



ORAL TESTIMONY OF

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FIRST FEDERAL BANK

LAKE CITY, FLORIDA

ON BEHALF OF

THE NATIONAL CANNABIS INDUSTRY ASSOCIATION

BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

JUNE 19, 2019

Chairwoman Velazquez, Ranking Member Chabot, and Members of the Committee, I am Dana Chaves, Senior Vice President and Director of Specialty Banking at First Federal Bank in Lake City, Florida. Thank you for the opportunity to testify before the Committee today to discuss the importance of unlocking access to affordable capital for small businesses in the regulated cannabis industry. I am pleased to provide a first-hand account of how local community banks can invest in aspiring entrepreneurs and new businesses to help facilitate economic development and job growth, especially in underserved areas. I will briefly summarize my written testimony and I look forward to answering your questions.

First Federal Bank is a mutual holding company which was established in 1962 and has 750 employees. We currently have 23 branches, 17 mortgage offices, and operate in eight states with almost \$2 billion total assets including, approximately 75,000 customers. We launched our cannabis banking program on April 1, 2019, and to date, we have opened 62 accounts tied to Marijuana-Related Businesses or MRBs. We classify these accounts into three Tiers: Tier I are direct plant touching businesses such as dispensaries and cultivators; Tier II are ancillary businesses, investment accounts, and depository accounts; and Tier III are businesses involved in medical marijuana. We also serve CBD companies, as they too are dealing with issues related to

financial services. We have over 55 Tier I, II, and III pending applications and several are currently under our due diligence review, which can take several weeks to complete.

I am also testifying on behalf of the National Cannabis Industry Association (NCIA), the largest national trade association dedicated to protecting state-regulated cannabis businesses and advancing policy reforms needed to align federal and state cannabis laws. Currently, I am the Chair of the NCIA Banking Access Committee and have helped publish several industry reports to assist and educate financial institutions and state regulatory agencies on cannabis-related banking.

To date, forty-seven states and the District of Columbia, as well as Guam, the Northern Mariana Islands, and Puerto Rico have passed legislation authorizing some form of cannabis for regulated medical or adult-use purposes. Additionally, thirty-three states have enacted laws regulating the commercial production and sale of medical or adult-use marijuana, including my home state of Florida. However, because cannabis remains a Schedule I drug under the federal Controlled Substances Act, licensed cannabis-related businesses have been effectively locked out of accessing basic financial services, including the traditional loans and programs established by the Small Business Administration (SBA), such as the 7(a) loan guaranty program, the 504/Certified Development Company loan guaranty program, the Microloan program, and disaster relief efforts.

With my testimony today, I hope this Committee will develop and pass legislation that expands access to business loans and lending programs under the jurisdiction of SBA for cannabis-related business, many of which are led by aspiring entrepreneurs or are minority or women-owned. Also, I hope all members of the Committee will support H.R. 1595 - *the Secure And Fair Enforcement (SAFE) Banking Act*. The bill, which currently has over 200 bipartisan cosponsors, would permit banking and depository services to licensed cannabis-related businesses, including ancillary businesses.

Given the current lack of clarity for cannabis banking as well as the inability for SBA to partner with community banks to assist MRBs, I have seen (and continue to see) those involved in the state-regulated cannabis industry struggle. As an example, an executive who left a Fortune 500 to work for a First Federal client was refinancing his home with a large national bank. The executive had a long-standing relationship with the bank that went back several years. Despite this relationship, thirty minutes before closing, the bank informed him that they could no longer refinance his home because they found that he is now employed at an ancillary company that supports MRBs. First Federal had to step in to provide the refinancing service. While this example had a positive outcome, First Federal has several requests for lending from MRB clients and we are not in a position to provide these services due to the current regulatory environment. In another instance, I know of a business with clients in eleven states who needs capital to expand so they can service their new clients. The company is unable to secure the lending required to purchase the equipment needed in order to fulfill those contracts.

Since 2014, the U.S. Department of the Treasury's Financial Crime Enforcement Network (FinCEN) has maintained guidance regarding the conditions under which financial institutions may work with cannabis-related businesses. These conditions include an array of federal requirements financial institutions must meet in order to provide banking services to licensed cannabis-related business, such as preventing distribution of cannabis to minors, preventing

revenue from the sale of cannabis to criminal enterprises and cartels, and ensuring cannabis activities and transactions are not being diverted to a state where it is not legal, among others. As a provider of small business loans, it is frustrating that SBA has not incorporated a similar approach.

First Federal Bank receives calls daily from MRBs who were notified by their former banks that their accounts are closed. One client received a call from their credit union who closed their account and gave the client only 1 hour to arrive at the branch, finalize the paperwork to close their account and pick up a cashier's check for their funds, which was over three million dollars. To accommodate the client, our entire compliance team gave its full attention, at the expense of other accounts, to complete our due diligence review in time to open an account the same day. Unfortunately, we cannot do this for every client, and we see similar cases happen almost daily.

The confusion created by conflicting federal and state laws does not end with cannabis cultivators, manufacturers, distributors, and retailers. There are many regulatory unknowns associated with providing banking services to businesses that provide services to these cannabis companies. These regulations can make it difficult to provide financial services, including SBA loans, to common Main Street businesses. There is no question that expanding affordable capital and lending capacity from SBA to licensed cannabis-related companies and the everyday businesses that support them would promote dependable economic development and provide growth for cities and communities, boosting the overall economy of our nation.

I want to thank the Chair, Ranking Member, and the Committee for your time to discuss expanding access to SBA's loan programs for the regulated cannabis industry. This topic is important and has economic consequences for businesses and community banks all across America. I urge the Committee to develop and pass legislation that allows SBA to provide the regulated cannabis industry with affordable capital necessary to increase economic opportunity and support job growth.

I again thank the committee for the opportunity to submit testimony today and I look forward to your questions.