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## Needham Bank Plans to Grow Cannabis Banking

Sale of Ex-Century Bank Operation Comes as Sector Expands

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THE COMMERCIAL RECORD STAFF



The first Massachusetts-based bank to launch a cannabis banking operation, Century Bank, was acquired two months ago by Eastern Bank. Rather than keep the business, Boston-based Eastern Bank earlier this month decided to transfer Century's cannabis business – but not to one of the banks already operating in the space.

Needham Bank, a newcomer to cannabis banking, will take over Century's nine-year-old cannabis business. As Needham looks to expand the operations and add lending to the space as well, industry experts will be watching whether Needham's move will affect others in the region.

"It will be interesting to see when an institution of Needham's size and credibility – and Joe Campanelli has been an industry leader in the banking community in Massachusetts for decades – if that maybe is the catalyst for other lenders in Massachusetts to think about getting into the space," said Frank Segall, a partner with Burns & Levinson LLP, one of the first law firms to serve the cannabis sector. "It will be interesting to see if others follow suit."

### More Banks Join Sector

Eastern Bank said that it decided not to keep Century's cannabis because the extensive cash-handling and other special bureaucratic logistics required to meet the banking needs of cannabis-related businesses are "not well-aligned with our approach to serving our business customers," Eastern CEO Bob Rivers said in a statement about the deal Jan. 14. The terms of the deal were not disclosed.



Needham Bank has joined a sector that's added over a half-dozen banks in recent years and sees opportunities to grow its new marijuana banking business further.

Eastern's decision to transfer the cannabis operations did not surprise equity analysts, with Keefe, Bruyere & Woods analysts noting in a report last week that the transaction was not financially material to Eastern and that cannabis was a non-core business line for Eastern. KBW said it continues to expect Eastern's stock to outperform in the market. The bank's cannabis portfolio has about \$500 million in deposits.

The news of the sale is likely good news for the state's marijuana industry. Stacy Litke, director of banking compliance with software company Green Check Verified, said some feared that Eastern would simply exit cannabis banking leaving customers having to find a new banking relationship, a difficult proposition for any business.

Transferring the accounts, Litke said, showed that Eastern wanted to ensure that cannabis businesses and the bank's employees had an

other institution to take them on. The 20 employees on the cannabis team will join Needham Bank, including Paul Evangelista, who launched and led the unit.

More and more community banks have entered the cannabis banking space in recent years.

Litke said at least 11 Massachusetts banks and credit unions now offer cannabis banking services, up from just three publicly known lenders in 2019. Green Check Verified works with about two-thirds of them including Hudson-based Avidia Bank, Dedham Savings Bank, Fall River-based BankFive and Marlborough-based Main Street Bank.

Gardner-based GFA Federal Credit Union and Swansea-based BayCoast Bank were the first institutions that publicly acknowledged providing cannabis banking.

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Concerns about Bank Secrecy Act and anti-money laundering enforcement have deterred more lenders from joining in, Litke said, adding that with the deposit surge during the pandemic, many banks and credit unions are not necessarily looking to bring more customer cash through their doors.

### Needham Builds on Experience

Joseph Campanelli, Needham Bank's president and CEO, said the bank plans to grow its new cannabis arm, in part by turning industry workers into customers. These employees often face difficulties getting personal loans and mortgages because their paychecks come from marijuana-related businesses, he said.

More than 100 communities have dispensaries, Campanelli added, and the industry had more than \$1 billion in sales in 2021 and 20,000 employees.

Campanelli said he had considered adding cannabis banking to his bank's portfolio for several years and even traveled to Colorado to learn about the industry there. Needham Bank staff already had to get up to speed about the marijuana industry since some of its clients had real estate leased to dispensaries or other facilities in the cannabis supply chain.

He reached out to Eastern Bank to see about acquiring Century's cannabis business, giving Needham Bank the opportunity to build from an existing set of products.

"It's the first time that I've seen an industry that has really evolved in the magnitude of the cannabis businesses," Campanelli said.

Needham Bank will lease space in Century's former office in Medford – now owned by auto magnate Herb Chambers – until the end of the year and then look for a permanent facility in the Medford and Somerville area that will be dedicated to marijuana-related businesses.

Campanelli said the bank is committed to the dedicating time needed to operate a cannabis business. Customers can also expect new services from Needham Bank, he added, noting that the bank had invested in a cash management system that will be important to serving cannabis companies.

"It's the responsibility of a bank really to service all the needs of our community," Campanelli said. "As long as it's regulated and legal, they should have access to a bank."

### Private Lenders Demand High Price

Segall, with Burns & Levinson, said more lending is needed in the industry. While the start-up phase generally involves raising money from friends and family or investors, he said businesses typically need real estate, construction and equipment loans as they expand.

"People are getting their licenses, building out their cultivation facilities and their retail stores, and it would be great to have the ability to layer on some debt and institutional debt besides raising all the money through an equity raise," Segall said.

Without a bank or credit union to turn to, Litke said, marijuana companies are forced to turn to private lenders who charge higher interest rates. Some even demand ownership stakes

and most don't provide the kind of legal compliance support a financial institution can provide.

As long as marijuana remains federally illegal, national banks like Bank of America, Chase, and Citibank won't get involved with cannabis banking, Litke said, leaving opportunities for smaller institutions to operate in this space. A bank can

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– Stacy Litke, director of banking compliance, Green Check Verified

offer loans at lower rates, but still higher than what a typical commercial loan might get, she said, giving it an opportunity for yield.

"Therein lies a golden opportunity," Litke said. "If I'm a cannabis business that had to borrow money at 30 percent last year, and I can find a local lender to take that loan out at 10 percent, that's a win-win for both the bank and the cannabis business." ◀

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