

THE
NATIONAL LAW REVIEW

Square Temporarily Withdraws ILC Application

Tuesday, July 10, 2018

On July 5, 2018, Square, Inc. (“Square”) [announced](#) (paywall) that it had temporarily withdrawn a pending application with the FDIC to obtain deposit insurance for a proposed industrial loan company (“ILC”), in order to strengthen the application before reapplying. The company stated that a parallel application with the Utah Department of Financial Institutions for the ILC charter is still pending.

Although obtaining a federal regulator’s approval on a major bank application is nearly always an iterative process by nature, the announcement is noteworthy in that it comes at a time when numerous fintechs are weighing whether to seek bank charters – and if so, what kind – and at a time when state and federal banking regulators are still exploring the scope of their relationships with the rapidly growing fintech sector.

Student loan servicer Nelnet has an active application to charter an ILC, and either of these companies, if approved, would be the first fintech company to obtain an ILC charter.

At the same time, industry participants have expressed interest in a [proposal](#) by the Office of the Comptroller of the Currency (“OCC”) to approve fintechs for a special purpose national bank charter. The OCC is expected to make an announcement regarding the future of that proposal soon. Varo Money submitted an application to charter a full-service national bank in July 2017. The application remains pending. Accordingly, a fintech has yet to obtain a national bank charter.

The answer to whether a fintech company will succeed in chartering an ILC or a national bank may set off a domino effect in the industry, as an approval would create a template for other companies to follow and eliminate a set of associated “first-mover” costs.

As a result, developments in efforts by companies like Square may provide valuable insight for how the FDIC will, in the future, assess fintech applications related to chartering an ILC and certain fintech applications related to chartering a national bank.

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