

The Value of Cannabis Banking

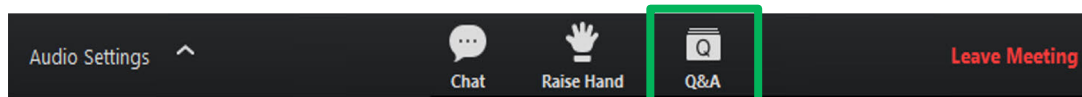
October 6, 2020



Housekeeping Items

- 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 [insert email here]

Today's Agenda

- How to Safely Bank Cannabis
- Sample Financial Model Walk Through
- Q&A

Today's Hosts



Jen Saylor

Banking Operations & Compliance

Green Check Verified



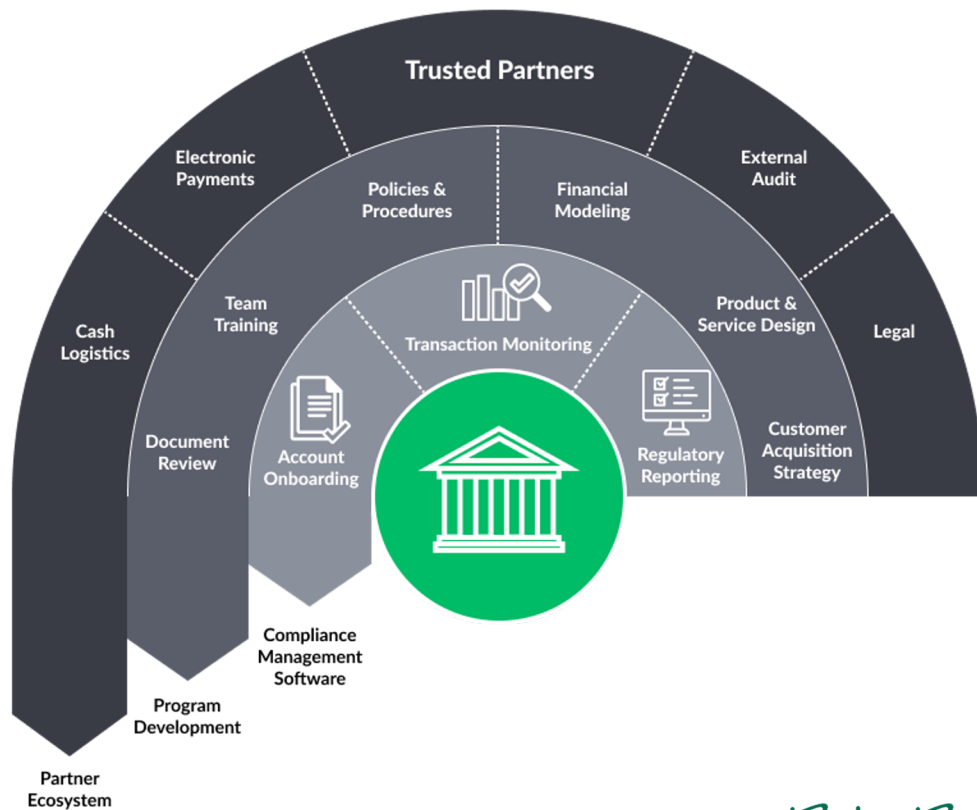
Ruth Razook

Founder & CEO

RLR Management Consulting Inc

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.



About RLR Management Consulting

Founded in 1988, RLR Management Consulting (RLR) is the industry's longest tenured full-service, nationwide consulting firm servicing commercial banks in four primary categories: Technology, Regulatory Compliance, Operations and M&A.

A trusted consultancy, RLR's clientele includes De Novo banks and multi-million dollar financial services companies, as well as local Community Banks to mid-sized Regional banks.

With offices in Reno, NV and Palm Desert, CA, RLR has nearly two dozen professionals servicing our clients. We differentiate ourselves through a collaborative and hands-on approach that incorporates knowledge transfer and stakeholder involvement and through management and line experience that our consultants offer to our clients.

Where We Are Today?

Marijuana is classified as a Schedule 1 substance under the Controlled Substances Act of 1970 and is federally illegal

The Agriculture Improvement Act of 2018 (“2018 Farm Bill”) removed Hemp as a Schedule 1 Controlled Substance

CBD can be derived from either Hemp or Marijuana. Hemp derived CBD Oil is legal; Marijuana derived CBD oil is not

Confused Yet???

Key Definitions

- Marijuana, Hemp and CBD are all considered “cannabis”; however they are NOT the same:
 - Marijuana – Has more than .3% of THC; is Psychoactive and has both recreational and medicinal uses
 - Hemp – Has less than .3% of THC; is Non-Psychoactive and has industrial uses
 - CBD – Most commonly has no THC and is Non-Psychoactive; unless it is derived from marijuana, then it can be Psychoactive

Key Definitions (con't)

- Marijuana
 - Federally illegal
 - 33 states (and D.C.) have legal medical marijuana
 - 11 states (and D.C.) have legal recreational marijuana
 - 15 states have decriminalized marijuana

- Hemp
 - Federally legal
 - 2018 Farm Bill legalized Hemp production
 - 46 states have legalized Hemp production
 - Full implementation of 2018 Farm Bill will take years

Key Definitions (con't)

- CBD
 - Legality depends on how CBD is derived:
 - If Marijuana-derived, illegal at Federal level
 - If Hemp-derived legal at Federal Level
- 17 states have legalized low-THC CBD

FACT

If you are doing business in a state that has either medical or recreational marijuana, you are more than likely banking cannabis

How Do I Know?

- Ask the question!
 - Does your business sell, grow, produce or transport any type of cannabis related products?
 - Does your business provide any type of product or service to a CRB?
- Request business website address as part of new account opening (and renewal) process and check the website!

What Do I Need to Do?

- Understand the state and local cannabis laws
- There are no Federal laws as of yet!
 - The "Secure and Fair Enforcement Act of 2019," a.k.a. the "SAFE Banking Act," would allow legally operating cannabis businesses to have the same legal access to banks, loans, and deposit protections as other legal businesses.
 - The Act passed the House last September, however, it has stalled in the Senate.
- Decide if you are going to bank CRBs
 - If yes, determine the CDD/EDD processes that you need to implement
 - If no, define what steps the Bank will take to monitor for potential cannabis money in the Bank
- Determine if you will differentiate between Marijuana, Hemp and CBD
- Build your program

Where Do I Start?

- Define what a “MRB/CRB” is
- You can’t decide what you are going to do with them, unless you know who and what they are
- There is a common definition to help you:

Tier I

Tier I CRBs are defined as those directly in contact with cannabis. This would include growers, manufacturers, processors, testing facilities, distributors, dispensaries, etc. These clients are required to be licensed in the state of California and must be utilizing the State’s “Seed to Sale” software

Where Do I Start?

Tier II

Tier II CRBs are defined as those who specifically provide products and services to Tier I CRBs and the industry in general. Tier II CRBs revenue may reasonably be expected to come from Tier I CRBs and cannabis related activity. This would include licensing consultants, packaging supplies, advertising and public relations, cannabis software, industry associations, etc. These clients are typically not required to hold a license specifically related to a CRB

Tier III

Tier III CRBs are defined as those who are not specifically focused on providing products and services to Tier I CRBs and the industry. Selling to Tier I CRBs is incidental to a Tier III CRBs overall business and revenue. They may include professional services firms (accountants, attorneys, etc.), and commercial property owners

Develop Your Policy

- Policy can be stand alone or an enhancement to your BSA Policy
- If you are not planning to bank CRBs, make sure you state that you are not “knowingly” banking CRBs
- If you are going to bank CRBs, state very clearly what your policy is, who your customers will be and what products and services you will offer CRBs

Your Policy

- Customer Due Diligence
 - At account opening
 - Ongoing monitoring
- Identify how to assess the risk of doing business with CRBs
- Include Cole Memo Priorities
- Identify the Red Flags to distinguish type of SAR
- Discuss how you will file SARs for CRBs
- Include staff awareness and training (to include the Board)
- Include reporting to the board
- Talk about the risk assessment

Ongoing Monitoring

- Ask the question!
 - Ask direct, clear questions – “How much of your revenue do you derive from businesses that grow, harvest, transport, process or sell marijuana/cannabis or related products?”
- If you bank MRBs/CRBs, keep current on licenses and individuals associated with the licenses
- Smell the money!
 - Money that spends time around marijuana smells like marijuana

Ongoing Monitoring (con't)

- Check transactions (Wires, ACH, Checks) made out to companies with unusual names
- Track the cash
 - Especially in certain locations where you know marijuana/cannabis is grown, processed and distributed
- File SARs
- De-Risk
 - Be prepared and have a plan to exit the relationship

Measuring the Opportunity

Market Size

Understand the market size, trends and dynamics within your geographical footprint. Determine a realistic market share based on your goals.

Revenue Streams

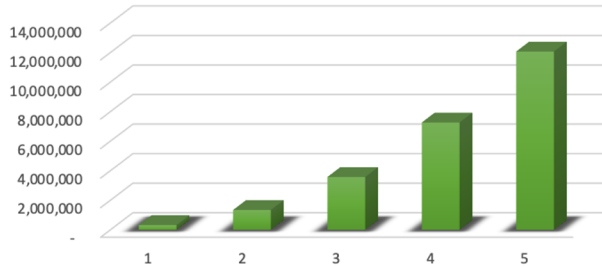
Identify the products and services that are in demand in your market. Learn how to structure your fees and how much to charge.

Overall Impact

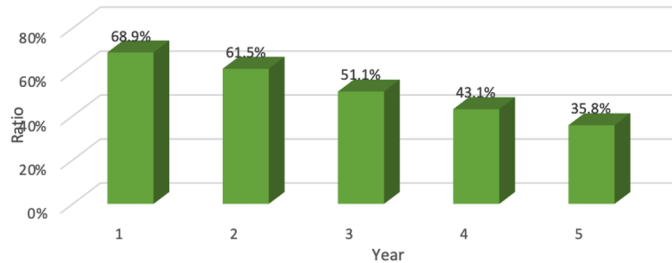
Calculate the impact a cannabis banking program will have on your financials. Get clear on how your program can help you reach your goals.

Planning for Success

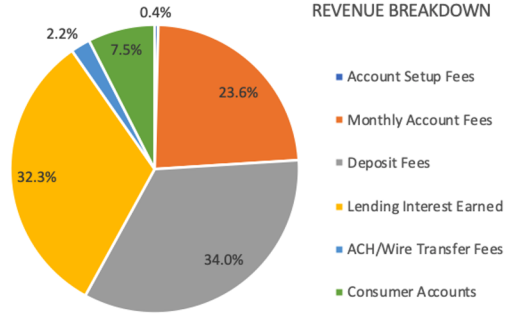
REVENUE GROWTH



EFFICIENCY RATIO



REVENUE BREAKDOWN



Using your current financials, we can help you answer:

- What is the size of my market?
- What percentage market share can I capture?
- What are my potential revenue streams?
- What is the expected average account balance?
- What are my program costs?

Live Demo

Questions?

Q&A

Follow Up

Schedule a Financial Modeling Workshop

Using the methodology presented during today's session, one of Green Check's financial analysts will walk you through a financial model with your bank's specific facts and figures.

Visit greencheckverified.com/cannabis-banking-financial-modeling

Book a Regulatory Consultation

Want to learn more about how you can safely bank cannabis? Please reach out to RLR Management Consulting and they would be happy to offer guidance and advice tailored to your bank.

Contact ruth.razook@rlrmgmt.com

Thank You!

Let's keep the conversation
going



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