

Issues & Answers



November 2021

Control What You Can; Influence What You Can't



*By Glen Simecek,
President and CEO,
Washington Bankers
Association*

There's an old Yiddish saying: "Man plans; God laughs."

If ever we needed a stark reminder of the elements of our

lives – personal or business – that we simply can't control, we've gotten it over the last 18 months. The COVID pandemic has thrown us more curveballs than an aging pitcher hoping to stay on the mound for just a few more innings.

When it comes to banking, one virtually uncontrollable element is the impact that governments – federal, state, and local – have on how we operate. Regulations, taxes, and even seemingly mundane issues like zoning

codes and building permits all can play an outsized role in how we serve our customers and whether we can do so profitably.

So, what is our response when faced with these outside forces we can't control? Do we throw up our hands and simply accept whatever comes our way?

I don't think that's the correct response, and I don't believe WBA members do, either. Just because we couldn't control the mutations or the spread of COVID-19 doesn't mean that we sat idly by without taking precautions to protect ourselves, our coworkers, and our loved ones. Similarly, the fact that we can't wholly control any governmental process's outcome shouldn't force us to the sidelines. Instead, we have to engage strategically to exert as much influence as we can on those decisions.

That's what we did when WBA became the

In This Issue

- Page 1** President's Message
- Page 3** U.S. House Financial Services Committee Update
Events Calendar
- Page 4** Plan to Attend 2022 Conferences
Industry News
- Page 5** WBA Member News
- Page 8** Solving the Great FICA Mystery
- Page 9** Top 5 Myths about Cannabis-Related Businesses

Continued on page 2



Issues & Answers – November 2021

The official publication of the Washington Bankers Association is sponsored by Harland Clarke and WBA Professional Services

WBA Staff

Glen Simecek, President & CEO
(206) 447-1700,
glen@wabankers.com

Liz Wilson, EVP & Chief Operating Officer
(206) 344-3495,
liz@wabankers.com

Kyle Hayden, Controller
(206) 344-3476,
kyle@wabankers.com

Katherine Nyerick, Director of Education
(206) 344-3484,
katherine@wabankers.com

Duncan Taylor, SVP, Programs & Member Services
(206) 344-3492,
duncan@wabankers.com

Sherry Krainick, Operations & Education Manager
(206) 447-1700,
sherry@wabankers.com

Megan Managan, Director of Communications & Government Relations
(206) 344-3472,
megan@wabankers.com

2021-2022 Board of

Directors

Chair: Joe Kiley, President & CEO, First Financial Northwest Bank

ABA GR Committee Representative: Mark Mason, President & CEO, HomeStreet Bank

Immediate Past Chair: Jon Jones, CEO, Washington Business Bank

Secretary/Treasurer: Brent Beardall, President & CEO, WaFd Bank

Education Committee Chair: Matt Deines, President & CEO, First Federal

WBA PROS Chair: Ken Johnson, EVP/Operations, Banner Bank

ABA Community Bank Council Rep: Eric Pearson, President & CEO, Community First Bank

Directors

Jay Coleman, SVP & Regional Credit Officer, KeyBank

Jack Heath, President & COO, Washington Trust Bank

Susan Horton, Chairman, President & CEO, Wheatland Bank

Bryan McDonald, President & COO, Heritage Bank

Brian Mulvaney, Market President, Union Bank

Greg Oakes, President & CEO, Cashmere Valley Bank

Gail Rasmussen, Commercial Banking Cross Segment Leader, Wells Fargo

Kerri Schroeder, President - Seattle, Bank of America

Laurie Stewart, President & CEO, Sound Community Bank

Clint Stein, President & CEO, Columbia Bank

Dave Swartley, SVP/Managing Director State Government Relations, U.S. Bank

Contact Us

Contact the Washington Bankers Association at 601 Union Street, Suite 1720, Seattle, WA 98101

Call us at (206) 447-1700 and visit us on the web at www.wabankers.com.

Connect With Us

Connect with the WBA online by following us on our social media accounts.

On the Cover

A boat sits docked at a pier in Coupeville on Whidbey Island during a rare sunny autumn day.

Photo courtesy of Flickr by Jonathan Miske

Continued from page 1

lead plaintiff in challenging the tax hastily imposed on large, out-of-state banks in the waning hours of the 2019 legislative session. We were disappointed that the Washington State Supreme Court did not accept what we still feel were compelling arguments that the tax structure violated the commerce clause of the US Constitution. But we still have legal avenues for appeal, should we choose to pursue them. More importantly, we sent a clear message that our industry will take aggressive legal action to ensure lawmakers follow the rules.

While the lawsuit was a strategic response following legislative action, it's much better to influence decisions before being made. For this reason, I want to especially thank the more than 100 bankers from around the state who participated in our annual legislative roundtables this fall. Even when held virtually as they were again this year, these sessions are an excellent opportunity to build stronger relationships between legislators and local bankers and help lawmakers understand how their proposals would impact our banks, employees, customers, and communities.

Taking engagement one step earlier in the process means ensuring that suitable candidates are being elected in the first place. By "right," I don't mean Democratic or Republican. Instead, I mean candidates from either party who understand and appreciate the private sector's role— especially the banking industry – plays in creating jobs and economic value in our communities.

This is why we were active participants in supporting Bruce Harrell for Mayor of Seattle and Ann Davison for Seattle City Attorney. In addition to their strengths as candidates, both are squaring off against opponents whose policy positions and public statements have shown them to be diametrically opposed to the type of leadership we hope to see at every level of government. As I write this, we don't know the election's outcome yet, but we are cautiously optimistic for both candidates.

That degree of uncertainty is what makes advocacy so admittedly frustrating at times. You can have all the correct arguments and present them in the most compelling way possible. But even doing everything right doesn't guarantee a favorable outcome.

However frustrating that is, it doesn't mean we shouldn't try. If it did, most golf courses would be empty.

The bottom line is that we can't afford to sit by and complain when outside forces like a Supreme Court decision or a new law enacted by the Legislature negatively impact the business climate. Instead, we need to redouble our engagement efforts at all levels. As bankers, we need to do our best to control what we can and influence those we can't.

That's what all of us at WBA plan to continue doing for our members.

Follow Us!



Facebook.com/
WaBankers



@WaBankers
@BankersCare



LinkedIn.com/
Washington-Bankers-
Association

U.S. House Financial Services Committee Update: Direct Lending



By Congressman Blaine Luetkemeyer (R-MO)

In the 1970s, the Farmers Home Administration, a former U.S. Department of Agriculture agency, made thousands of direct loans to purchase farmland. Farmers and nonfarmers alike took on the government-issued debt to buy more and more land they believed would only increase in value.

As is always the case with easy money and no due diligence, the value of farmland skyrocketed. Soon many farmers could not grow enough crops and livestock to cover the cost of their debt and tax assessments based on the inflated land value. According to the GAO, by the 1990s \$14 billion in direct loans went unpaid, and the agency was forced to seize over 3,000 farms. Countless family farms were lost, and many of the would-be next generation of farmers chose a new, more stable future path.

In the late 1990's, the Small Business Administration also learned a hard lesson about the government's inability to lend money responsibly. Until then, the SBA had operated various direct lending programs and its loan guarantee programs, guaranteeing loans issued by private lenders such as banks and credit unions. Unlike the government, financial institutions have established due diligence processes and must follow Know Your Customer standards. The 7(a) Loan Program is a unique loan guarantee program. In 1998, the agency stopped issuing direct business loans because the subsidy rate – essentially, the failure rate – was 10 to 15 times higher than the subsidy rate for its loan guarantee programs.

Not to be deterred by a history of failure or a complete lack of expertise, the SBA is back in the business of direct lending with the Economic Injury Disaster Loan (EIDL) program. And to the shock of absolutely no one, the program has been fraught with fraud. As the top Republican on the Small Business Committee, I have kept a close eye on EIDL and have continuously called for investigations into this flawed program. Recently the SBA Inspector General found that there had been \$78.1 billion in potentially fraudulent EIDL activity. As of August 19, 2021, the SBA had disbursed approximately \$280 billion in COVID EIDL loans and grants. This equates to a fraud rate of nearly 30 percent. Thirty percent of taxpayers' dollars are being misused and mishandled by the SBA. It is unacceptable and further

proves that the federal government is incapable of running a direct lending program with any level of competency.

Much like Congressional Democrats and the Administration answering inflation with more reckless spending, their reaction to decades of failed direct lending programs creates more. The \$4.3 trillion reconciliation bill moving through the House calls for \$4.5 billion for direct loans through the 7a program. Using the EIDL fraud numbers, we can expect \$1.35 billion of that to be handed over to bad actors. On top of that, Democrats are now putting the government in direct competition with the smallest financial institutions in Washington and nationwide.

When COVID shut down the country, Congress created the Paycheck Protection Program and turned to financial institutions and bankers like you to help save the economy in Washington and across the country. As you well know, banks, community development financial institutions, minority deposit institutions, and credit unions worked day and night to assist millions of small business owners who were fighting with every ounce of their energy to survive and keep their workers employed. Now, these very institutions have a new, very powerful competitor: the federal government.

To be clear, we're not talking about multinational banks with unlimited resources and teams of lawyers and lobbyists. We're talking about the community banks serving small towns in rural America and minority depository institutions that disproportionately serve minorities and customers in underserved areas. They are the cornerstones of their local economies. Still, they could soon be in the crosshairs of a government that doesn't have to follow its regulations and has no problem with throwing taxpayer dollars away for the appearance of "public service."

As the Ranking Member of the Small Business Committee, I am doing everything in my power to put an end to direct government lending. My Republican colleagues on the Committee and I are drafting legislation to reform the SBA, an essential aspect which is stripping their direct lending authority. Many loan guarantee programs have been successful, particularly for small and disadvantage businesses. That is where the government's authorities should end. I feel confident that private sector and industry experts like you are more than equipped to handle the rest. History has shown too many times that the government's shortcomings end with American citizens paying the price. It needs to stop.

Events Calendar

December 2-3 – Virtual Bank Executive Conference

January 26, 2022 – Executive Development Program

February 10-11, 2022 – NW Compliance Conference, DoubleTree Suites, Southcenter

March 2-3, 2022 – Virtual Senior Credit Conference

March 29, 2022 – Retail Sales & Leadership Conference, Washington Athletic Club, Seattle

March 31, 2022 – Marketing Conference, DoubleTree Suites Seattle Airport

May 17-18, 2022 – Education/Human Resources Conference, Historic Davenport Hotel, Spokane

To register or to learn more about any of the listed events, please visit www.wabankers.com/calendar.

Make Plans to Attend 2022 Conferences Now

The WBA calendar of spring events is full of ways for all departments within the bank to stay up-to-date on the latest in the industry.

Registration for all of our spring conferences is now open, with a mixture of virtual and in-person events to best suit your needs.

Before we flip the calendars, WBA is hosting the **2021 Virtual Bank Executive Conference** on December 2-3. The conference will run from 8:30 a.m. to 4 p.m. on December 2, followed by a half-day from 8:30 a.m. to noon on December 3. The agenda will feature sessions on the economic outlook, regulatory and legislative trends to watch, and more.

We'll kick off 2022 with the **Northwest Compliance Conference** on February 10-11 at the DoubleTree Suites by Hilton, Seattle Airport Southcenter. The conference features returning speakers Leah Hamilton, Sharon Stedman, and DaveMcCrea. Attendees can choose between attending both days or one.

Bankers in the credit department are encouraged to join the **Virtual Senior Credit Conference** on March 2-3. This conference will include sessions on navigating hybrid and remote work, commercial real estate, and more.

The **Retail Sales and Leadership Conference** at the Washington Athletic Club will be held on March 29. Bankers can choose a virtual option to best fit their needs based on the number of attendees. Featured speakers include Cindy Solomon, who will host a session during the conference, a special afternoon workshop for in-person attendees, and Deanna Davis on thriving in the workplace. The full agenda for the conference is now available online.

WBA will close out March with the **2022 Marketing Conference** on March 31 at the DoubleTree Seattle Airport. Amber Farley, executive vice president of brand development at Financial Marketing Solutions, will headline the event with a session on the current media landscape and where banks should focus. She'll also host a workshop session in the afternoon

focusing on ways banks can help lenders build and increase their presence on LinkedIn.

WBA will host the **Virtual Fintech Conference** in April. Registration options include individual or bringing a team from the bank.

On May 10, the **Northwest Agriculture Conference** will return to the Three Rivers Convention Center in Kennewick, followed by a day long training session specifically for ag lenders on May 11.

The **2022 Education/Human Resources Conference** will be held at the Historic Davenport Hotel in Spokane on May 17-18.

For bankers looking to tackle a new challenge in their careers, WBA is accepting applications for the **2022 Executive Development Program**.

This comprehensive 12-month program focuses on the skills bankers need to take on executive roles within their organization. Sessions cover various topics, including today's banking environment, leadership and management, financial profitability, liability and assets, credit and risk review, audit and compliance, and much more. In 2022, we updated the program to focus on cybersecurity and the role of fintech partnerships.

One of the program's highlights is the one-on-one mentorship, one of the few opportunities in the country for this type of program. Students are paired with executives from their organization, meeting regularly to deepen the understanding of topics discussed during class.

With over 400 graduates since 2010, graduates have gone on to fill executive roles, including CEO.

Classes begin January 26, 2022, and will run through November. The 2022 EDP will be mainly held in-person, with courses at the Washington Athletic Club in downtown Seattle, with some sessions held virtually.

This popular program regularly sells out, so students should register early.

Please visit the WBA website at www.wabankers.com for more information about registration for any of our upcoming programs.

Industry News

New Hires

Tamara Carrington
Universal Banker at First Federal

John Hill
Senior Vice President and Director of Community and Business Banking at 1st Security Bank of Washington

Nancy DeLuca
Vice President and Relationship Manager at First Sound Bank

Joyce Iacolucci
Loan Processor at Pacific Crest Savings Bank

Erik Wilert
Commercial Lending Officer at Bank of the Pacific

Christopher Patterson
Community Solutions Advisor at Washington Trust Bank

Promotions

Dennis Zender
Regional President, Southern Washington at WaFd Bank

Board of Directors

Michael Patterson
Coastal Financial Corporation

Have Industry News to share with WBA? Email megan@wabankers.com or call (206) 344-3472.

WBA Member News

Baker Boyer Bank Donates 1,000 Meals to Healthcare Employees

Baker Boyer Bank announced this fall that they delivered over 1,000 meals to local healthcare employees as a thank you for their continued work during the COVID pandemic.

Providence St. Mary Medical Center, Walla Walla Clinic, Yakima Memorial, and Kadlec all received meals as a way to show the bank's gratitude.



unteering more than 100 hours this year.

Connolly volunteers with the Central Kitsap Food Bank and is the secretary on the executive board for the non-profit. She also donates time to the Kitsap Building Association and is a member of the executive board for the PTA at her son's school.

Yakima Federal Savings Participates in Annual Sunfair Parade and Bit of the Burg



Yakima Federal Savings team members participated in the annual Sunfair Parade at the end of September, with the "Save for a Rainy Day" float.

The float won the parade's grand sweepstakes award for the "Penny Piggybank" float. "Penny's Posse" members also handed out American flags and stickers to local kids, encouraging them to save their money.

After the pandemic canceled the parade in 2020, the bank worked with the city and parade board to help bring it back in 2021 for its 60th anniversary. The event included over 70 entries and traditionally marks the beginning of the Central Washington State Fair.

A week prior, the bank sponsored Ellensburg's Bit of the Burg event celebrating the return of students to Central Washington University.

Thousands of students attended the event to learn about the town and local businesses.

Mountain Pacific Bank Hosts Community Shred Event



Members of the Mountain Pacific Bank Lynnwood branch hosted a free shred event for the community in September.

Residents and customers were able to drop off documents to be safely shredded at the bank.

North Cascades Bank Collects School Supplies



As school began this fall, members of the North Cascades Bank Grand Coulee branch team collected school supplies for students in need.

Customers and community members were encouraged to donate to help local students start a new school year.

First Federal Employee Joins Club 100 for Volunteering

Earlier this fall, First Federal announced that Jessica Connolly joined the bank's Club 100 for vol-



Three Washington Banks Named to Forbes Best In State List

Earlier this fall, three Washington banks were named to the annual Forbes Best in State Banks list.

Columbia Bank, Washington Trust Bank, and First Federal Savings all earned the honor.

Forbes partnered with market research firm Statista to produce the fourth annual list, gauging which banks earned the highest grades. Banks earned scores based on overall recommendations and satisfaction and five different categories, including trust, terms and conditions, branch services, digital services, and financial advice. Of the 4,978 banks in the U.S., only 135 made the list nationwide.

Continued on page 6



1st Security Bank of Washington Volunteers with Habitat for Humanity of Snohomish County

This fall, members of the 1st Security Bank of Washington team volunteered with Habitat for Humanity of Snohomish County.

The volunteers helped clear overgrown brush from a house so that Habitat could build an accessibility ramp for the homeowner.

Olympia Federal Savings Donates to South Sound Reading Foundation

In September, Olympia Federal Savings' Two-Cent partner was the South Sound Reading Foundation, which received \$2,750 to help bring books and reading to children throughout the South Sound.

For every debit card transaction, the bank donates two cents to a nonprofit, chosen monthly.

U.S. Bank Donates to YWCA Clark County



The U.S. Bank Southern Washington team hosted in a grand reopening celebration of the bank's Fishers Landing branch earlier this fall.

As part of the celebration, the bank presented a donation to YWCA Clark County and the organization's care program.

Heritage Bank Earns ABA Foundation Community Commitment Award

In late October, the American Bankers Association Foundation announced the 2021 Community Commitment Awards winners, including Heritage Bank.

Heritage earned the award in the affordable housing category for its work to address chronic homelessness in the greater Seattle area.

The bank financed a \$15 million construction loan to help build Kristin Benson Place in Seattle, including 91 studio apartments for single adults who have stabilized after homelessness. The goal of the program is to have an additional 500 apartments in the next several years.

The annual awards recognized banks across the country for

their extraordinary corporate social responsibility efforts in six categories. The winners were recognized during the ABA's Annual Convention in October.

North Cascades Bank Volunteers at Okanogan Harvest Festival



Members of the North Cascades Bank team volunteered at the Okanogan Harvest Festival in early October.

The event, put on by the Okanogan Chamber of Commerce, included a car show, pet parade, and more.

Coastal Community Bank Highlights Domestic Violence Awareness Month



During October, Coastal Community Bank highlighted Domestic Violence Awareness Month in the bank's Marysville branch.

The bank joined Domestic Violence Services of Snohomish County and the City of Marysville, along with the police and fire departments, to help educate community mem-

bers and let victims and families know about available services.

The Marysville branch team wore purple shirts in support every Tuesday in October as part of the Break the Silence initiative in the city.

Peoples Bank Brings Back Socktober

Peoples Bank announced this fall that branches would be accepting donations of socks once again throughout October as part of the bank's Socktober campaign.

The bank accepted new and unopened pairs of socks at all 23 branches, which were donated to local organizations throughout the bank's six-county footprint.

"Because pairs of new, warm socks are among the most in-demand item for homeless shelters, we are asking people to purchase a few extra pairs of socks and bring them to one of our branches during October," said Kamyar Monsef, chief retail banking officer at Peoples Bank. "We are so grateful for the community's support of this campaign; it's a small yet impactful way to make a big difference in someone's life."

U.S. Bank Seattle Team Supports Pac NW Soccer Club

The U.S. Bank Seattle team members volunteered during the Pac NW Soccer Club's fall tournament in October.



Continued from page 6

The bank sponsors the club, which helps youth soccer players develop their full potential. The club includes over 1,100 players competing in a variety of leagues throughout the region.

Baker Boyer Bank Winner of 2021 FIS Impact Award

In late October, Baker Boyer Bank announced it had been selected as a winner of the 2021 FIS Impact Awards.

The annual program recognizes forward-looking organizations which use FIS technology to enhance customer service and create tangible business results. Winnings go to charitable organizations in the local community.

Baker Boyer's asset management team worked with the IT solutions team to create a two-way data integration to streamline account openings and allowed this to happen in minutes rather than hours. The goal was to develop efficient ways for employees to serve clients better.

As a winner, the bank was able to select a charity for a donation. The bank chose Blue Mountain Action Council, which received \$10,000. The Council serves southeastern Washington and provides resources for anyone experiencing poverty.

KeyBank Donates to Seattle Mariners Hometown 9 Program



This fall, KeyBank announced a \$15,000 donation to the Seattle Mariners Hometown 9 program.

The program is a fellowship designed to address barriers frequently encountered by student athletes, particularly young people of color.

Through a five year commitment to nine incoming eighth graders in King, Pierce, and Snohomish Counties, the program will provide financial, academic, professional, and social support to encourage success in athletics and education.

Each member is paired with a Mariners player and a front office staff member who works with the student. They meet quarterly to provide guidance. As the students reach high school graduation, they will participate in events tailored to their future academic pursuits, including college admissions prep, essay writing support, and more.



Pacific Crest Savings Bank Donates to Clothes for Kids

Each year, Pacific Crest Savings Bank hosts a clothing and donation drive for Clothes for Kids, which

helps students thrive by providing those in need with the opportunity to shop for clothes at no cost.

This year's drive raised nearly \$10,000 in financial donations, a record for the bank.

"We are so appreciative of all Pacific Crest employees, directors, and our community partners who helped us exceed our goal," said the bank on social media.

The clothes help thousands of students in the greater Snohomish County area and the Northshore School District.

Kitsap Bank Donates Over \$20,000 to Local Food Banks During From Shred to Fed



This fall, Kitsap Bank once again hosted several From Shred to Fed events throughout the bank's footprint.

Customers and residents brought documents to be safely shredded at the bank and also could bring donations to local food banks.

The bank raised over \$20,000 in donations and had 115 employees volunteer at the events.

"Together, we are helping fill our food bank's shelves and nourishing our neighbors," said the bank.

HomeStreet Bank Donations to Marysville Food Bank and Toy Drive

HomeStreet Bank announced a \$1,500 donation to the Marysville Food Bank and holiday toy drive in late October.

Employees from the branch presented the check to help the food bank serve those in need this holiday season.



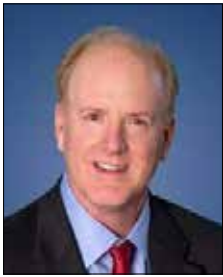
Baker Boyer Bank Employees Participate in Walk to End Alzheimer's Event

In October, members of the Baker Boyer Bank Kennewick branch team participated in

the Walk to End Alzheimer's event in the Tri-Cities.

The walk is held annually in over 600 communities and is the largest to raise awareness and money for Alzheimer's care, support and research.

Solving the Great FICA Mystery



By Philip Armstrong, Senior Market Strategist, Harland Clarke

The great Federal Insurance Contributions Act (FICA) mystery: Why aren't more employers encouraging employees to protect their retirement health future?

Both employers and employees save on payroll taxes for HSA payroll contributions. Here's how it works: The FICA tax is typically 15.3 percent and comprised of

Social Security tax (12.4 percent on all wages up to \$132,900) and Medicare tax (2.9 percent on all wages with an additional 0.09 percent for employees with wages higher than \$200,000). Employers and employees split the tax for a savings of 7.65 percent for both the employer and the employee!

Unlike 401(k) or IRA contributions subject to FICA taxes, employees never have to pay FICA taxes on HSA contributions done via payroll withholding through their employer's Section 125 plan, and neither does the employer.

Let's do the math: If an employee with a family contributes \$500 each month to a 401(k), they will have \$6,000 in the account by the end of the year. If the employee makes an HSA family contribution of \$500 each month to an HSA via payroll withholding, they will have the same \$6,000 in their account at year's end. However, since the employee didn't pay FICA taxes on those HSA contributions, they will have an extra \$460 in take-home pay by the end of the year.

The bottom line: when an employee maximizes their HSA contribution annually, they not only reap the benefits of pretax savings, tax-free growth, and tax-free spending on qualified medical expenses, the employer reaps these benefits as well:

- Employee incentive stimulates education of tax benefit
- Higher contribution rates change behavior from "non-funders" to "spenders" to "savers" to "investors."
- Payroll tax savings for employees and employers grow with increased contribution
- Turnkey incentive program integrated with open enrollment and during the year

Despite education, there is limited awareness among employers and employees alike of the HSA tax benefits. According to a recent survey, while 56 percent of employees said they had a good understanding of health savings accounts, only 11 percent correctly identified all four basic HSA attributes.

Below are the percentages of employees who correctly identified each attribute:

- 30 percent know HSAs offer a triple tax advantage, with pretax contributions, potential gains and withdrawals

used for qualified medical expenses exempt from federal and most state taxes.

- 37 percent know HSA funds can be invested to provide growth potential over time to help supplement long-term savings for health care expenses.
- 74 percent know HSA funds do not expire, as any unused balance carries over from one year to the next.
- 78 percent know HSA holders must be enrolled in a high-deductible health plan to contribute to their account

Despite these benefits, an often over-looked benefit is the tangible tax savings the employer and employee receive by avoiding the FICA tax. And with the vast majority — 90 percent — of HSA account holders choosing not to maximize their annual contributions, both employees and employers are leaving money on the table.

Harland Clarke's suite of turnkey solutions motivates customers to take an active role in their health savings account benefits during open enrollment and beyond, including:

- High-quality card services use cutting-edge technology to make manufacturing, personalizing, issuing, and distributing employer-branded health savings account cards easy and effective
- Targeted marketing communication to engage customers and prospects with relevant, personalized, and compelling direct mail and email messages designed to acquire new participants and keep them active
- Expert contact center support to provide high-quality support, including one-on-one assistance, during open enrollment periods, plan changes, acquisitions, and other change events to ensure a seamless and superior transition experience

Harland Clarke is a leading provider of customer engagement solutions supporting health savings account providers and administrators to acquire new accounts and grow deposits. We offer payment and marketing solutions designed to help our clients create meaningful connections with their members at every touchpoint.

Philip Armstrong is the senior market strategist for Harland Clarke. He leads B2B market strategy for Harland Clarke's health savings account vertical, supporting financial institutions and third-party administrators in delivering customer engagement strategies to clients and employees. He has over 25 years of experience in financial services, technology, entertainment and e-commerce, and advertising.



Thank You to



FOR SPONSORING
ISSUES & ANSWERS

Top 5 Myths Around Banking Cannabis-Related Businesses

By Jill Cacic, Senior Public Relations Specialist, Abrigo

Understand the Misconceptions Around Banking CRBs

With every state election, it seems there is at least one bill related to the legalization of cannabis on the ballot. Often, those bills are getting passed into laws expanding the legalization of cannabis and cannabis-related products. Forty-five states currently have some sort of cannabis legalization or decriminalization, yet one of the biggest issues cannabis-related businesses (CRBs) still face is access to traditional banking services.

Financial institutions need to determine their risk tolerance for banking CRBs, including marijuana, hemp, and CBD. Every bank and credit union in the United States either operates in a state that has legalized or decriminalized some form of cannabis or borders one that has. For this reason, it is important to address the myths around banking CRBs so these institutions can make a better-informed decision to offer banking services to them or not.

The 5 Myths About Banking Cannabis

1. Cannabis is illegal in my state, so I do not have to deal with it.

Just because cannabis is illegal in the state within a financial institution's footprint doesn't mean they can ignore it. The state laws are changing at a rapid pace and talks of legalization at the federal level are heating up. Banks and credit unions need to be prepared should legalization or decriminalization

happen in their state. Additionally, as previously stated, every state where cannabis is currently fully illegal borders at least two other states where it is legalized to some extent. Financial institutions need to consider how to handle transactions with CRBs and what to do if they discover a customer or member is operating a CRB or receiving income from a CRB in another state. It is critical for financial institutions to stay up to date with all state legislation that may affect their customers.

2. Stating that institutions do not service cannabis-related businesses is enough.

When asked if they plan to offer banking services to CRBs, banks and credit unions cannot rely on a simple yes or no answer. Stating that they are or are not planning to service CRBs is only the first step in an extensive list of things they need to do to ensure compliance and do the proper due diligence. No

matter their decision, banks and credit unions will have to update their policies and procedures to reflect that.

Questions to consider should institutions not

offer banking services are:

How will they handle an account that is found to be tied to a CRB?

Will they offer banking services to indirect CRBs (those not "touching" the product)?

Will they bank hemp-related businesses? CBD-related businesses?

What extra due diligence will they implement to ensure an account isn't tied to a CRB?

What transaction monitoring will be performed to ensure there are no CRBs in the institution's customer/client base? How will they effectively identify and manage CRB-related risk?

3. Banking a cannabis provider or dispensary carries the same risk as banking the payroll company who processes the dispensary's paychecks.

There are multiple tiers to cannabis-related businesses. Steven Kemmerling, CEO of CRB Monitor, first introduced the idea of CRB tiers in 2016 to differentiate



abrigoTM
make big things happen.

Continued on page 10



Learn more about our endorsed vendors online at www.wabankers.com/pros and www.linkedin.com/showcase/wba-pros

Continued from page 9

the types of marijuana-related businesses and their perceived risks.

Tier 1 – Direct

This tier includes businesses that touch the actual cannabis plant at some point and those that have a financial or controlling interest in businesses that do. This tier has the highest perceived risk for financial institutions.

Tier 2 – Indirect with “substantial” revenue from Tier 1

This includes companies that sell cannabis or CBD products and derive a majority of their profits from those products. The definition of “majority” or “substantial” is defined by each financial institution’s risk tolerance. This tier is of moderate risk to institutions.

Tier 3 – Indirect with “incidental” revenue from Tier 1

Companies that fall under this tier can include CPAs, payroll companies, cleaning companies, etc. that service tier 1 businesses. While these businesses earn some profit off tier 1 companies, it is a nominal amount of their overall business. This tier is the lowest risk to financial institutions.

As BSA officers analyze each level of risk during the risk assessment process and decide their risk tolerance to banking CRBs, they should define how to handle the different tiers as well. While the tiers are not official regulations, they are a good industry standard to adopt when defining where a financial institution’s risk tolerance stands.

4. Banking hemp is the same as banking cannabis.

The term cannabis covers hemp, marijuana, and CBD. Marijuana is cannabis with over 0.3% Tetrahydrocannabinol (THC), the psychoactive properties tied to the drug, while hemp is cannabis with less than 0.3% THC. CBD can fall into either category depending on its THC content. The low levels of THC found in hemp led to the passing of the 2018 Farm Bill which removed hemp from the Controlled Substances Act (CSA) and made it federally legal when certain requirements are met. States may still

regulate hemp production, so it is important for BSA professionals to reference the state and local laws where they have branches and/or customers. Because hemp was removed from the CSA, there is much less risk to banking it as opposed to marijuana or even CBD.

5. Banking businesses that sell CBD has little risk since everyone is doing it.

CBD is a grey area in the cannabis world. If it has less than 0.3% THC, it falls under hemp CBD but with more than 0.3% THC it is still considered marijuana. Testing CBD for its THC levels has not been well regulated, so it leaves it in this in-between area on the cannabis spectrum. Financial institutions should consider the source, extraction process, and laws when considering offering banking services to CBD-related businesses. Additionally, the Food and Drug Administration, which regulates food and health related products, has not approved CBD for consumption or medicinal purposes. This adds another layer of risk associated with CBD and the way it is sold and used by the consumer.

Stay Informed and Develop a Plan

As laws around legalized cannabis continue to change at the state, and possibly federal levels, financial institutions need to be aware of common myths around banking CBD, hemp, and marijuana-related businesses so they can properly assess their risk profile. Developing a thorough CRB risk analysis as part of an institution’s enterprise-wide risk assessment will enable an institution to truly understand the risk and speak to their regulators. If they decide to provide banking services, they should staff and price accordingly. Until federal and state laws align, staying informed and ready is key to controlling inherent risk associated with these higher risk businesses.

Jill Cacic is the senior public relations specialist at Abrigo and handles the company’s media relations and corporate communications. Her articles have appeared in ABA Bank Compliance magazine, Banking-Exchange, and multiple state banking association publications.

HAVE NEWS TO SHARE?

Email it to megan@wabankers.com to be included in an upcoming *Issues & Answers*





Virtual Compliance Officers



VCOs work remotely to manage, support and guide your program to an entirely new compliance posture across the whole organization.

Review Alliance can augment your current staff or manage your CMS. **We're here to help.**

Email at info@bankersalliance.org or call (833) 683-0701



Holding Company of Compliance Alliance
and Review Alliance