



Credit Fintechs

SCD AND SEP

I. THE CREDIT MARKET

The credit market is the financial system in which lending and financing operations take place. Traditionally, credit is granted by banks or financial institutions, which can be public or privately held. On the opposite side are the borrowers, who are individuals or legal entities.

To apply for a loan, borrowers contact their banks or financial institutions, which analyze the application and verify whether it is possible to grant the credit. The debt is then repaid according to the conditions established in a contract, including the interest rate.

Banks hold the vast majority of the credit market and have been established in this sector for decades, which allows them to set the interest rates charged from borrowers when they take out loans, which are usually very high. Moreover, from customer experience point of view, the procedures offered by traditional banks are mostly bureaucratic and inefficient.

In view of the above, the Brazilian regulatory scenario has undergone – and continues to undergo – intense restructuring and modernization. Such phenomenon represents the opening of the credit market, allowing new agents to operate and encouraging banks and institutions to seek innovation.

Traditional agents have aligned their strategies to technology and have been developing less bureaucratic and more attractive alternatives for their clients, either by entering into partnerships or acquiring new companies.

The regulatory update promotes the “de-bancarization” of credit and the establishment of new types of companies in this sector: the credit Fintechs.

II. WHAT ARE CREDIT FINTECHS?

Fintechs are companies that use technology to improve and automate the offering of financial products and services, standing out in the market for the convenience provided by technology and the internet.

Among the many possibilities for Fintechs to operate in the market, the credit ones are one of the most important. Credit Fintechs grant or intermediate credit operations, offering solutions and loans digitally.

Such companies simplify credit assessment, develop faster approval processes, and promote easier access and control over loans and payment. Such Fintechs use technology as a foundation to create automated processes, ensuring speed and accuracy in the evaluation and granting of credit.



Fintechs in this sector can offer lower fees to their customers compared to traditional banks. Additionally, their operations are digitally based, meaning the relationship with customers is exclusively online.

By offering their services digitally and presenting flexible and economical conditions to customers, Fintechs have considerably expanded access to credit. These companies have revolutionized the market, allowing them to reach a vast number of people not previously reached by traditional agents.

In the guidebook of the Fintech Series: Introduction and Operating Models, we address the concept of Fintechs and their main operating models in more detail. [Click here to read it.](#)

III. TYPES OF CREDIT FINTECHS: SCD AND SEP

Until 2018, only banks and financial institutions authorized to operate by the Central Bank of Brazil ("Bacen") could operate in the credit and loan market. Companies that intended to offer services related to this sector would have to operate either in association or in partnerships with traditional banks and institutions.

The Fintech Revolution has encouraged the development of new operating models in the credit market. A relevant example is the operation as banking correspondents ("Corban"). The operation of Corbans was regulated in 2011 by Bacen Resolution No. 3,954, which establishes the requirements to the hiring of companies as banking correspondents by financial institutions.

Through these partnerships, the Fintechs that act as Corbans can perform the intermediation of the relationship between the client and the bank, in addition to accessory services such as credit analysis. Although this possibility of operation represents an advance for Fintechs, the Corban activity is still entirely tied to the contracting financial institutions.

In April of 2018, Bacen revolutionized the credit market by issuing two resolutions aimed at regulating the operation of Fintechs in lending and financing operations regardless of banks or financial institutions: Resolutions No. 4,656 ("Res. 4,656") and 4,657 of the National Monetary Council (CMN).

These Resolutions were issued with the goal of promoting regulatory modernization, demonstrating Bacen's commitment to the BC+ Agenda, conceived in 2016 to review Bacen's and the National Financial System's ("SFN") structural issues. In addition, it aims to enhance the innovation of financial technologies and the democratization of banking access.

Through the Resolutions mentioned above, Bacen allowed companies to operate loans in a simpler way and without a banking structure. In this way, it created two types of credit Fintechs that may operate independently: (i) the Direct Credit Company ("SCD"); and (ii) the Peer-to-Peer Lending Company ("SEP").



The regulation of credit Fintechs has enabled the entry of companies in the SFN, favoring the development of innovation and technology-based products. Thus, Fintechs can now offer less bureaucratic services, with lower costs for customers, resulting in the diversification of agents that operate in the credit sector. Consequently, it has increased and promoted competitiveness between the new companies and the traditional players.

IV. DIRECT CREDIT COMPANIES (SCD)

Direct Credit Companies are financial institutions that offer loan, financing, and credit rights acquisition operations through an electronic platform and exclusively with the use of their own financial resources.

In addition to performing credit operations, SCDs may provide other services, such as: (i) credit analysis for third parties; (ii) credit collection for third parties; (iii) acting as an insurance representative in the distribution of insurance related to credit operations; and (iv) issuing electronic currency.

SCDs may also issue credit cards and other postpaid payment instruments, that is, they may issue credit cards and other postpaid instruments to their clients, following the rules applicable to entities that operate in the Brazilian Payment System.

It is not permitted for SCDs to raise funds from the public, since they must use their own resources to carry out their operations. The only exception is in the case of issuance of shares. In addition, SCDs cannot participate in the capital of financial institutions.

SCDs may finance their operations through the sale or assignment of credit to financial institutions, as well as to investment funds and securitization companies, as long as they only have as investors those classified as qualified by the Securities and Exchange Commission of Brazil (CVM).

They were also authorized to finance their operations by obtaining resources to grant credits in on-lending operations and loans originating from the National Bank for Economic and Social Development (BNDES), as long as it is in accordance with their corporate purpose. In other words, SCDs will be able to raise funds via BNDES to make credits available to their clients.

The possibility of selling and assigning credits considerably broadens the operational scope of SCDs, as it enables them to mobilize resources beyond their own capital.

As for charging fees, the SCDs must follow the fee rules established by Bacen (Resolution No. 3,919/2010).



V. PEER-TO-PEER LENDING COMPANIES (SEP)

Peer-to-Peer Lending Companies are financial institutions that enable lending and financing operations between people through an electronic platform. This type of lending is known as peer-to-peer lending (P2P), which allows lenders to negotiate directly with borrowers through a platform provided by the Fintech.

In addition to performing credit operations, SEPs may provide other services, such as: (i) credit analysis for clients and third parties; (ii) credit collection for clients and third parties; (iii) acting as an insurance representative in the distribution of insurance related to credit operations; and (iv) issuing electronic currency.

The SEPs intermediate the communication between creditors and debtors, which dispenses the financial institution's role as an intermediary and promotes direct connection between borrowers and investors. In addition, the Fintech ensures greater security and transparency for the parties involved.

The lenders may be individuals, financial institutions, investment funds, securitization companies or non-financial legal entities. The borrowers, in turn, can be individuals or legal entities, resident and domiciled in Brazil.

The SEPs provide a platform for people to connect and match interests. In addition, they can develop intelligence for credit assessment, and assign a score to interested borrowers. The investors also register themselves on the platform and insert the desired borrower profile. This enables the Fintech to identify a match of interests and provide the necessary structure for the loan transaction to take effect.

Several specific requirements and procedures must be observed by the SEPs when carrying out its operations. The main ones are the following: (i) the unequivocal manifestation of will of the potential creditors and debtors; (ii) the provision of the resources to the company by the creditors; (iii) the issuance of an instrument representing credit; (iv) the issuance of an instrument linked to the instrument representing credit; and (v) the transfer of the resources to the debtors.

SEPs are not permitted to carry out loans and financing operations with their own resources or to participate in the capital of financial institutions. Additionally, the operations must be carried out without presenting any risk to the SEP. Another limitation established by the regulation is that the lender of the operation cannot enter into operations with the same borrower, within the same company, for values exceeding the R\$15,000.00 limit.

As well as the SCDs, the SEPs must follow the rules established by Bacen regarding the charging of fees. However, the services provided by the SEP fall into the category of "special services", which allows such institutions to charge any type of fee, as long as it is expressly provided for in the contract agreed between the parties.



VI. HOW TO BECOME A CREDIT FINTECH?

There are several requirements and procedures to establish or become a credit fintech. The initial requirements are related to the corporate type and name of the company. In regard to the corporate type, they must be Sociedades Anônimas – the Brazilian joint-stock companies. As for the name, for SCDs, it is required to include the expression “Sociedade de Crédito Direto” (Direct Credit Companies), and for the SEPs, the expression “Sociedade de Empréstimo entre Pessoas” (Peer-to-peer lending companies).

Fintechs must also permanently observe the mandatory minimum of R\$1,000,000.00 for paid-in capital stock and net Worth. In this sense, the regulation allows the corporate control of both credit Fintechs to be exercised by investment funds.

The corporate control by funds can be exercised separately or jointly with other people. For the separate control, it must be exercised indirectly, that is, through a legal entity headquartered in Brazil that has corporate participation in financial institutions as its exclusive corporate purpose.

The operation of SCDs and SEPs depends on the previous authorization of the Brazilian Central Bank. Thus, besides complying with the requirements set forth above, the Fintech must apply to the Central Bank for approval to begin its operation.

The authorization procedure involves the presentation of documents and the submission of a form provided by Bacen. There is an extensive list of documents provided in Res. 4.656 that must be drafted and presented by the company, the main ones are the following:

- Justification which includes the indication of corporate type and origin of capital stock;
- Information about which services are provided;
- What is the target audience;
- What market opportunities justify the venture;
- What are the competitive advantages of the company; and
- Identification of the members of the controlling group and holders of qualifying holdings.

Interested companies must submit the documents via a digital filing procedure. While analyzing the documents, Bacen may request whatever additional documents it deems necessary, and may summon the controlling shareholders and managers for interviews and further clarifications. With an authorization from Bacen, the credit Fintech may begin its operation.



VII. COMPARATIVE TABLE SCD X SEP

	SCD	SEP
Operations	Lending, financing, acquisition of credit rights, credit assessment for third parties, collect third party credit, acting as an insurance representative, issuance of cryptocurrency and of postpaid payment instruments.	Lending, financing, credit assessment for clients and third parties, collect third party and client´s credit, acting as an insurance representative and issuance of cryptocurrency.
Corporate type	Joint-stock company	Joint-stock company
Origin of resources used	Own financial resources. Use of third-party resources not allowed.	Third-party resources. Use of own resources not allowed.
Origin of resources used	Yes	No
Minimum capital stock	R\$1.000.000	R\$1.000.000
Operation value limit per client	-	R\$15.000



Our recognitions



Análise
Advocacia (2021)



Chambers & Partners
Brazil (2021 & 2022)



Leaders League
(2021 & 2022)



Transactional
Track Record
(2021 & 2022)



The Legal
500 (2022)

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