

# Cannabis Banking Part 2: Should I do it?

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Presented by:



# Introductions

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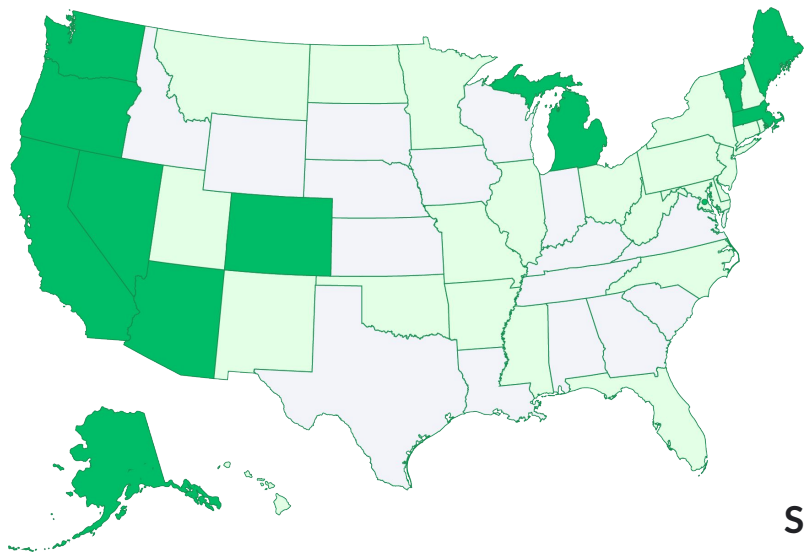
# Agenda

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- I. Framing the question
- II. Decision making process
- III. Case studies
- IV. Financial modeling

# The State of Cannabis

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Legal in **33** states



**12,000+** licensed cannabis businesses



**\$13b** in sales (2019 proj.)



**Strong industry support** for banking solution



# Who is Green Check?

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# Regulatory Landscape



- 2009: Ogden Memo
- 2013: Cole Memo
- 2014: FinCEN guidance
- 2014: FinCEN response to Feinstein-Grassley
- 2014: Rohrabacher-Farr/Blumenauer Amendment
- 2018: Post Cole Memo Guidance

Customer Identification

Enhanced Due Diligence

Beneficial Ownership

# Cannabis Banking

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Every institution has to decide whether or not they **SHOULD** bank cannabis



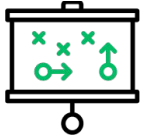
Cannabis related businesses (CRBs) are  
in need of banking services



Financial institutions can grow with the  
cannabis industry

# Decision Making Processes

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**Strategic Goals**



**Operational Factors**



**Financial Opportunity**



# Strategic Goals

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- New customer segment
- Community impact
- Retaining existing customers

# Operational Factors

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- Current compliance/BSA expertise
- Current risk exposure
- Existing commercial account activity
- Product and service mix
- Deposit ops, treasury management, and key vendor relationships

# Financial Opportunity

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- Deposit growth
  - Cost of current deposits
  - Target ratios
  - ROA
- Non interest fee revenue
- Lifetime value of commercial accounts
  - Upsell / expansion opportunities
  - Customer loyalty and retention



# Cannabis Banking 1.0

Framing the question

Decision making process

Case Studies

Financial modeling



# Case Studies

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1. **Severn Bancorp (\$881m, MD)**
2. **Parke Bancorp, Inc. (\$1.56b, NJ)**
3. **Timberland Bancorp, Inc (\$1.2b, WA)**

# Severn Bancorp

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- Deposit balances: \$17m (2.7% of total)
- Loan balances: \$14.1m (2.1% of total)
- Interest income: \$720k (2.5% of total)
- Noninterest income: \$1.4m (16% of total)

# Park Bancorp, Inc.

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- Deposit balances: \$253.8m (21.4% of total)
- Loan balances: \$1m (<1% of total)
- Interest income: \$50k (<1% of total)
- Noninterest income: Not disclosed

# Timberland Bancorp, Inc.

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- Deposit balances: \$22.52m (2.5% of total)
- Loan balances: Not disclosed/applicable
- Interest income: Not disclosed/applicable
- Noninterest income: Not disclosed



# Cannabis Banking 1.0

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**The Boston Globe** *“There are a lot of costs and it’s very labor-intensive,”*

*“[the program] — which employs numerous workers to manually monitor every deposit and generate reports for federal regulators — is not yet profitable..”*

**AP** ASSOCIATED PRESS

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*“When you ask me why banking is expensive — what you are really paying for are all the bodies it takes...”*

**The Washington Post**

*“Each day, dispensaries must email the bank detailed daily financial and inventory logs”*



# Cannabis Banking Financial Model

Framing the question

Decision making process

Case Studies

Financial modeling



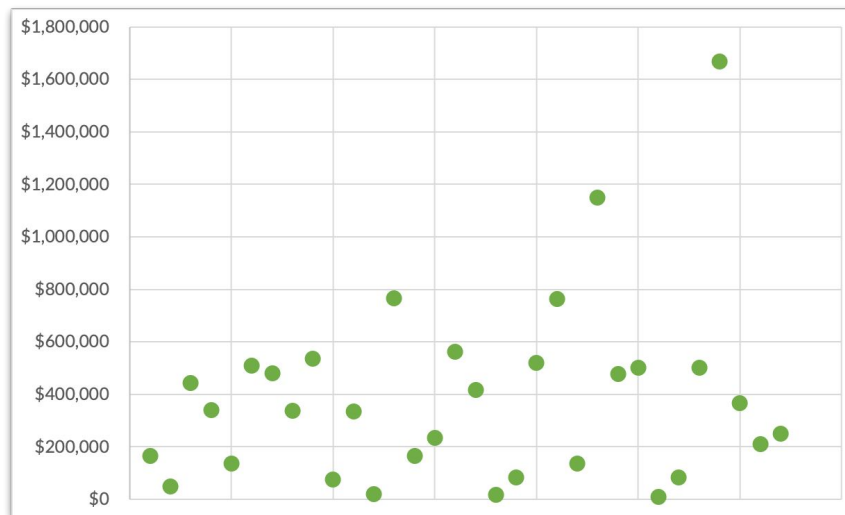
# Market Dynamics

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- Medical vs. recreational
- Dispensaries vs. growers/manufacturers vs. ancillary
- Geographic restrictions
- Regulatory requirements
- Account fees
- Deposit volume/velocity

# Framing the Opportunity

- Analysis of 33 state programs:
  - Average annual sales: \$392,750,000
  - Average # of dispensaries: 183
  - Average monthly sales/dispensary: \$384,266



# Pro Forma - Year 1

## Assumptions

**Monthly Sales:** \$384,266  
**Initial Deposit:** \$100,000

**Monthly Deposits:** 90% of sales  
**Deposit Retention:** 15%

**Deposit Fee:** 1%  
**Account Opening Fee:** \$1,500

**Fixed Overhead:** \$200/month (travel)  
**FTE Spend:** \$4,382/10 accounts

# Pro Forma - Year 1

## Assumptions

Monthly Sales: \$384,266  
Initial Deposit: \$100,000

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Fixed Overhead: \$200/month (travel)  
FTE Spend: \$4,382/10 accounts

	Q1	Q2	Q3	Q4	Total
New Customers	3				3
Total Customers	3				3
Deposit Activity	\$3,412,556				\$3,412,556
Deposit Balances	\$511,883				\$511,883
Deposit Fee Income	\$34,126				\$34,126
Account Opening Fee Income	\$4,500				\$4,500
Overhead	(\$4,544)				(\$4,544)
Gross Profit (Loss)	\$34,082				\$34,082

# Pro Forma - Year 1

## Assumptions

Monthly Sales: \$384,266  
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Fixed Overhead: \$200/month (travel)  
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	Q1	Q2	Q3	Q4	Total
New Customers	3	6			9
Total Customers	3	9			9
Deposit Activity	\$3,412,556	\$9,937,669			\$13,350,225
Deposit Balances	\$511,883	\$1,490,650			\$2,002,533
Deposit Fee Income	\$34,126	\$99,377			\$133,503
Account Opening Fee Income	\$4,500	\$9,000			\$13,500
Overhead	(\$4,544)	(\$12,431)			(\$16,975)
Gross Profit (Loss)	\$34,082	\$95,945			\$130,027

# Pro Forma - Year 1

## Assumptions

Monthly Sales: \$384,266  
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Monthly Deposits: 90% of sales  
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Deposit Fee: 1%  
Account Opening Fee: \$1,500

Fixed Overhead: \$200/month (travel)  
FTE Spend: \$4,382/10 accounts

	Q1	Q2	Q3	Q4	Total
New Customers	3	6	12		21
Total Customers	3	9	21		21
Deposit Activity	\$3,412,556	\$9,937,669	\$22,987,893		\$ 36,338,1187
Deposit Balances	\$511,883	\$1,490,650	\$3,448,184		\$ 5,450,717
Deposit Fee Income	\$34,126	\$99,377	\$229,879		\$363,3822
Account Opening Fee Income	\$4,500	\$9,000	\$18,000		\$31,500
Overhead	(\$4,544)	(\$12,431)	(\$28,207)		(\$45,182)
Gross Profit (Loss)	\$34,082	\$95,945	\$219,672		\$349,699



# Pro Forma - Year 1

## Assumptions

Monthly Sales: \$384,266  
Initial Deposit: \$100,000

Monthly Deposits: 90% of sales  
Deposit Retention: 15%

Deposit Fee: 1%  
Account Opening Fee: \$1,500

Fixed Overhead: \$200/month (travel)  
FTE Spend: \$4,382/10 accounts

	Q1	Q2	Q3	Q4	Total
New Customers	3	6	12	12	33
Total Customers	3	9	21	33	33
Deposit Activity	\$3,412,556	\$9,937,669	\$22,987,893	\$35,438,118	\$ 71,776,237
Deposit Balances	\$511,883	\$1,490,650	\$3,448,184	\$5,315,718	\$ 10,766,436
Deposit Fee Income	\$34,126	\$99,377	\$229,879	\$354,381	\$717,762
Account Opening Fee Income	\$4,500	\$9,000	\$18,000	\$18,000	\$49,500
Overhead	(\$4,544)	(\$12,431)	(\$28,207)	(\$43,982)	(\$89,164)
Gross Profit (Loss)	\$34,082	\$95,945	\$219,672	\$328,399	\$678,099

# Recap

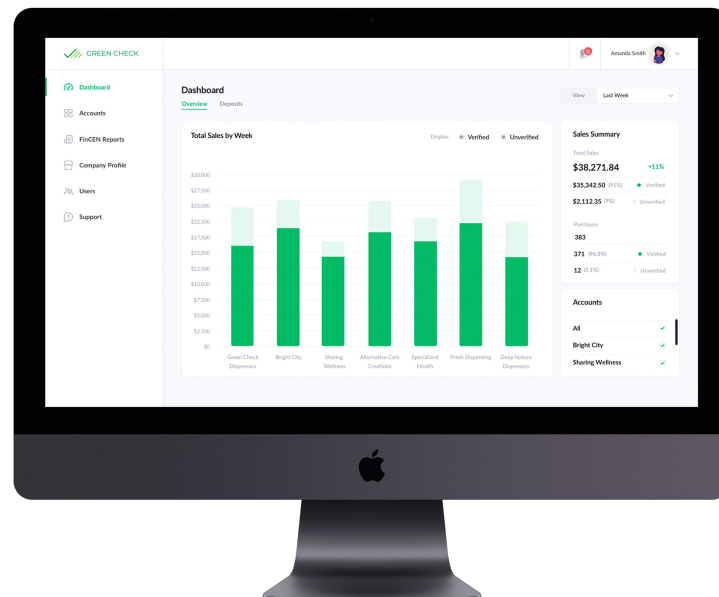
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- Decision making involves multiple factors
- Treat it as its own line of business
- Take the time to properly plan and project outcomes
- **Cannabis banking fuels growth and community impact**

# How We Can Help

Green Check is a software solution that provides financial institutions with the tools they need to run a compliant cannabis banking program

- Financial modeling workshop
- Cannabis banking readiness assessment
- Consultative program development



# Questions

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# Up Next

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## Cannabis Banking Part 3: How Do I Do It?

Tuesday, September 10, 2019 12pm EST

### Learn how to:

- Develop adequate policy and procedure coverage
- Create a robust oversight program that withstands examiner scrutiny
- Leverage data and automation to reduce risk and ensure profitability



# Thank you!

Reach out to us to learn more about cannabis banking.

[www.greencheckverified.com](http://www.greencheckverified.com)

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