance Programs (June 14, 2024), <https://www.federalreserve.gov/newsevents/pressreleases/enforcement20240614a.htm>. The Federal Reserve stated that the enforcement action was independent of the Synapse bankruptcy. See also Synapse Partner Banks Hit with Lawsuit over Fund Mismanagement, Banking Dive (Nov. 2024), <https://www.bankingdive.com/news/synapse-partner-banks-evolve-amg-lineage-american-bank-hit-with-lawsuit-over-fund-mismanagement/734219> (reporting that the Margul complaint relied on the Federal Reserve order to allege Evolve knew of its compliance issues before the Synapse bankruptcy).