



SAFE BANKING FOR EQUITY



May 18, 2023

The Honorable Sherrod Brown
United States Senate
Chairman, Committee on Banking,
Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Tim Scott
United States Senate
Ranking Member, Committee on Banking,
Housing, and Urban Affairs
104 Hart Senate Office Building
Washington, D.C. 20510

Dear Chairman Brown and Ranking Member Scott:

Thank you for your leadership on the Senate Banking Committee and for holding a recent hearing on the important issue of cannabis banking challenges. SAFE Banking for Equity is a coalition representing a diverse array of equity operators, small operators, supporting small businesses, and other stakeholders of the state-legal, domestic cannabis industry. We write today to make sure our voices are heard regarding the pressing need for Congress to provide these businesses with equitable access to the financial services that all other legal, domestic entities enjoy. We greatly appreciate your commitment to this issue and making this a priority by orchestrating a hearing so quickly after the bill's introduction – treating this issue with the urgency it demands.

As you know, 38 states have medical cannabis programs in place and 22 states have now legalized cannabis for adults aged 21 years and older. The U.S. cannabis industry supports more than a half a million full-time jobs with retail sales projected to surpass \$50 billion by the end of 2026.¹ Yet, with federal prohibition still in place, state-legal businesses, employees, and the patients and consumers we serve are forced to operate in a cash-heavy manner – posing significant risks to public safety and preventing economic growth in areas that need it the most. That is why it is critical for the SAFE Banking Act to be enacted without further delay while the broader debate regarding federal cannabis reform continues.

Providing the state-legal cannabis industry equal access to financial institutions and resources is key for economic growth. Without broader access to financial institutions, many entrepreneurs are left without anywhere to turn to secure the funding needed to launch their company or to expand existing operations. That is why it is important for SAFE Banking's safe harbor to protect access to *all* regulated financial institutions and services, including depository services, lenders, debt and equity financing, capital markets and investment services, insurance, broker dealers, fiduciaries, and credit card and payment processing. Without access to the full array of financial resources provided other domestic industries, cannabis operators are in essence being forced to fight for survival against the illicit market – including Chinese-backed investors – with both hands tied behind their backs. If small and minority-owned cannabis companies do not have the capital needed to compete or stay afloat, the state regulated cannabis market will be ceded to criminal enterprises that do not adhere to stringent testing or labeling standards, that do not institute child resistant packaging or care about age limitations, and that do not pay taxes or invest back in their communities. Ultimately, an unchecked illicit market would be catastrophic to legal, regulated businesses, and compromise public health and safety.

¹ <https://finance.yahoo.com/news/u-cannabis-industry-total-economic-195900342.html>

The impact of being afforded broader access to financial institutions would be particularly felt by minority operators, who face significant economic barriers to entry. Even though financial institutions are prohibited from engaging in discriminatory behavior, the unfortunate reality is that minority operators still face greater difficulty in securing financial services through the banking system due to “soft” discrimination. When turning to institutional investors to raise the capital needed to enter the industry or grow, small operations are then valued comparable to larger multi-state operators that are forced to list on subpar exchanges due to the U.S. senior exchanges being off limits for domestic cannabis companies. Therefore, these valuations are severely depressed, resulting in entrepreneurs being forced to give up more stake in their own companies to secure investments – bordering on predatory.

If domestic cannabis companies had the ability to list on the U.S. senior exchanges instead of these junior exchanges, the valuations of small cannabis businesses would significantly increase, resulting in a dramatic decrease in the amount of equity an entrepreneur would have to cede to get the same investment. Maintaining equity is critical for those operators who hold social equity licenses that require them to maintain majority ownership of their company. Without access to meaningful capital to convert these social equity licenses or for minority operators to succeed, the states’ efforts to support a more equitable industry are merely checking a box and allowing for small businesses to be shut out while the illicit market profits in the void.

SAFE Banking would also significantly reduce the cash dependency and therefore risks of criminal activities cannabis businesses currently face by allowing them to utilize traditional banking services. As you know, cash intensive industries often find themselves targets of increased criminal activity, including robberies that too often turn violent. A recent report² examining crimes at cannabis businesses in Washington State from 2017 to 2022 found armed robberies of cannabis stores are surging and have unfortunately, resulted in multiple deaths. Larger businesses may be better equipped to purchase and maintain elaborate security systems; however, this same opportunity may not exist for smaller operators. The trend of violent crimes targeting cannabis operations is not isolated to Washington State, with similar crime waves in California, Colorado, and Michigan, among others. Beyond the targeting of businesses, employees, delivery staff, and customers that are presumed to be carrying large amounts of cash for transactions are also at heightened risk of being targeted by criminal activity.

It is for these reasons that we urge you to consider moving the bipartisan SAFE Banking Act forward with broader access to financial services to support small businesses and to counter the public safety threats posed by illicit and Chinese-backed enterprises and by reducing the need for legal entities to operate in a cash-heavy manner. We thank you again for your attention to this important legislation and for this opportunity to make sure the voices of small and minority cannabis businesses are heard on this urgent issue given no operators were provided the opportunity to publicly testify at last week’s hearing. We look forward to working with you towards enactment of the SAFE Banking Act and broader cannabis reforms that will ultimately end prohibition.

Sincerely,

SAFE Banking for Equity

Asian Americans for Cannabis Education

Black Buddha Cannabis

California Minority Alliance

Holistic Solutions

Marijuana Matters

Minorities for Medical Marijuana

National Hispanic Cannabis Council

Roll Up Life, Inc.

Women Grow

² <https://stopthedrugwar.org/files/delays.pdf>