

URL: <https://ecorner.stanford.edu/clips/rethinking-the-fintech-back-end/>

Annie Hockey, co-CEO of Column, tells the story of how she and her cofounder decided to buy a banking charter. The fintech industry is constrained, she says, because companies have to partner with banks on the back-end due to complex government regulations. Column seeks to lower the barrier to entry by being a better partner to developers building new financial products.



Transcript

- We bought a bank.. 00:00:05,820 So what feels like forever ago, William, my co-founder, had stepped step back from Plaid and I had left my job at Bain.. And the real answer is that we intended to take a sabbatical for a period of time and like maybe do this thing called relax, but then COVID hit, so we started a company.. A little sooner than anticipated, but, you know, we knew that we wanted to start a business together and candidly weren't necessarily dying to jump back into FinTech.. If anything, I think William, maybe could've used, like, a little bit of a break from FinTech after having spent a decade there.. What we knew we wanted though, was a sort of thorny problem that was candidly worth our time.. I think when you've started a company before, you know how all consuming that could be, and as fun as it might be to sort of build sort of a, an app or this or that, I think we wanted something that was like really worth sinking our teeth into.. And so when we started kind of looking around and considering problems, financial technology just kept surfacing as, A, something that we were decently familiar with and had to network in, that's helpful.. But B, when you have the potential to change what we believe is a somewhat flawed financial system in the United States, like that's real impact, right? And that, that felt really exciting to us.. I'm gonna provide a little bit of context on sort of what we do..

So bear with me for a quick academic moment.. But in the United States and in most countries like ours, in order to do certain things with money, you have to have in, in our case what's called a banking charter.. And so in order to hold money, store deposits, move money or even loan money, you have to have this, this charter and that is regulated.. They're given out and they're regulated by an agency of the US government, in our case the OCC, which stands for the office of the controller of the currency.. Don't ask me what that really means.. And so, we grew up with many Fintechs who were doing things that kind of look like what banks do, right? Like if you're, if you're a Chime customer, like Chime seems to be moving money if you're a Brex customer, Brex seems to be holding my money, but the sort of dirty secret, not so dirty secret of FinTech is that on the back end of all of those Fintechs you've heard of, most Fintechs are partnering with some sort of community bank who is powering their underlying infrastructure and unsurprisingly really capturing the majority of the unit economics.. Now what's fascinating, is that basically can I swear in here? - Yeah, totally.. 00:02:42,480 - Basically they're all shitty.. 00:02:45,450 Like all of the existing options are pretty horrible.. And given that we kind of grew up along alongside many FinTech founders that you may have heard of, we just kept hearing these horror stories of like, oh my gosh, you pay a bank to store your funds and then the bank also gets to monetize the funds..

Like we just kept hearing these wild things and so we were sort of thinking like, this is such a like low bar, like why don't we get one of these charters, right? Why don't we do this a little bit better? Because, you know, we really believe that because so many of these options are so bad, it's actually really constraining the industry.. In order for a partner bank to start to talk to sort of an up and coming FinTech, you have seven millions of dollars in the bank, maybe a year runway.. Like that's a big burden to have as an aspiring entrepreneur.. And so we really believe that the financial technology ecosystem, as big as it seems recently with a lot of money going into it, it's actually small.. And so if we sort of lower that barrier to entry by being a better partner, like what, what could exist, right? What should exist in the world? So that's sort of the thesis going in.. And then we needed to do this thing like get it this charter.. And so this is sort of first phase I think of column company building, which was basically emailing every lawyer who would give us 30 minutes of free time and asking them about banking charters.. So maybe less than one is this surprising number of people who will give you 30 minutes of their time if you say you're a Stanford student and you're eager to build something in their field.. So after, months and months of just asking kind of the same old question, it became really clear to us that kind of in this regulatory environment, really the only way to get your hands on a charter is to acquire one.. So then we went to kind of second phase of starting column, which was like m and a, right? And in this phase, I'd say most sane people probably hire banker to like help them, but we kind of thought, you know, we're a little cheap, we're bootstrapped, what can they do that we can't? And so we went onto the FDIC website, downloaded a list of every single FDIC insured financial institution in the states..

There's about 5,500 credit unions, about 5,500 banks.. And we just started chopping the model and we sort of chop, chop, chop based on the parameters that we'd put in place.. At this point it was me, William, and a part-time business school student because basically all business school internships got canceled during covid.. So he was working for us and we got down to a list of about 100 and we just called all of them and, I remember one time we had a conversation with the three of us.. We were like, how many follow ups is too many follow ups? And we decided the answer was infinity.. - Nice.. 00:05:32,670 - And we just kept calling and got really lucky.. 00:05:35,670 At the end of the day we had a few options of banks that we wanted to purchase and feel really, really fortunate to have ended up with the bank that we did Northern California National Bank.. It is in California.. It had a really great leadership team and it's been a pleasure to work with...