



Stanford eCorner

Paypal is Not a Bank

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Video URL: <http://ecorner.stanford.edu/videos/1036/Paypal-is-Not-a-Bank>

The founders of Paypal are often asked if they are a bank. They are not a bank because they are not involved in fractional lending, nor are they backed by the Federal Reserve. Peter likens Paypal to a money market fund.



Transcript

It was always this question of what a bank is. Fundamentally, a bank is an entity that engages in fractional lending that's backed up by the Federal Reserve System. You could think of us as being equivalent to a money market fund in which the money was not in turn being re-lent. The reason you have incredible owners banking regulations in the US is because when you have fractional lending there is an incentive to re-lend money at very high interest rates to high risk endeavors and maybe of a downturn all the banks blow up and that's basically why you have episodic banking crisis in third world countries. Every time there is a downturn, the whole banking system blows up. We were not a bank because we weren't engaging in fractional lending. There were a lot of things, we're bank like but I think that's the fundamental difference and it took us about two years to convince the world of the regulatory bodies of that but at the end of the day they basically bought into that fact.