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Whether or not they know it, most of our fintech clients start with a structural question that will end up driving their business model now and years into the future. The question is whether to pursue multi-state financial services licensing, a bank charter, or no licensing at all.

If you're a fintech company that is scaling beyond a single state and needs to determine the best way for their company to grow in an effective and compliant way, this is for you.

The choice between a bank charter, multi-state licensing, and no licensing at all will determine:

- How restricted the business's activities are.
- How heavily regulated the business is.
- How the company can make money.
- The company's level of access to payment rails.
- Whether the company can expand into other activities as it grows.

## How Does Multi-State Financial Services Licensing Work?

Obtaining a single financial services license is usually not very difficult. However, multiplying this effort by dozens of state jurisdictions can turn a picky paper application process into suffocation by bureaucracy and paperwork.

Obtaining a single-state financial service license means approaching a state government entity with a detailed application regarding what your fintech company would like to do. The application often includes a business plan, background information regarding the ownership, proof of bonding and financial backing, an established corporate structure and documents, proof of ability to meet compliance requirements, background checks, and review fees. The application process is usually several weeks to several months long.

If done properly, the application will end in an approval. After that, the company may be subject to periodic examinations, and the license must be renewed periodically. If the application is done improperly, it will result in a denial, wasted application fees, wasted time, and wasted energy. In some cases, it can be difficult to submit a corrective application.

If you multiply a single state license application by 5, 10, or 50, the exercise becomes a substantial project in and of itself. Some 50-state licensing efforts can cost upwards of one million dollars and may require two years to complete. At that point, the process is as much about managing the flow of information and deadlines as it is about anything else.

## Pros and Cons of Maintaining State Licenses

For fintech companies operating without a bank charter, multi-state licensing is often the most direct path to market. The primary advantages of this approach are speed and flexibility. State licenses generally require less initial capital, shorter lead times, and fewer structural commitments than a bank charter. This means that the state-licensing format can allow an early-stage or rapidly evolving fintech to begin offering service much more quickly than a bank can. Businesses that do not need immediate national reach or that have focused product offerings might also find it faster and easier to pursue one or a few state licenses versus a bank charter.

On the other hand, these benefits are offset by operational and regulatory burdens. Licensed fintechs may face **50 or more regulators**, each with its own statutes, rules, interpretations, and enforcement priorities. Companies may also be required to maintain multiple overlapping licenses for the same product offering. Coordination among states remains limited, and inconsistent positions are still common.

Additionally, only depository institutions, like banks and credit unions, can accept deposits and offer FDIC insurance. If a service requires a deposit account, it may be advisable to obtain a bank charter.

Finally, there is a benefit to dealing with one or two regulators instead of 50. Many states attempt to coordinate reviews. However, if a company maintains 50 licenses, the company will have 50 agencies to answer to. Banks only have a few regulators to answer to.

## How Does a Bank Charter Application Work?

There are several different types of bank charters, but let's focus on the process of obtaining a national bank charter from the Office of the Comptroller of the Currency (OCC), which is part of the U.S. Department of the Treasury.

Obtaining a bank charter is a formal regulatory process that requires early engagement with regulators, extensive planning, and a demonstrated ability to operate in a safe, sound, and compliant manner. For national banks and special purpose national banks, the process is administered by the OCC through its Licensing Department.

The OCC chartering process typically proceeds in stages. The first is the**prefiling stage**, during which organizers meet with the OCC to discuss the proposed business model, charter type, and regulatory expectations. Charter applications are complicated, so it makes sense to approach the agency (or alternative chartering agencies) prior to putting together the application package to see if it may be feasible to submit an application at all. Through this discussion phase, the organizers should be able to get a sense of how the agency will view the application and what its expectations will be for operating the bank in a safe and sound manner. During this phase, applicants will have the opportunity to prepare an

application package, including a detailed business plan addressing governance, capital, liquidity, compliance, risk management, and community reinvestment act obligations.

After an application is completed, the application is submitted for formal review by the OCC. The OCC will conduct background investigations and will evaluate whether the proposed bank a) has a reasonable chance of success, b) will operate safely and soundly, c) will comply with applicable laws, and d) will treat customers fairly. Bank charters are not fintech charters. Because a failing bank can have a huge impact on the businesses and individuals it serves, the OCC and other agencies look very carefully at the character and capabilities of the management team and the viability of the business model. Historically, the OCC and other agencies look heavily at past performance and experience, so tried-and-true management and methodologies are often much easier to have approved than novel business activities with inexperienced management. Charter applicants must provide notice to the public regarding the charter, after which members of the public have an opportunity to comment on or protest the charter.

For deposit offering banks, a similar application process will be followed with the Federal Deposit Insurance Corporation (FDIC). Just obtaining an OCC charter is not enough to run a deposit-taking bank; it is also necessary to obtain deposit insurance. Bank charter approvals are often issued pending and contingent on obtaining FDIC insurance approval.

For banks that want or need a bank holding company, a similar — although somewhat more limited — application will need to be completed with the Federal Reserve Board (Fed).

The final decision stage typically includes a preliminary approval that may include a number of conditions for the new charter to meet before it can begin operations. Between the preliminary approval and the opening date, organizers must complete a number of activities if they haven't been taken care of already. This includes raising required capital, hiring management, implementing policies and systems, and successfully completing a pre-opening examination. The new bank has a limited time to complete these activities, and the bank can only commence operations after all conditions have been met.

Keep in mind that the OCC, or other chartering agency, will expect the business plan, capital plan, and policies and procedures to be followed after the approval process. The chartering process needs to thoughtfully anticipate how the bank will operate after opening.

## Pros and Cons to a Bank Charter

Because the bank chartering process is thorough and tends to support established business models with experienced management, new bank charters have a much higher success rate than most types of startups. Banks can offer deposits with FDIC insurance, which is a huge cost of funding advantage over nonbanks. Banks can lend nationally under home or target state interest rate laws, simplifying national lending operations. Banks can also send money nationally and internationally without pursuing multiple state licenses.

Banks also only deal with a small number of regulators at any one time. This means more consistency in enforcement and interpretation and less energy spent on responding to examinations. Banks typically have access to Fed accounts and payment systems, which makes money transfer faster and cheaper.

On the other hand, federal and state agencies expect banks to operate in a safe and sound manner (also read as slow, stable, and methodical). Business philosophies that require fast pivots and more significant changes are not suited to a bank charter. Banks are subject to capital retention requirements that do not apply to nonbanks, and starting a bank generally requires far more capital than is necessary for starting a nonbank. Banks must also create and maintain a sizable stack of policy and capital management guidelines. Most state-based financial services licenses have much more limited and flexible requirements.

Banks and bank affiliates are also very limited in the number of corporate activities they can take on, meaning that, in most cases, a company won't be able to operate a retail store and have a bank subsidiary as well. If a business model anticipates any speculative purchase of property, placing venture capital funds, or back-and-forth transactions between corporate affiliates, state licensing may be a better fit.

## Alternative Paths

In many cases, we find that startup companies may find it more advantageous to offer infrastructure, marketing, and software capabilities to regulated businesses. Running a software business usually does not require a license and subjects the company to far less oversight. The same is true for marketing capabilities, IT services, data processing, and other professional services that are not truly banking activities. If software is your game, or if your game can be structured to be a turnkey service for others, then your firm might be better off not pursuing licensing at all.

## Where to Go From Here

Choosing between multi-state licensing and a bank charter is a strategic decision that shapes how a fintech company can grow, fund itself, and manage regulatory risk. Multi-state licensing offers faster entry and flexibility but comes with fragmented regulation, higher compliance costs, and restricted powers. A bank charter provides nationwide authority, expanded banking powers, and regulatory consistency but requires significant capital, ongoing supervision, and reduced business-model flexibility. Many fintechs pursue hybrid or partnership structures to access banking capabilities without full chartering.

Ultimately, the right path depends on the company's product scope, capital resources, risk tolerance, and long-term growth strategy.