

## Square Gets FDIC's Approval To Launch A Bank In 2021

By Philip Rosenstein

*Law360 (March 18, 2020, 9:21 PM EDT)* -- Electronic payments company Square received the green light Wednesday to launch a bank after the Federal Deposit Insurance Corp. announced that it had conditionally approved the company's application to launch an industrial loan company.

Square Inc., founded by Twitter CEO Jack Dorsey, said it plans to launch Square Financial Services next year as an independent subsidiary. The new bank received deposit insurance approval linked to the FDIC's industrial loan company bank charter, and its primary line of business will be originating small business loans to companies using Square services to process payments as well as providing deposit products, Square said in a statement.

Square Financial will be headquartered in Salt Lake City and has been chartered by the Utah Department of Financial Institutions, the company said Wednesday.

"We appreciate the FDIC's thoughtful approach to our application, and their recognition that Square Capital is uniquely positioned to build a bridge between the financial system and the underserved," Jacqueline Reses, Square Capital lead and executive chairwoman of the board of directors for Square Financial Services, said in a statement. "We're now focused on the work ahead to build out Square Financial Services and open our bank to small business customers."

Square Capital is an arm of Square that provides small-business loans and financing to existing Square clients.

The FDIC also gave approval to Nelnet to create a digital-only ILC, according to a Wednesday announcement. Nelnet is based in Nebraska and services federal student loans, while also engaging in payment processing and in the education technology businesses.

"The FDIC Board's approval of the Square and Nelnet applications shows that the ILC charter is compatible with different business models and that the FDIC is comfortable tailoring capital, liquidity and other supervisory requirements to the proposed ILC's activities and financials, even if the ILC is only one part of a larger commercial or technology company," Michael Nonaka, co-chair of the financial services group at Covington & Burling LLP, told Law360.

Square Financial will have to be funded with a minimum of \$56 million and meet various conditions set out by the FDIC. Agency Chairman Jelena McWilliams said capital requirements for Square Financial are higher than for the typical FDIC-insured bank.

Despite the higher requirements imposed on Square Financial, the decision of the board to approve its application was not unanimous, with board member Martin J. Gruenberg dissenting. Gruenberg said in a statement that Square's application for deposit insurance to receive ILC status "suffers from fundamental weaknesses that make it unqualified for approval."

"The parent company, Square, Inc., has failed to demonstrate profitability over a 10-year life during a largely favorable economic environment," he said. "It relies on an originate-to-distribute business model that is highly vulnerable to an economic downturn. The proposed industrial bank would be entirely dependent on the parent."

According to Square's investor letter for the fourth quarter of 2019 the company posted a net income loss in last year's first two quarters and a \$29 million net income gain in the third quarter, with net income then jumping to \$391 million in the fourth quarter. The fourth quarter gain, however, was largely due to the company's sale of food ordering platform Caviar, which netted Square \$373 million.

--Editing by Alanna Weissman.