Banking the Hemp Industry

Indiana Bankers Association
Annual Convention & Trade Show
September 15-17, 2019
Banking the Hemp Industry

WHAT IS CANNABIS
Cannabis Industry Overview

- Cannabis is a family of plants with two classifications:
  - Indica
  - Sativa L.
- Hemp is derived only from the Cannabis Sativa L.
- Marijuana is derived from either Cannabis Sativa L. or Cannabis Indica
- Hemp and Marijuana both contain Cannabinoids:
  - Tetrahydrocannabinol (THC) is psychoactive
  - Cannabidiol (CBD) is not psychoactive
- Over the centuries Hemp has been modified to produce only trace amounts of THC
  - Marijuana typically contains THC levels of 15% - 40%
  - Hemp contains THC levels of no more than 0.3%
Cannabis - Marijuana
Cannabis - Hemp
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HEMP
### Hemp Crop Production in Acres (2018)

<table>
<thead>
<tr>
<th>State</th>
<th>Acres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colorado</td>
<td>21,578</td>
</tr>
<tr>
<td>Kentucky</td>
<td>6,700</td>
</tr>
<tr>
<td>Montana</td>
<td>22,000</td>
</tr>
<tr>
<td>North Dakota</td>
<td>2,778</td>
</tr>
<tr>
<td>South Carolina</td>
<td>256</td>
</tr>
<tr>
<td>Washington</td>
<td>142</td>
</tr>
<tr>
<td>Hawaii</td>
<td>2</td>
</tr>
<tr>
<td>Maine</td>
<td>550</td>
</tr>
<tr>
<td>Nebraska</td>
<td>1,881</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>445</td>
</tr>
<tr>
<td>Tennessee</td>
<td>3,338</td>
</tr>
<tr>
<td>West Virginia</td>
<td>155</td>
</tr>
<tr>
<td>Illinois</td>
<td>1</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>21</td>
</tr>
<tr>
<td>New York</td>
<td>2,240</td>
</tr>
<tr>
<td>Oregon</td>
<td>7,808</td>
</tr>
<tr>
<td>Vermont</td>
<td>1,820</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>1,850</td>
</tr>
<tr>
<td>Indiana</td>
<td>5</td>
</tr>
<tr>
<td>Minnesota</td>
<td>7,120</td>
</tr>
<tr>
<td>North Carolina</td>
<td>3,184</td>
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<tr>
<td>Pennsylvania</td>
<td>580</td>
</tr>
<tr>
<td>Virginia</td>
<td>135</td>
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</tbody>
</table>

Total acres of hemp grown in 2018 was 78,176, which included 10,090,188 square feet (or approximately 252 acres) of greenhouse or indoor cultivation. There is no estimate of how much product was harvested.

Hemp Products

- Produced for commercial and industrial purposes
- Products for human consumption can be smoked, inhaled and ingested
- Used in over 25,000 products: industrial and consumer textiles, industrial products, personal hygiene, oil, paper, fuel, food, building materials, etc.
- U.S. Hemp product sales in 2017 were estimated at $820 million and is expected to grow to $2.5 billion by 2022
  - CBD – 23%
  - Personal care – 22%
  - Industrial – 18%
  - Food – 17%
  - Textiles – 13%
  - Supplements – 5%
  - Other (paper/construction) – 2%
Hemp Products
Extraction Methods

- Oils
  - Olive Oil
  - Coconut Oil
  - Perishable
- Alcohol and Hydrocarbons
  - Ethanol (high-grade alcohol)
  - Butane and propane
  - Danger of explosion and smell
- Carbon Dioxide
  - CO$_2$ used under high pressure and low temperatures
  - Produces high-end, safe and potent CBD
  - Requires use of expensive equipment
Hemp Product Flowchart

CANNABIS

HEMP

INDUSTRIAL & COMMERCIAL

CBD WITHOUT THC
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LEGAL STATUS OF HEMP
Federal Law

- Agricultural Improvement Act of 2018 (New Farm Bill)
  - Does not preempt state law
  - Defines “hemp” as “the plant Cannabis sativa L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomer, whether growing or not, with a delta-9 tetrahydrocannabinol [THC] concentration of not more than 0.3 percent on a dry weight basis.”
  - Amended the Controlled Substances Act to provide that the terms “marijuana” and “tetrahydrocannabinols” do not include hemp as defined above
  - Established a regime by which States could establish programs for the licensed production, processing and distribution of hemp
    - State program must meet certain elements
    - State program must be approved by U.S. Secretary of Agriculture
  - Establish federal penalties for violations and specific authorization for funding
    - Negligent Violations – Operate under Consent Order; Loss of License
    - Intentional Violations – Immediate referral to U.S. Attorney; Imprisonment; Lifetime Bar
### States with Legalized Hemp

<table>
<thead>
<tr>
<th>Alabama</th>
<th>Alaska</th>
<th>Arizona</th>
<th>Arkansas</th>
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<tbody>
<tr>
<td>California</td>
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<td>North Dakota</td>
<td>Oklahoma</td>
</tr>
<tr>
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<td>Oregon</td>
<td>Pennsylvania</td>
<td>Rhode Island</td>
</tr>
<tr>
<td>South Carolina</td>
<td>Tennessee</td>
<td>Texas</td>
<td>Utah</td>
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HOW IS HEMP LICENSED IN INDIANA?
How is Hemp Licensed in Indiana

- Indiana State established program
- Overseen by the Office of Indiana State Chemist & Seed Commissioner
- License required to grow and/or handle hemp as well as hemp seed
- Licensed issued for 1 year (January 1 to December 31)
- Qualifications
  - No drug related felony or misdemeanor in past 10 years
  - Criminal background check
  - Consent to physical inspections and product testing (2x/yr.)
  - Property identified, including GPS coordinates
How is Hemp Licensed in Indiana

• Location is licensed
• Can only distribute seeds and/or plants to another licensed grower or handler
• Product above the 0.3% THC level must be destroyed
• Violations of law can result in revocation of license and destruction of hemp plot
• Minimum acreage or square footage will be required by not yet determined
• No limit on licenses to be issued
• No license required to sell hemp-derived CBD
  • Smokable hemp products are illegal under Indiana law
  • Kroger announced it will sell CBD products in 89 locations in Indiana
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HEMP-RELATED ISSUES
Hemp-Related Issues

- Crop Insurance – USDA will begin offering hemp crop insurance for the 2020 crop year
  - Coverage available under the Whole-Farm Revenue Protection (WFRP) program, up to $8.5 million of revenue
- FDA Issues for CBD products
  - Merchant prohibited from advertising or claiming that product is a drug or dietary supplement unless FDA approved
  - Inter-state sales of CBD-infused food products for human or animal consumption must be approved by FDA
  - Intra-state sales of CBD-infused food products for human or animal consumption must be permitted under applicable state law
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BUILDING A HEMP PROGRAM
Building a Hemp Program

- First obtain Board support
- Prepare a report to the Board that discusses
  - Status of federal and state law
  - State licensing regime
  - Identifies proposed customers
  - Identifies proposed products and services
  - Identifies risks and rewards of a Program
  - Strengths and weaknesses of the bank
  - Recommendations for the Program
- Modify your CIP and on-boarding procedures
- In the on-boarding process, require the customer to execute an agreement that protects the bank
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QUESTIONS?
Thank You

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