

# 5 TIPS TO BEST POSITION YOUR FINTECH FOR A BANKING CHARTER LICENSE APPLICATION

Recently, several financial technology (“Fintech”) organizations have applied for – and been granted – banking charter licenses. For example, in May 2019, Grasshopper was approved for a charter issued by the Office of the Comptroller of the Currency, while in July 2020, Varo Money was approved for a national bank charter.



As mentioned in [an earlier post](#), in March, Square, Inc. (“Square”) announced that it had commenced banking operations under its independently governed subsidiary industrial bank, Square Financial Services (“Square Financial”). Square

successfully completed the charter process with the Federal Deposit Insurance Corporation (“FDIC”) and the Utah Department of Financial Institutions for an Industrial Bank/Industrial Loan Corporation (“ILC”) license. Square Financial will offer business loan and deposit products, beginning with underwriting and originating business loans for Square’s existing sellers who use its card reader and other point-of-sale services.

Obtaining a bank [charter](#) can be challenging and requires significant resources and energy. There are considerable advantages for Fintechs willing to complete the application process, however. Instead of simply partnering with more traditional financial institutions (“FIs”), Fintechs with banking charters can compete head-to-head with FIs, offering lower cost products. For this reason alone, we should expect to see more Fintechs expanding into traditional banking operations by seeking banking charters.

The banking charter application process requires perseverance and an attention to detail. Fintechs would do well to ensure that certain pieces of the application are in place before commencing the process.

Specifically, before applying for a banking charter, Fintechs should take the following steps:

- **Determine which banking charter fits your business, client base, and growth objectives.** Square chose to apply for the FDIC and Utah ILC license, as did Brex, a San Francisco-based Fintech that submitted its application for evaluation on February 17, 2021. Because the ILC license is not subject to oversight by the Federal Reserve, it can offer more flexibility for a bank’s business lines. Varo Money, on the other hand, chose to obtain a national bank charter for its Varo Bank. You should take into account your business model, your current and expected client base, and your growth objectives in the market when determining which charter best fits your Fintech.
- **Conduct a gap analysis.** After determining which banking charter fits your needs, conduct a gap analysis. You should determine what is required by the banking charter you have selected and how your Fintech matches up. Be honest about your organization’s strengths and weaknesses and think strategically about how to mitigate vulnerabilities.
- **Formalize processes.** Most Fintechs – like other start-ups – are primarily focused on building a business, and growth can be so quick that they may not pay adequate attention to the processes and procedures behind the scenes. Regulators, however, are intensely interested in these matters. Before you apply for a banking charter, take the time to standardize how your processes are written and presented, and create or enhance standard operating procedures for every component of your business.
- **Document everything.** This is another area that Fintechs tend to overlook as nascent businesses, but one in which regulators have considerable interest. Not only must your policies and procedures be fully documented, but you should also have regular steering committee, executive leadership, and working group meetings with detailed meeting minutes. Escalated issues and approvals should also be documented and maintained. Training plans should be developed and customized by employee type, with records kept on training schedules and completion rates.
- **Enhance your financial crime compliance framework.** You must have a robust [financial crime compliance](#) framework complete with sanctions, anti-money laundering (“AML”) and know-your-customer (“KYC”) controls, as well as all foundational elements of an AML/BSA program. Your AML controls should include strong governance around AML transaction models and scenario thresholds. Finally, you should be prepared to enhance your compliance staffing; according to Varo Bank’s BSA Officer, Pravin Chandrasekaran, speaking at an FFECON 2020 panel, Varo Bank increased its BSA compliance staffing fivefold in 2020 alone.

Fintechs considering applying for a bank charter license may be well-served by engaging an [outside consultant](#) to assess and enhance current practices to better position the organization from a [compliance standpoint](#).



## ALLISON SPAGNOLO CIPP

Chief Privacy Officer, Senior Managing Director

Allison Spagnolo, a managing director in the Financial Crime Consulting practice, has worked on numerous engagements involving government contracting and financial institution matters. This includes reviewing anti-money laundering and sanctions issues for global banks and multi-national companies, as well as advising on financial crime compliance issues specific to cryptocurrency exchanges and Fintech companies. She has traveled extensively in Europe and Asia for the purpose of leading and conducting on-site inspections and reviews related to monitorships and other compliance matters.