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CANNABIS CONFERENCE



WILL MORE FINANCIAL INSTITUTIONS JUMP INTO MARIJUANA INDUSTRY?

With Two Institutions on Board, MA Is Better Off Than Other States

BY BRAM BERKOWITZ
BANKER & TRADESMAN STAFF



The Cannabis Business Advisory division of the Boston-based law firm Burns & Levinson recently co-hosted with Viridian Capital Advisors its second annual cannabis conference. The conference held a day's worth of panels discussing a variety of issues, such as the state of the industry and the future of

banking and marijuana. Keynote speakers included Steven Hoffman, chairman of the Massachusetts Cannabis Control

RISKY BUSINESS

These marijuana industry businesses pose the highest risk to banks:

1. Legacy funds
2. Fintech/payment processors
3. Investor/equity funds
4. International funds
5. Investment funds
6. Ancillary businesses
7. Sales

Commission, and Sundie Seefried, president and CEO of Partner Colorado Credit Union, which owns Safe Harbor Services, a credit union service provider that helps financial institutions bank marijuana. Here are some key takeaways from the conference.

More Financial Institutions on The Way?

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Continued on Page 2



Frank Segall, partner at Burns & Levinson, and Steven Hoffman, chairman of the Massachusetts Cannabis Control Commission.



Scott Moskol, partner at Burns & Levinson, and Sundie Seefried, president and CEO of Partner Colorado Credit Union.

But one bank will not be enough. Hoffman said he is currently in discussions with the various banking and credit union trade groups and four or five other financial institutions about potentially providing services to the marijuana industry, which he is hopeful about.

“Whether we are going to get enough banks to cover this entire industry or not, I don’t know,” he said. “Colorado, five years after launch, has four banks and 80 percent coverage is my understanding, so even after five years they are still not there.”

Hoffman said his goal is to show financial institutions that it wants to work with them and how thorough the Cannabis Control Commission is when it comes to vetting the people and organizations it gives licenses to. The commission said it allows financial institutions to access its seed-to-sale tracking system, which tracks cultivation, manufacturing, transportation, inventory and the sale of adult-use marijuana.

It Could Be Worse

Although it certainly won’t be enough to bank the entire industry, the fact that the state has one bank each willing to provide services for medical and recreational marijuana in Massachusetts puts it ahead of most.

Corey Barnette, the owner of Washington, D.C.-based District Growers, a medical marijuana facility that has been around for more than eight years, said he has not been able to find a bank in all of his time running the facility. He attributed that to a lack of community institutions in D.C., which now only has three chartered banks under \$500 million in assets.

“We are literally on an island,” he said.

Mitchell Kahn, CEO and founder of Grassroots Cannabis, a medical dispensary with locations in several states, had a bank in Illinois he was working with for that state’s location, but after the Cole Memo was rescinded, the bank sent every marijuana customer a letter saying their accounts would close in 60 days.

When a financial institution chooses to bank marijuana, they better be prepared for some regulatory headaches.

Dispensary owners at the conference said they tried other solutions to reduce the cash involved, such as cashless ATMs, debit cards and even tokenization, but in the end, utilizations were not high enough; customers were always willing to walk to an ATM and take out cash to pay for their orders.

Regulatory Headaches

When a financial institution chooses to bank marijuana, they better be prepared for some regulatory headaches. There is the Bank Secrecy Act, which Seefried describes as the “showstopper.”

Partner Colorado Credit Union has had eight federal and state exams over the last four years and this year alone filed over 7,000 federal reports for its marijuana clients for the Financial Crimes Enforcement Network.

“The Cartel could get money into our business legitimately,” she said. “We’ve had seizures on accounts.” One marijuana client Seefried onboarded had 26 LLCs, each with different owners involved that the bank had to vet.

There’s also RICO, which Seefried said financial institutions violate as soon as they enter the marijuana business.

“On this one, we are always holding our breath,” she said.

While it may not have to do with banking, one issue coming under more scrutiny is the way that communities in the commonwealth are negotiating with the marijuana dispensaries operating in their towns and cities.

These communities can charge a 3 percent local option tax on dispensaries for up to five years. However, Hoffman said he has seen some agreements suggest the tax is on auto-renew, which to him does not sound like a maximum of five years.

When the commission granted its first recreational licenses earlier this month, one of the five commissioners, Shaleen Title, abstained from voting due to concerns with host community agreements. Hoffman also said many communities are requesting that marijuana operators cover the cost of additional public service projects, such as a new fire truck or park, which some have called into question.

In his opinion, Hoffman said he does not believe the commission has control over these contracts issues, but that he would like to see legislative help so the commission can better address and mediate them. ◀

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