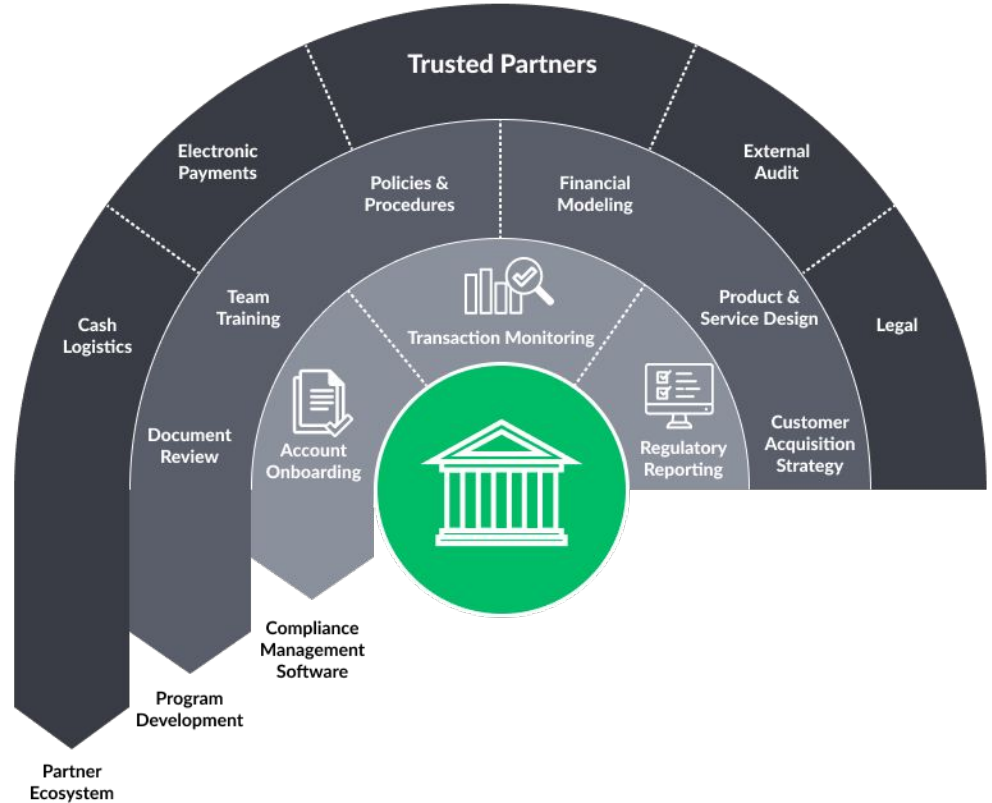


Green Check Cannabis Banking Bootcamp

January 2021

About Green Check Verified

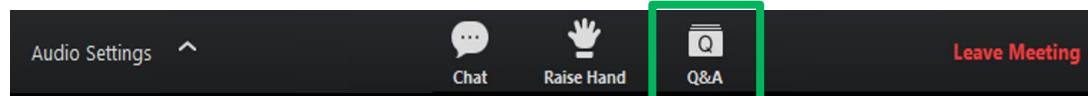
We offer **purpose-built software**, combined with **expert advisory services** and a rich **partner ecosystem** to deliver compliant, profitable cannabis banking programs.



Housekeeping

- A recording of the presentation will be shared following the session
- Attendees will be muted during the session to avoid background noise

Have a question?



- **During the session:** Use the Q&A button in your Zoom window to submit a question
 - Not available those using the call-in only option
- **After the session:** Email info@greencheckverified.com

The Green Check team



Paul Dunford

Program Development

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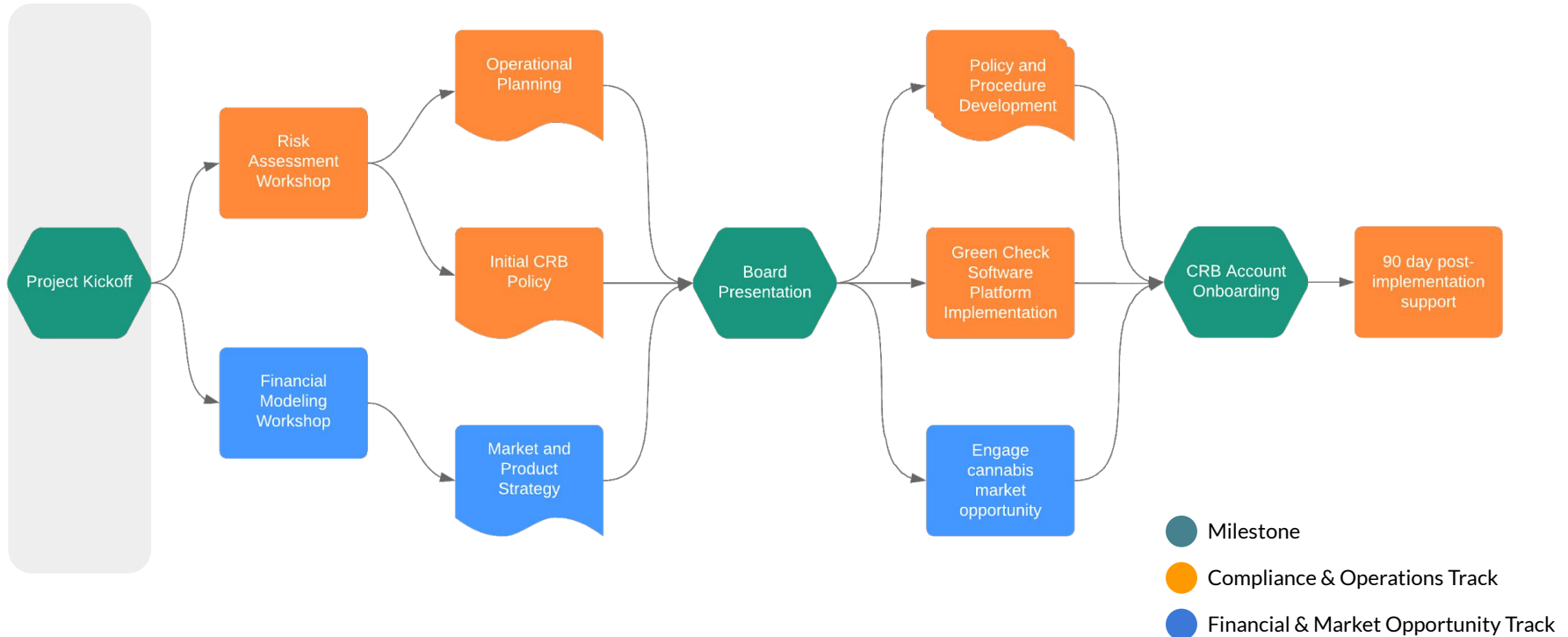
Banking Compliance

slitke@greencheckverified.com

Agenda

- **Module 1: Cannabis Fundamentals**
 - Cannabis Banking 101
- **Module 2: Building Your Program**
 - Financial Modeling
 - Assessing Risk
 - Products and Services
- **Module 3: Running a Compliant Program**
 - Engaging the market and onboarding CRBs
 - Verifying source of funds and ongoing monitoring
- **Optional: Special Topics**
 - January: What to expect in 2021

Green Check's program development roadmap



Cannabis Fundamentals

Module 1

Cannabis
Marijuana
Hemp
THC
CBD

cannabis



What is Marihuana?

[The] term “**marihuana**” means all parts of the plant *Cannabis sativa* L., whether growing or not; the seeds thereof; the resin extracted from any part of such plant; and every compound, manufacture, salt, derivative, mixture, or preparation of such plant, its seeds or resin. The term “**marihuana**” does not include—

(i) **hemp**, as defined in section 1639o of title 7;”

21 U.S. Code § 802

What is Hemp?

The term “**hemp**” means the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a **delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent** on a dry weight basis.

Agriculture Improvement Act of 2018 (Farm Bill)

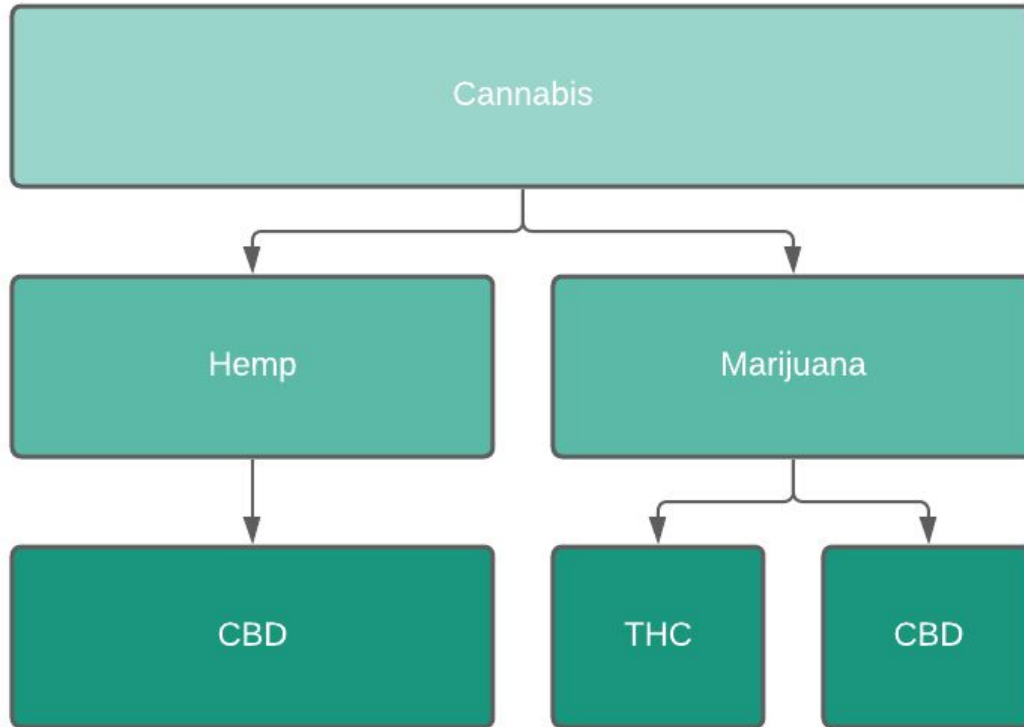
CBD & THC are chemical compounds in cannabis

Cannabidiol (CBD)

- FDA approved for the treatment of childhood epilepsy (*Epidiolex*)

Delta-9 Tetrahydrocannabinol (THC)

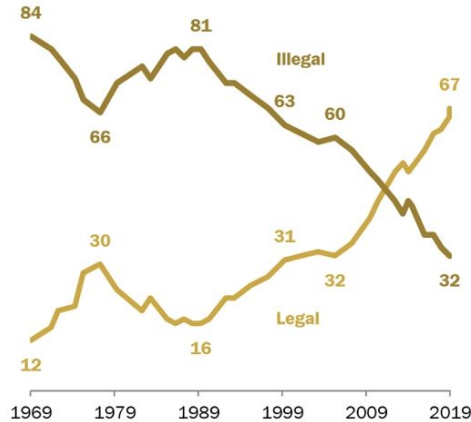
- Significantly psychoactive
- FDA Approved for the treatment of chemotherapy-induced nausea (*Dronabinol*)
- Schedule I Controlled Substance



Americans support marijuana legalization

U.S. public opinion on legalizing marijuana, 1969-2019

Do you think the use of marijuana should be made legal, or not? (%)

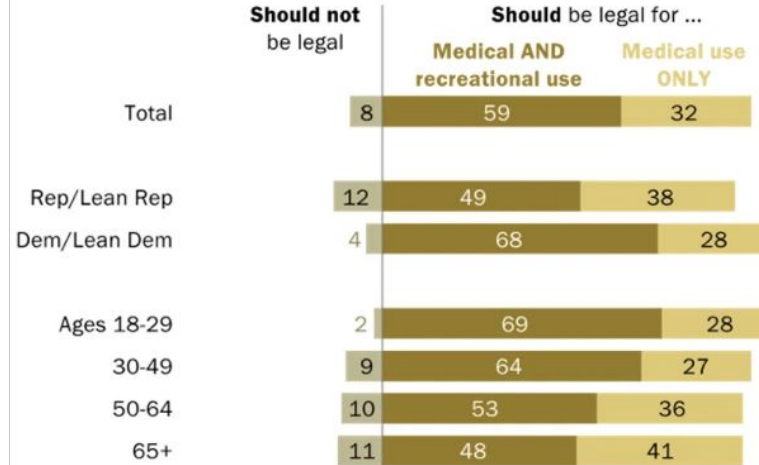


Note: No answer responses not shown. 2019 data from Pew Research Center's online American Trends Panel; prior data from telephone surveys. Data from 1969-1972 from Gallup; data from 1973-2008 from General Social Surveys.
Source: Survey of U.S. adults conducted Sept. 3-15, 2019.

PEW RESEARCH CENTER

Only about one-in-ten Americans oppose marijuana legalization for medical or recreational uses

% who say marijuana ...

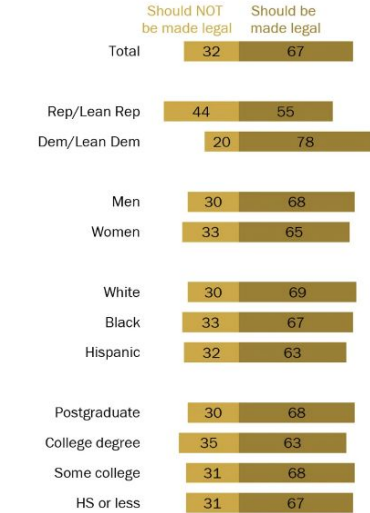


Note: No answer responses not shown.
Source: Survey of U.S. adults conducted Sept. 3-15, 2019.

PEW RESEARCH CENTER

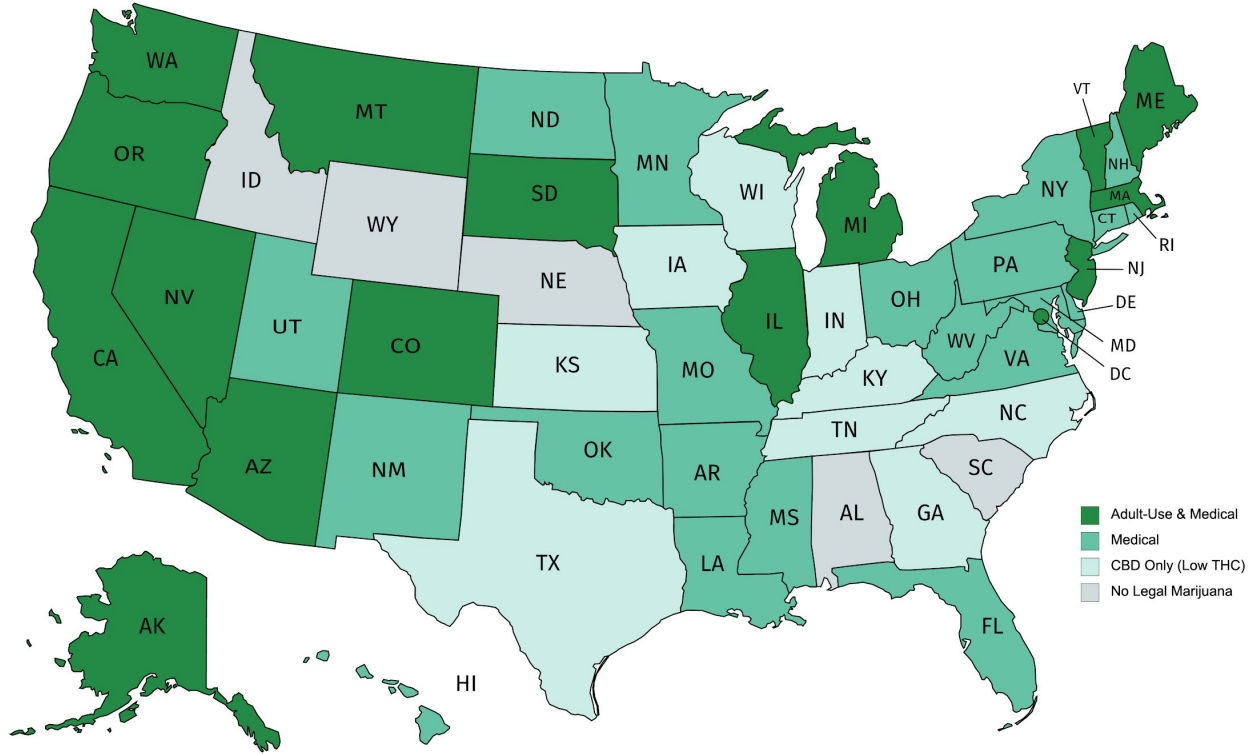
Wide partisan gap in opinions about legalizing marijuana use

% who say the use of marijuana ...

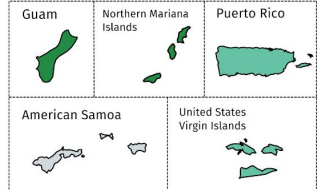


Note: Figures may not add to 100% because of rounding. Whites and blacks include only those who are not Hispanic; Hispanics are of any race. No answer responses not shown.
Source: Survey of U.S. adults conducted Sept. 3-15, 2019.

PEW RESEARCH CENTER



- Adult-Use & Medical
- Medical
- CBD Only (Low THC)
- No Legal Marijuana



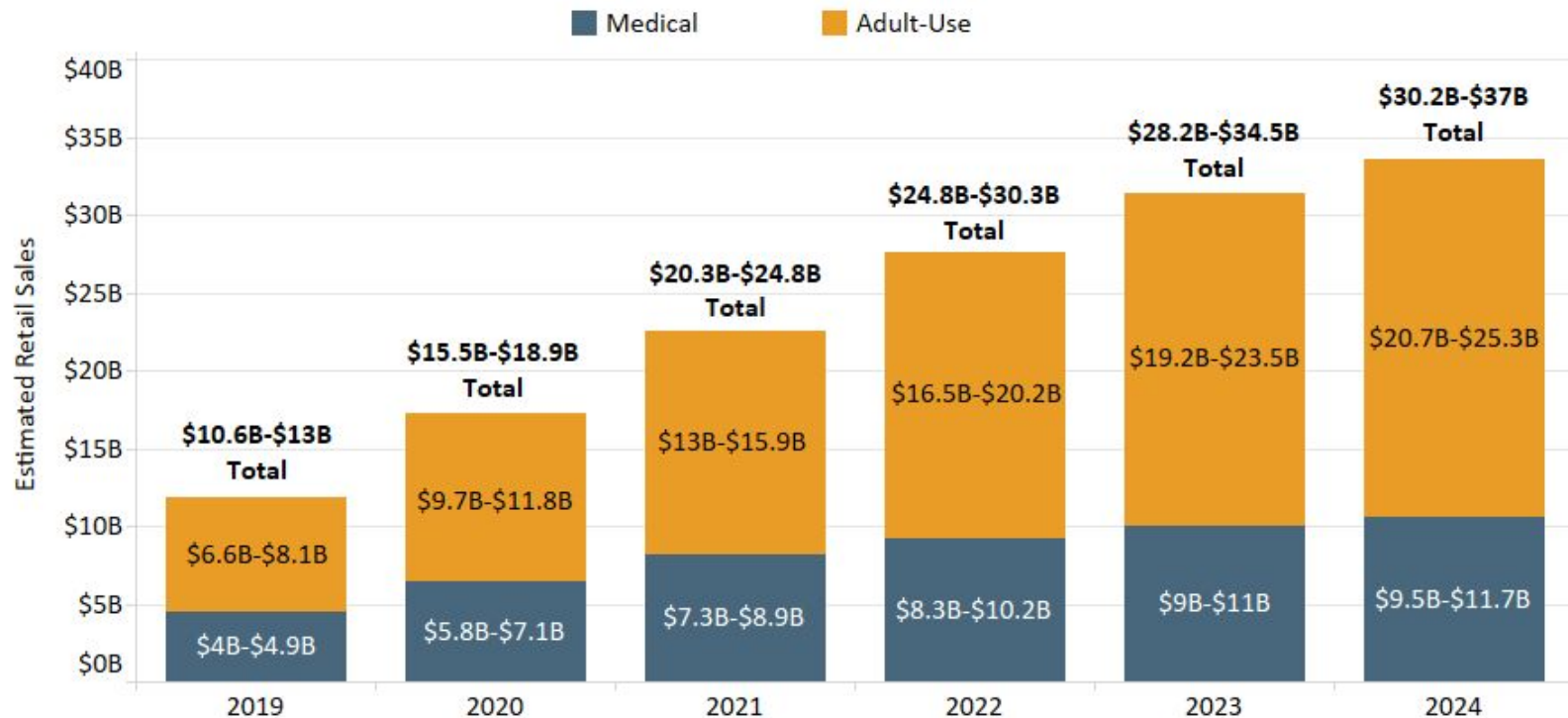
Legal status of cannabis 2021

Created with mapchart.net by Green Check Verified, January 2021



Chart of the Week

U.S. Cannabis Retail Sales Estimates: 2019 - 2024



Source: Marijuana Business Factbook

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Providing Financial Services to Cannabis-Related Businesses

Cannabis-Related Businesses (CRBs)

Marijuana-Related Businesses (MRBs)

Direct MRB (Medical / Adult Use)

A business licensed by the state's marijuana authority

Indirect MRB

A business that derives 51% or more revenue from a Direct MRB

Hemp-Related Businesses

Industrial HRB

A business licensed by the state or federal (USDA) hemp regulatory authority

CBD HRB

A business that derives its revenue from the extraction, production, or commercial distribution of CBD

Business challenges faced by MRBs Specifically

- MRBs are ineligible for Small Business Administration loans
- MRBs must often pay state and federal taxes in cash
- 26 U.S. Code § 280E: Expenditures in connection with the illegal sale of drugs
- Can not use most valuable assets (controlled substances) as loan collateral
- Can not seek bankruptcy protection per Office of US Trustees
- May not accept credit card payments processed on the Visa, Mastercard, and American Express networks
- Many armored transport services will not work with CRBs

BSA Expectations Regarding Marijuana-Related Businesses (FinCEN 2014)

Providing Financial Services to MRBs

“In general, the decision to open, close, or refuse any particular account or relationship should be made by each financial institution based on a number of factors specific to that institution. These factors may include its particular **business objectives**, an **evaluation of the risks** associated with offering a particular product or service, and its **capacity to manage those risks** effectively. Thorough customer due diligence is a critical aspect of making this assessment.”

“This FinCEN guidance should enhance the availability of financial services for, and the financial transparency of, marijuana-related businesses.”

Due Diligence Requirements (1/2)

- (i) verifying with the appropriate state authorities whether the business is duly licensed and registered;
- (ii) reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business;
- (iii) requesting from state licensing and enforcement authorities available information about the business and related parties;
- (iv) developing an understanding of the normal and expected activity for the business, including the types of products to be sold and the type of customers to be served (e.g., medical versus recreational customers);

Due Diligence Requirements (2/2)

- (v) ongoing monitoring of publicly available sources for adverse information about the business and related parties;
- (vi) ongoing monitoring for suspicious activity, including for any of the red flags described in this guidance; and
- (vii) refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk.

“With respect to information regarding state licensure obtained in connection with such customer due diligence, a financial institution may reasonably rely on the accuracy of information provided by state licensing authorities, where states make such information available.”

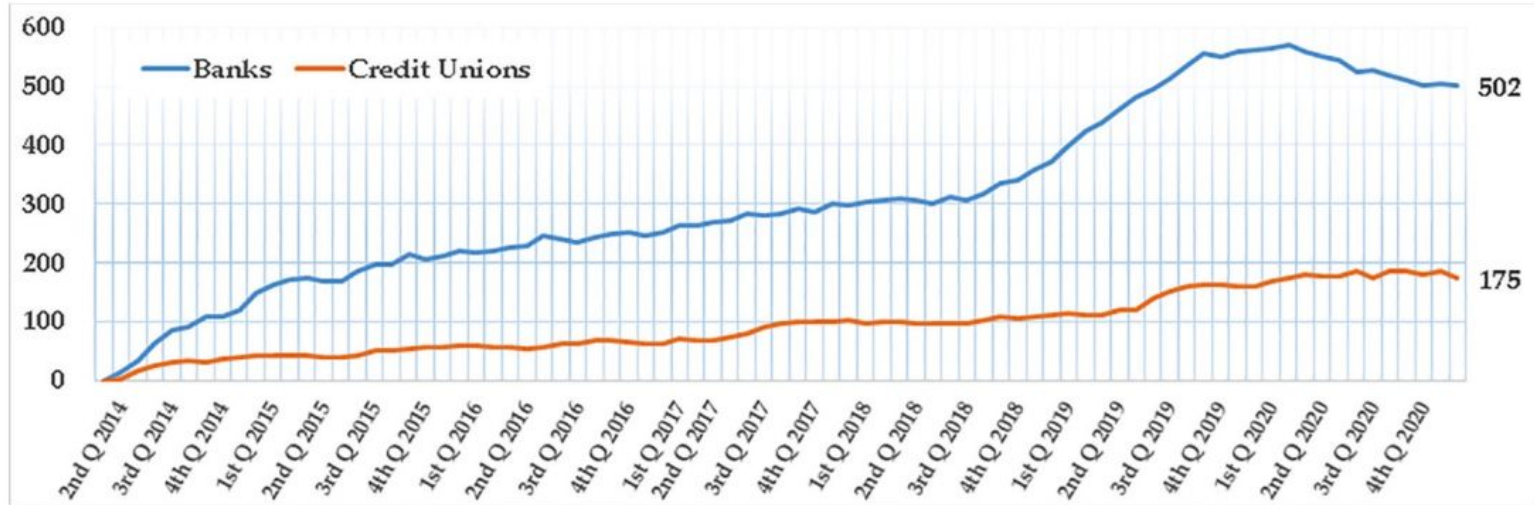
Marijuana Suspicious Activity Reports (SARs)

“a financial institution is required to file a SAR on activity involving a marijuana-related business (including those duly licensed under state law), in accordance with this guidance and FinCEN’s suspicious activity reporting requirements and related thresholds.”

- **Marijuana Limited**
 - No reason to believe the marijuana-related business is violating state law
- **Marijuana Priority**
 - Suspicion that the marijuana-related business is violating state law
- **Marijuana Termination**
 - Termination of a marijuana-related business account

Depository Institutions (by type) Providing Banking Services to Marijuana-Related Businesses¹

(SARs filed through 30 September 2020)



Hemp & CBD Regulatory Oversight

United States Department of Agriculture (USDA)

- Growing hemp
- Processing hemp
- Testing hemp for THC content

Food and Drug Administration (FDA)

- CBD in consumer products intended for:
 - Ingestion by humans and animals
 - Treatment of any medical condition

USDA Interim Final Rules for Hemp Production

- Hemp must be tested to make sure that its THC content does not exceed 0.3% (within a margin of error)
- **Growing “hot hemp” is not, in and of itself, tantamount to growing marijuana as long as the producer can demonstrate that it was unintentional.**
- States and Tribal governments have the option to develop their own hemp regulatory programs
- The USDA will audit licensed hemp producers in order to verify their physical location, the status of their license, and their commitment to producing cannabis with less than 0.3% THC
- The USDA will maintain a database of legal hemp activities and make it available to federal, state, and tribal law enforcement agencies
- Neither States nor Tribal governments may prohibit the transportation of legally-grown hemp through their territory

FDA's Position on CBD

“Despite the 2018 Farm Bill removing hemp – defined as cannabis and cannabis derivatives with very low concentrations (no more than 0.3% on a dry weight basis) of THC – from the definition of marijuana in the Controlled Substances Act, CBD products are still subject to the same laws and requirements as FDA-regulated products that contain any other substance. [...] **We are aware that there may be some products on the market that add CBD to a food or label CBD as a dietary supplement. Under federal law, it is illegal to market CBD this way.**

“What You Need to Know (And What We’re Working to Find Out) About Products Containing Cannabis or Cannabis-derived Compounds, Including CBD” 11/25/2019

**FinCEN Guidance
Regarding Due Diligence
Requirements under the
Bank Secrecy Act for
Hemp-Related Business
Customers
(FinCEN 2020)**

Hemp Due Diligence Requirements

- “Financial institutions should obtain basic identifying information about hemp-related businesses through the application of the financial institutions’ customer identification programs and risk-based CDD processes, including beneficial ownership collection and verification, as they would for all customers.”
- “confirm the hemp grower’s compliance with state, tribal government, or the USDA licensing requirements”
- “The extent to which a financial institution will seek additional information beyond the steps outlined above will depend on the financial institution’s assessment of the level of risk posed by each customer. Additional information might include crop inspection or testing reports, license renewals, updated attestations from the business, or correspondence with the state, tribal government, or USDA.”

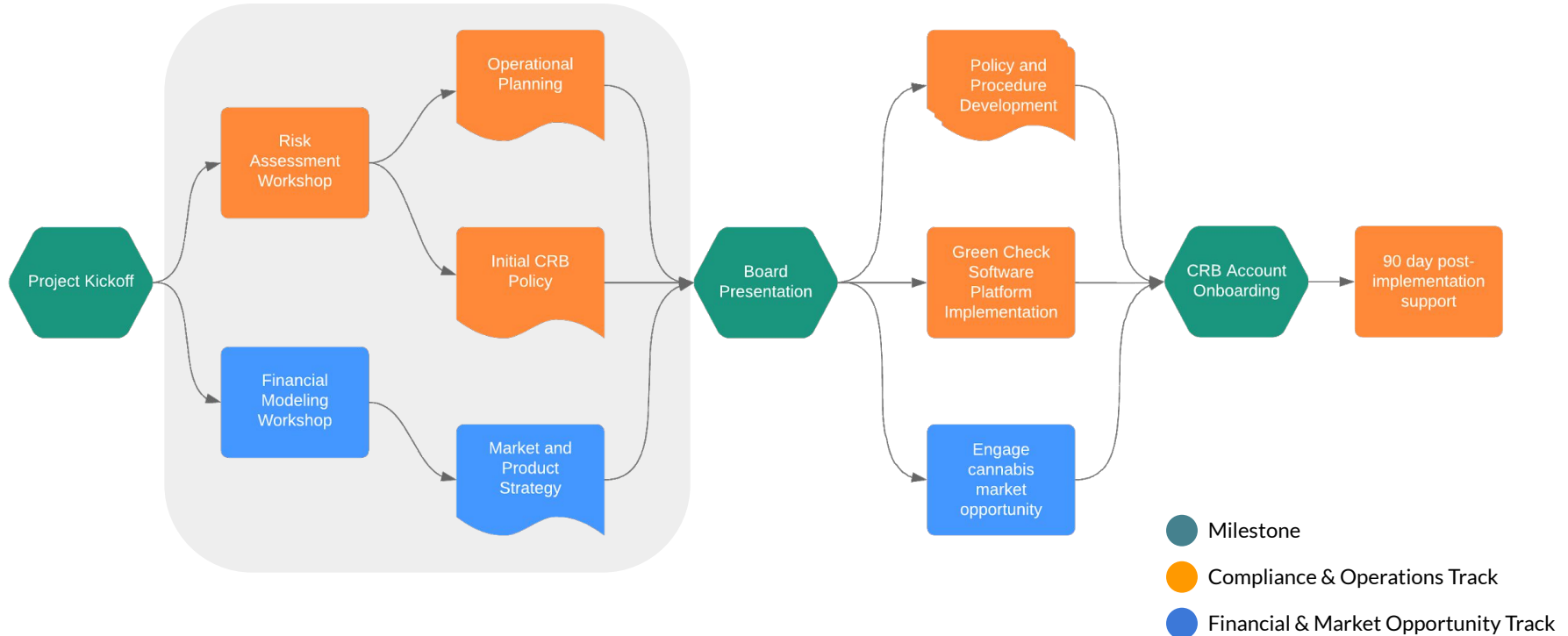
No Hemp Marijuana SAR Requirement

“... because hemp is no longer a Schedule I controlled substance under the CSA, financial institutions are not required to file a Suspicious Activity Report (SAR) on customers solely because they are engaged in the growth or cultivation of hemp in accordance with applicable laws and regulations”

Building Your Program

Module 2

Green Check's program development roadmap



Assessing Risk

Objective: Assess Risk

Assess readiness to bank cannabis before developing a cannabis banking program

Evaluate your existing controls environment as it applies to cannabis banking

Understand what controls will need to be in place in order to reduce risk and meet Examiner expectations

Review at least annually, and modify as your program changes

RA Case Study: Pennsylvania Credit Union

Basic information

- State Program: medical marijuana
- Federal Regulators: NCUA, FDIC
- Asset Size: \$500 million

Fees for current non-cannabis accounts:

- Business account: \$10/month with account analysis
- ACH and wire fees: \$25/each
- Lending rates: 3.85%

Using Green Check's Risk Assessment Tool

Financial Modeling

Objective: Financial Modeling

Review the cannabis banking opportunity in your market, and determine the pace in which best works for your institution

Determine what products and services you want to offer

Develop a pricing model based on your priorities

Forecast and track the performance of the cannabis banking program

Cannabis Banking Products, Services, and Fees

Deposit services

Operating Account

Online/Mobile banking

Electronic payments:

- ACH Origination
- Bill Pay
- EFTPS

Wires

Positive Pay

Line of Credit, fixed term loans

Employee accounts

Financial Model Case Study: Michigan Bank

Basic information

- State Program: medical and adult-use
- Federal Regulator(s): FDIC
- Asset Size: \$345 million

Fees for current non-cannabis accounts:

- Business account: \$15/month with account analysis
- ACH and wire fees: \$25/each
- Lending rates: 3.75%

Using Green Check's Financial Modeling Tool

Program Costs and Staffing Considerations

Manual Program

- Collecting documentation through fax, email, etc
- Review documentation, record review and approval
- Set calendar invites to review licenses
- Receive daily transaction spreadsheets to compare and record legal sales to deposits
- Manually filling out SARs and staying on top of ongoing reports
- Tracking program performance in multiple spreadsheets with complex pivot tables, etc
- Expensive ongoing training requirements

Automation

- CRB uploads all documents securely through web-based portal
- Workflows for:
 - Reviewing documentation and approval audit trail
 - Reconciling incoming deposits to sales
 - FinCEN Reporting (CTRs and SARs)
- Automatic transaction verification against state compliance rules
- Account Monitoring
 - 360 insight into program performance
 - Board reporting

Getting Your Board on Board

What to bring:

- Risk Assessment
- Financial Model
- Products and Services list and Pricing
- Cannabis Banking Policy

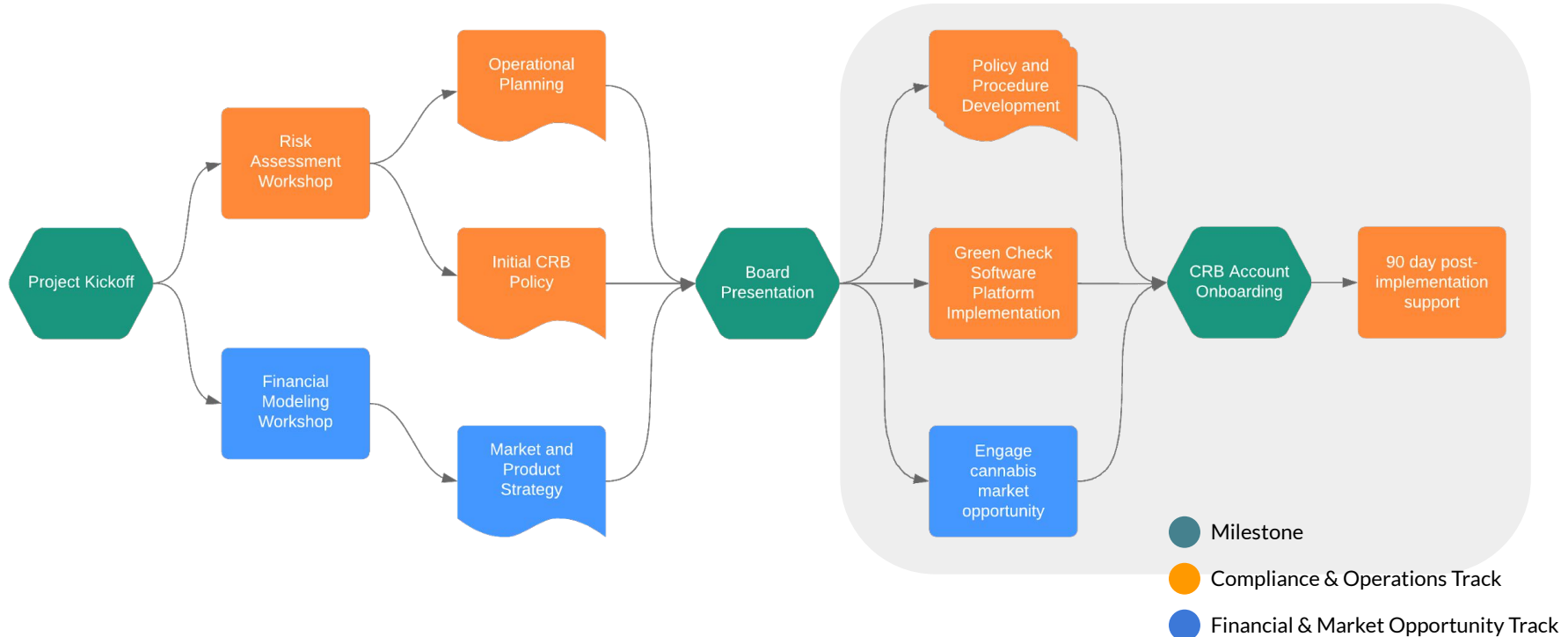
What to anticipate:

- “It’s federally illegal and we don’t want to lose our charter.”
- “Our existing customers/members will be upset and leave.”
- “Does the possible reward outweigh the immediate risk?”

Running a Compliant Program

Module 3

Green Check's program development roadmap



Engaging the market

What makes a “good” CRB?

- Transparent and responsive to document requests
- Site visit
- Understand the licensing requirements in your state

Find the CRBs you want to work with

- Word of mouth
- Engage industry associations
- Reach out to ancillary service providers (accountants, lawyers, plumbers, etc)
- Green Check

Three Major Workflows

Onboarding

- Enhanced due diligence requirements
- Know your state's program

Transaction Verification

- Verifying that every dollar is the result of a state-legal sale

FinCEN Reporting

- Ongoing Marijuana Limited SARs at account opening and every 90 days

Ongoing monitoring

Quarterly account reviews

Measure CRB performance against peer group

Look for unusual transactions

Set up news alerts and follow industry media

Don't forget your existing transaction monitoring software

Examiner Feedback and Recommendations

“Not Banking” cannabis is no longer an option in any state with a legal program

You must be able to demonstrate that every dollar is the result of a state-legal sale

Managing a program manually is no longer sufficient

Be ready to explain how you’re only banking “good” and compliant CRBs

Demonstrate that you can detect existing accounts that have not disclosed their involvement in the cannabis industry

You need to show that you’re able to leave the line of business if necessary

What's next?

What you can expect following this session

Email from Green Check that includes:

- Your certificate of participation
- Access to session recording
- Links to supplemental resource documents like:
 - Presentation slides
 - Risk Assessment sample questions
 - Financial model Board summary PDF
 - Cannabis banking policy template

Optional: Special Topics

What to expect in 2021

Legislation that passed the House in 2020

Marijuana Opportunity Reinvestment and Expungement (**MORE**) Act (S 2227)

- Decriminalization and federal taxation of cannabis as well as expungement of criminal records related to minor marijuana offenses

Secure and Fair Enforcement of Banking (**SAFE**) Act of 2019 (HR 1595)

- “A federal regulator cannot... prohibit, penalize, or otherwise discourage a depository institution from providing financial services to a cannabis-related legitimate business”

Medical Marijuana Research Act (HR 3797)

- “To amend the Controlled Substances Act to make marijuana accessible for use by qualified marijuana researchers for medical purposes, and for other purposes.”

The Biden Administration

- **President Joe Biden**
 - “we should just study it and decriminalize it”
- **Vice-President Kamala Harris**
 - Introduced MORE Act and co-sponsored the SAFE Banking Act
- **Xavier Becerra, Department of Health and Human Services**
 - “we’ve realized it’s better to regulate than criminalize marijuana use”
 - cosigned a letter from 17 AGs urging Congress to pass the SAFE Act
- **Senate Majority Leader Chuck Schumer**
 - Introduced the Marijuana Freedom and Opportunity Act (S. 1552) to decriminalize marijuana

COVID-19 Impact

- Marijuana businesses were designated essential and stayed open during quarantine
- Overall marijuana sales remained strong, particularly in medical programs
- Marijuana businesses did/do not have access to PPP loans
- Social distancing and public health restrictions led to an increase in order-ahead and curbside pickup

State trends to follow

- Legislators see marijuana businesses as potential sources for badly-needed tax revenue
- More states will implement adult-use programs
- States will continue to look into ways to boost social equity opportunities
- States with limited CBD-only programs for epilepsy will transition into full medical marijuana programs

Thank you!