

Statement by FDIC Chairman Jelena McWilliams on Square Financial Services

Last Updated: March 18, 2020

The FDIC is the primary federal regulator for industrial banks because they are state-chartered, non-member banks. Industrial banks are subject to the same regulation, supervision, examination, and enforcement as any other state non-member bank. The FDIC evaluates all applications for deposit insurance, including those for industrial banks, based on the same statutory factors in the Federal Deposit Insurance Act. It has been more than a decade since the FDIC has approved deposit insurance for an industrial bank or industrial loan company.

The second industrial bank deposit insurance application the Board is considering today is the application submitted by Square, Inc., of San Francisco, California. The bank, Square Financial Services, Inc., would be wholly owned by Square, Inc. and would be chartered by the Utah Department of Financial Institutions.

The bank would originate commercial loans to merchants that process card transactions through Square, Inc.'s payments system. The bank's business model would be centered on the origination and sale of small commercial loans. The bank proposes to market its loan and deposit products primarily to existing Square merchants.

Square, Inc., was formed in 2009 as a payment services provider to enable small businesses to accept card payments. The platform has been expanded to include point-of-sale payments, financing, and other services. The proposed bank would allow Square to directly offer business loans and deposit products to small businesses.

FDIC staff found that Square satisfied each of the statutory factors required for approval, subject to certain conditions. One of the conditions would require the proposed bank to maintain levels of capital that are significantly higher than typical FDIC-insured banks.

Additional conditions would require the bank, the bank's parent company (Square, Inc.), and the controlling shareholder of Square, Inc. to execute a Capital and Liquidity Maintenance Agreement (CALMA) and a Parent Company Agreement (PCA). These agreements contractually obligate the proposed bank's parent to serve as a source of financial strength for the bank and require the parent company to ensure that the bank maintains sufficient capital and liquidity and to inject capital or liquidity if the bank's capital or liquidity falls below a certain threshold. The PCA would require the bank's parent company to consent to examination, reporting, recordkeeping, and other provisions designed to provide safeguards to protect the bank and the Deposit Insurance Fund.

I support the approval of the Square Financial Services application for deposit insurance.