

'Fintech' startup SoFi moving into traditional banking

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Online lender and financial startup SoFi has taken the first step toward competing with the nation's biggest banks on their home turf: the checking account.

Last week, the San Francisco provider of student and personal loans submitted an application for federal deposit insurance, a protection normally only available to conventional banks. In its application, the company said its SoFi Bank subsidiary will offer bread-and-butter banking products, including checking accounts, debit cards and eventually credit cards.

SoFi is one of a wave of new financial-technology, or "fintech," startups that aim to reengineer the way Americans manage their savings, take out loans and pay for things.

The company, whose name comes from the moniker Social Finance, was founded in 2011 with a focus on refinancing student loans. The company quickly branched into other products aimed primarily at millennials, including personal loans, mortgages, wealth management and, recently, insurance.

Unlike other fintechs such as Prosper and Lending Club, SoFi funds all of its loans from its own capital. That allows it to make loans more quickly and sometimes at lower rates than its competitors.

While it's branching into other products, SoFi continues to market itself

primarily to younger college graduates with well-to-do jobs, often in major metropolitan areas. The company aims to make its clients feel like members of an exclusive club, holding networking events for them in locales such as San Francisco and New York and referring to them as part of the SoFi "community."

But no one should expect to see a SoFi branch in their neighborhood any time soon. In its application, SoFi says it believes its all-digital approach—meaning no physical branches—will better serve customers, particularly those who find visits to traditional bank offices unnecessary.

The company, however, will have back-office operations in both Delaware and Salt Lake City, Utah. Like other Silicon Valley fintechs, SoFi has taken advantage of banking laws unique to Utah that allow non-bank companies to set up banking operations under what's known as an industrial bank charter.

In its application to the Federal Deposit Insurance Corporation, SoFi plans to fund its new bank subsidiary with \$166 million in capital. SoFi raised money from investors earlier this year, including Japanese company Softbank and venture capital firm Silver Lake.

SoFi's application carries symbolic value as well. Since the financial crisis nearly a decade ago, only a handful of brand new banks have arisen. And no institution has applied for coverage from the FDIC under Utah's industrial bank laws in 10 years.

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