

Cannabis In Banking - Waiting For Legal Changes

by [Steve Brown](#)

The Colorado Symphony has just announced a new summer concert series called "Classically Cannabis: The High Note Series". These are orchestra concerts in an outdoor space that cater to recreational pot users. Attendees need to bring their own pot, but there will be food and a hosted bar along with music. We wonder given the public nature of this notification, whether the Colorado Symphony can deposit its ticket proceeds from the concert into their bank account though and what problems will surface for those banks that take such deposits.

It's been a tricky path for the marijuana industry in the two states that have legalized recreational use. In the states where medicinal use is allowed and the two who have legalized it for recreational use, businesses have struggled with financial services because the laws on the Federal level that prohibit marijuana remain in place. Banks are prohibited from accepting funds that come from a business engaged in illegal trade, and since marijuana is still illegal federally, banks risk penalties even from doing business with legal state stores.

The result had been that the marijuana business owners have to do all their business in cash. There is a lot of money involved so this increases personal safety risk. Colorado alone reported \$2mm in Jan tax revenue from \$14mm total sales. While once could argue there was probably more activity the first month with the newness of the law, this is a substantial amount of cash flow that has to go somewhere. With this much tax revenue at stake, clearly state tax authorities would like a better paper trail than can exist in an industry that operates strictly using cash.

In Feb, the Treasury and the Justice Department issued guidance that allows banks to provide financial services to marijuana related businesses - as long as they make regular reports to the Treasury Department and watch for suspicious activity. Bankers remain very leery of doing anything though because even a minor mistake can have huge consequences. For their part, JP Morgan and Wells Fargo have existing policies not to provide banking services to marijuana businesses, but a spokesman for Wells said they are "reviewing the guidance". As far as we are aware, no bank is jumping feet first into this business because the risks are just too open ended and the crackdown may be too severe. Until actual laws are changed, banks could still be open to prosecution, so few if any will take that unquantifiable risk.

At the national level, a bill was introduced in Congress called the Marijuana Business Access to Banking Bill. It has been referred to committee, but it is estimated to have a 1% chance of being enacted by govtrack, so we aren't holding our breath.

At the state level, the Colorado state legislature tried to take action, introducing a bill to create a financial co-operative similar to a credit union that could take care of the financial needs of the industry. The bill was tabled pending further review.

We think it is probably too early for community banks with connections to the legitimate pot industry to go down this path given all the vagaries, but we do think it could ultimately offer opportunity for some, as the biggest banks that operate in multiple states are likely to be slow to open their doors. As

with any new regulatory guidance though, banks should be certain to create airtight policies and procedures and carefully document compliance before proceeding. In six months or perhaps a year, it may all be routine, but for now, this opportunity probably carries too much risk to make it work for community banks.

BANK NEWS

M&A

Community Savings Bank (\$43mm, OH) will acquire The Home Building and Loan Company (\$38mm, OH) for an undisclosed sum.

M&A

Bank of North Carolina (\$3.2B, NC) will acquire Harbor National Bank (\$306mm, SC) for about \$50.6mm in stock.

Forced Lending

The European Central Bank (ECB) cut the rate it pays banks that leave deposits with the central bank (similar to EBA at the Fed) to minus 0.1% in a move to boost lending activity. The ECB also offered a package of stimulus measures that include long term lending at low rates through 2018. The ECB is concerned deflation may be coming, so it took this aggressive action.

Securities Layoffs

Research firm Coalition reports large banks in Q1 saw revenue from fixed income activities (as well as currencies and commodities) tank 37% from Q1 2010. Experts say securities firms are likely to lay off large amounts of staff in coming quarters as they cut costs to adjust to the new reality of higher capital requirements and lower profitability. UBS has already announced it will close its fixed income business and lay off 10,000 employees.

Cost Cuts

In an effort to reduce expenses given sluggish conditions, U.S. Bank announced they have frozen all new hiring, cut nonessential travel and told employees in a technology unit they will have to take 1 week off without pay.

Powerful

NCR has announced its Interactive Banker kiosks that can reportedly do 90% of typical branch transactions and an additional software install for tablets that gives employees more flexibility to roam around the branch to do transactions.

Efficiency Layoffs

The CFO of Fifth Third Bank reported at a conference that the rollout of high-tech kiosks at its branches over the past 15 months has allowed the bank to cut 1,000 jobs (about 19% of retail banking employees).

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