Core Concept #1: What is a Bank?

What's a "Bank"?

- Although many definitions are possible, U.S. law and regulation generally view a "bank" as an entity that:
  - Takes deposits;
  - Makes loans; and
  - Pays checks and transacts payments.

- The U.S. bank regulatory framework takes as its primary point of focus the first of these functions – deposit taking.
  - Generally, an entity must be chartered and licensed as a bank in order to accept deposits.
  - This is not true of lending or payments activities.

- Thus, for example, note the following are NOT banks:
  - PayPal, Venmo and other payment processors;
  - LendingClub, Quicken Loans and other companies that make loans but don't take deposits; and
  - Money market and other mutual funds.

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The Consequences of Being a Bank

The Benefits of Structuring a Business as a Bank

- Cheap, widely available debt funding (in the form of deposits)
- Funding stability provided by the Federal safety net
  - Federal Deposit Insurance Corporation or “FDIC” insurance
  - Access to Federal Reserve emergency loans (i.e., the “discount window”)
- Operational flexibility and simplicity of preemption of (some) state laws and regulation

The Costs of Structuring a Business as a Bank

- Limitations on activities (what the bank can do) and affiliations (what the bank’s parent and affiliate companies can do)
- Prudential regulation of the balance sheet, governance and risk management
- Government supervision and examination

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