

## Cannabis- and Hemp-Related Risk Assessment

*This risk assessment is being created as a resource for credit unions exploring member relationships with cannabis- and/or hemp-related accounts. Risk descriptions and mitigation strategies are examples ONLY and should be customized as needed.*

### Strategic, Liquidity and Interest Rate Risk

Risk Description	Inherent Risk	Mitigating Strategies	Residual Risk Level
Does banking Cannabis- and/or Hemp-Related members fit into the credit union's business/strategic plan?		<ul style="list-style-type: none"> <li>The credit union has a detailed and thorough strategic plan.</li> <li>The credit union has evaluated the impact banking these members will have on their financial position, existing membership, staffing, management and Board of Directors.</li> <li>Have other institutions in the area successfully started a program?</li> <li>Has the credit union detailed their strategic plan to regulators and insurance providers?</li> </ul>	
Has the credit union established a range of Cannabis- and/or Hemp-related offerings to offer along with appropriate financial ranges for each type of offering?		<ul style="list-style-type: none"> <li>The strategic plan has identified the types of products and services that will be provided to Cannabis or Hemp businesses</li> <li>Each department affected by Cannabis or Hemp products/services has identified resources needed to effectively offer them.</li> <li>Adequate resources (financial, security, staffing, etc.) have been or will be put in place before Cannabis or Hemp products/service are offered</li> </ul>	
Availability in the marketplace		<ul style="list-style-type: none"> <li>The credit union has considered the availability within the marketplace of banking cannabis- and/or hemp-related</li> </ul>	

		<p>businesses.</p> <ul style="list-style-type: none"> <li>○ With a saturated market, there is risk with offering competitive pricing and not providing a service for membership.</li> <li>○ With limited availability, there may be a risk of growing too fast and exceeding limits.</li> <li>• The credit union knows the competitive landscape and have evaluated the regulatory structure of the cannabis and/or hemp industry in the area.</li> </ul>	
Financials and Net worth ratio		<ul style="list-style-type: none"> <li>• The credit union has considered the impact to their financial position with the potential influx of cash.</li> <li>• The credit union has also considered the potential impact to the financial position if there was a significant liquidation (all accounts needed to be closed and the credit union exited the business.)</li> <li>• The credit union maintains appropriate capital levels in compliance with NCUA's prompt corrective action rules.</li> </ul>	
Large cash balances, rate increases		<ul style="list-style-type: none"> <li>• The credit union models interest rate increases and decreases to determine impact on financials, related specifically to cannabis- and hemp-related accounts.</li> <li>• Dividends and/or interest rates are maintained at adequately levels as determined by local competition.</li> <li>• Credit union contracts support the ability to not pay interest and/or dividends as necessary to maintain financial stability.</li> </ul>	

Exit strategy has been created should one be needed		<ul style="list-style-type: none"> <li>• Cannabis or Hemp account documentation include statements about: <ul style="list-style-type: none"> <li>○ the rights under which the business may have an account.</li> <li>○ the credit union's rights to close an account.</li> </ul> </li> <li>• Strategies have been established to communicate with all Cannabis or Hemp account holders should the need arise to close accounts.</li> <li>• Depending on the number of accounts and financial impact to the credit union, a plan has been established to 'roll-off' or close accounts while maintaining financial stability.</li> <li>• The credit union has considered and outlined potential "trigger events" that would impact their overall program and pursue an exit.</li> </ul>	
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#### Reputation Risk

Risk Description	Inherent Risk	Mitigating Strategies	Residual Risk Level
Member perception		<ul style="list-style-type: none"> <li>• The credit union will have and train staff on proper messaging for members asking about banking cannabis- and/or hemp-related members.</li> <li>• The credit union will outline and be specific on the types of transactions that can occur in-branch.</li> <li>• Community support, safety and impact will be documented as part of awareness initiative.</li> </ul>	

Vendor impact		<ul style="list-style-type: none"> <li>• The credit union has informed vendors and their primary regulator of their intent to bank cannabis- and/or hemp-related accounts and have established alternative arrangements for relationships/services that may not be maintained.</li> <li>• The credit union has outlined changes with insurance providers.</li> </ul>	
Community Impact		<ul style="list-style-type: none"> <li>• Does the credit union want to be known in the community for servicing these businesses?</li> </ul>	

**Compliance Risk**

<b>Risk Description</b>	<b>Inherent Risk</b>	<b>Mitigating Strategies</b>	<b>Residual Risk Level</b>
Currency Transaction Reporting		<ul style="list-style-type: none"><li>• There is adequate staffing to assist with the increased reporting requirements associated with banking these members.</li><li>• BSA training occurs for employees servicing these members twice a year, with more specialized training in completing accurate reports.</li></ul>	
Suspicious Activity Reporting		<ul style="list-style-type: none"><li>• There is adequate staffing to assist with the increased reporting requirements associated with banking these members.</li><li>• BSA training occurs for employees servicing these members twice a year, with more specialized training in completing accurate reports.</li><li>• Increased internal audits to confirm all SARs are filed in a timely manner.</li></ul>	
High Risk Account Monitoring		<ul style="list-style-type: none"><li>• Adequate monitoring processes have been established for Cannabis and/or Hemp accounts.</li><li>• There is adequate staffing to assist with the increased monitoring that is required. Every XX days, the credit union evaluates staffing levels compared to high-risk accounts and makes changes to ensure manageable ratios.</li><li>• There are sufficient monitoring tools in place to assist the credit union in capturing necessary activity.</li><li>• BSA training occurs for employees servicing these members twice a year, with more specialized training in completing accurate reports.</li></ul>	

Overall Program Compliance		<ul style="list-style-type: none"> <li>The credit union has a third-party auditor come in on an annual basis to review the entire program for compliance with federal and state laws/regulations.</li> <li>Results of the overall program are reported to the Board and/or Supervisory Committee on a regular basis</li> </ul>	
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#### Transaction Risk

Risk Description	Inherent Risk	Mitigating Strategies	Residual Risk Level
Fraud/Errors		<ul style="list-style-type: none"> <li>The credit union has dual-control policies implemented when transaction volume exceeds limits in order to reduce the potential for errors and/or fraud.</li> </ul>	
Transaction identification and monitoring related to Cannabis and/or Hemp businesses		<ul style="list-style-type: none"> <li>The credit union understands the types and frequencies of transactions that are typical for the types of Cannabis or Hemp businesses that they will be serving.</li> <li>The credit union has adequate monitoring in place to identify deviations from typical transactions.</li> <li>Established processes have been put in place to immediately investigate unusual transactions and 'freeze' accounts as may be necessary</li> </ul>	

#### Concentration Risk

Risk Description	Inherent Risk	Mitigating Strategies	Residual Risk Level
Portfolio Size		<ul style="list-style-type: none"> <li>The credit union continues to have lending limits for cannabis- and/or hemp-related businesses to ensure risk levels are maintained.</li> </ul>	

Membership		<ul style="list-style-type: none"> <li>• The credit union maintains limits on the number of cannabis- and/or hemp-related businesses that it will maintain at the credit union.</li> <li>• This limit is continuously evaluated to ensure service standards are being met for these members and the existing credit union members.</li> </ul>	
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#### Hemp-Related Members

Risk Description	Inherent Risk	Mitigating Strategies	Residual Risk Level
Failure of the business to comply with federal and state regulations, particularly the .3% THC content.		<ul style="list-style-type: none"> <li>• Ensure the hemp-related business is properly licensed and have a system in place to regularly review state licensing.</li> <li>• Understand and ensure that the hemp-related business has a vigorous compliance program.</li> <li>• Request a Certificate of Analysis (measures THC levels).</li> <li>• Seek documents for the supply chain and customer base.</li> <li>• Schedule periodic tours/visits to the facilities.</li> <li>• Unwillingness to share documents and have a facility tour, may be an indicator of noncompliance and/or poor business practices.</li> </ul>	

#### Cannabis-Related Members

Risk Description	Inherent Risk	Mitigating Strategies	Residual Risk Level
Failure of the business to comply with state and/or applicable federal law or guidance.		<ul style="list-style-type: none"> <li>• Ensure the business is properly licensed and have a system in place to regularly review state licensing.</li> <li>• Understand and ensure that the cannabis or cannabis-related business has a</li> </ul>	

		vigorous compliance program. <ul style="list-style-type: none"> <li>Enhanced due diligence on the business, suppliers, signors, owners, distributors, and employees.</li> <li>Additional staff and training to assist in oversight.</li> </ul>	
Deposit /Transaction Account		<ul style="list-style-type: none"> <li>The credit union is prepared to support member activity within accounts.</li> <li>The credit union is prepared to have an influx of cash and is prepared to have a sudden excess of cash.</li> </ul>	
Loan Transaction – assets may be seized by the federal or state government.		<ul style="list-style-type: none"> <li>Alternative collateral considerations.</li> <li>Adequate insurance</li> <li>Personal guarantees from owners</li> </ul>	
No bankruptcy protections		<ul style="list-style-type: none"> <li>Alternative collateral considerations.</li> <li>Personal guarantees from owners</li> </ul>	

#### Human Resources

Risk Description	Inherent Risk	Mitigating Strategies	Residual Risk Level
Employee Satisfaction		<ul style="list-style-type: none"> <li>HR Department has weekly meetings with employees to make sure they feel comfortable providing services to this membership.</li> <li>Establish a mechanism for staff to report and credit union to document unusual or unsafe member behavior</li> </ul>	
Adequate Staffing		<ul style="list-style-type: none"> <li>Staffing levels are monitored, and new staff is trained to assist if transactional volume and support increases.</li> <li>Implementation or consideration of establishing a teller window designated for the higher cash volume that may be</li> </ul>	



		<p>present.</p> <ul style="list-style-type: none"> <li>Utilize external vendors/experts for certain aspects of the program.</li> </ul>	
Training		<ul style="list-style-type: none"> <li>Employees who are supporting these businesses will receive more significant training related to the compliance requirements and necessary reporting</li> </ul>	
Procedures		<ul style="list-style-type: none"> <li>The credit union will have detailed procedures for all aspects of the program to be prepared for potential employee turnover.</li> <li>When possible, cross-training will be utilized.</li> </ul>	