

Cannabis: A lot of business still gets done in cash

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including one who had given an endorsement to Linx for its website — told Oregon Public Broadcasting that Linx also owes them money.

The company acknowledges that almost all of its 300 customers in 20 states are owed money. Linx shut down operations in July. But CEO Patrick Hammond said he's working to start back up and vows that the retailers will all get their money back.

"My goal is by the end of October," Hammond said. "But that's a goal."

Grossman said she'll believe it when she sees the money.

"They've been telling me that since June," said Grossman, adding that she's received shifting explanations of how Linx would make good on her account. "Everything they say I take with a grain of salt," she said.

Linx is one of several companies that offered cannabis retailers a workaround to the refusal of the big credit card networks to serve marijuana businesses that are technically illegal under federal law. They include using cryptocurrency or phone apps tied into checking accounts.

Linx offered something akin to a Starbucks card. The Linx cards could be used at a cannabis shop. While it worked, retailers said it boosted sales.

But, according to Linx CEO Hammond, the surge in sales on 4/20 led to problems involved in ensuring that all the sales involved legal cannabis. One of the banks involved in processing payments decided it wanted to "de-risk" its business, he said. Hammond said Linx is now beefing up its systems to make sure it can demonstrate its transactions involve legal marijuana.

Linx is not the only card processing company that's given cannabis retailers heartburn.

"You can't go anywhere without running into (card) payments people," said Noah Carey, a Wall Street veteran who now runs a startup involving cannabis banking. He said the business offers high fees and the opportunity to make money on the "float" — that period of time between when they collect money from credit card purchasers and when they pay merchants.

"I just know that the people I've met on that side (of the industry) for the most part are kind of sketchy," said Carey, CEO and founder of Seattle-based Shield Compliance.

Mike Chappell, a Colorado resident who owns a northeast Portland cannabis retailer called Silver Stem, said he receives emails "on a daily basis from people saying they can do credit card purchasing. But this has been an ongoing scenario for the industry as long as I can remember."

He said he's been through the cycle with



Jeff Mapes/Oregon Public Broadcasting

David Alport is the owner of Bridge City Collective in north Portland.

more than one processor. "They will allow you to take credit cards and then after a couple of months it'll just be shut down basically," he said.

Chappell, who endorsed Linx on their website, said that while the company owes him money, he appreciated that the firm has at least stuck around. "It doesn't seem like they've tried to cut and run," he said.

The cannabis credit union

MAPS Credit Union appears to be thriving. Assets are up 60% in the last five years. They're erecting a second building next to their four-story headquarters in downtown Salem. They run sideline businesses ranging from health insurance to disaster recovery services.

But here's one thriving sideline you won't find on their website: They're the go-to bank for Oregon's cannabis-related businesses.

With more than 500 marijuana retailers, growers and processors, MAPS — once known as the Marion & Polk Schools Credit Union — has become one of the pioneers in serving an industry that most bankers avoid. Nationwide, experts estimate that only about 50 to 60 financial institutions openly work with cannabis businesses.

Rachel Pross, the chief risk officer for MAPS, said the credit union made what she calls the "gutsy call" to serve cannabis businesses after Oregon voters legalized the drug in 2014.

Many bankers worry about the risk to their reputation if they get tied to cannabis. And an even bigger fear is that federal

regulators could charge financial institutions with illegal drug trafficking, yank their deposit insurance or even shut them down. But Pross said it's better for everyone to get these businesses into a "transparent, compliant" banking relationship.

"Nobody benefits from an underground economy," she said, "except criminals and cartels and all of the people we don't want operating in our state."

This work doesn't come cheap. MAPS has a full-time staff of 13 handling cannabis businesses. And the credit union beefed up its security plans for handling the big cash deposits generated by cannabis retailers.

MAPS charges fees for cannabis accounts that typically run several hundred dollars a month. That's a lot more than the credit union charges other kinds of businesses.

Cannabis retailers sometimes grumble about the high costs. But Chappell, who owns the northeast Portland shop, also has business operations in Colorado and said some banks there charge much higher fees.

"I think MAPS is actually doing a relatively good job of keeping the monthly costs low, at least low enough," he said.

MAPS has built its cannabis business solely by word of mouth, to the point that Pross now estimates cannabis accounts make up about 7% of the credit union's overall deposits. But it's getting more competitive.

On their websites, Wauna Credit Union of Clatskanie and Salal Credit Union of Seattle both offer a suite of financial services to can-

nabis businesses in Oregon and Washington state. And experts predict an influx of financial institutions if Congress passes the SAFE Banking Act.

That could help drive down costs, but Pross and others say that the federal financial guidelines will remain even if the bill becomes law. She said bankers would still have to spend extra money carefully over-seeing cannabis-related accounts.

At the same time, Pross said MAPS must remain ready to respond if federal officials do an about-face and decide they don't want to tolerate the state-sanctioned cannabis business. That's one reason the credit union doesn't offer business loans to the industry.

"We have a very well-documented and tested exit strategy," Pross said, "so if there is some dramatic change at the federal level, we can act quickly."

Cannabis cash is expensive

Alport, the north Portland retailer, didn't even have an ATM in his store when it opened in 2014 as a medical marijuana dispensary. He paid suppliers and workers in a mixture of cash and checks, some drawn on his personal bank account.

"If we had to pay our taxes," he said, "we would drive down to Salem with stacks full of bills."

Brook Binder, owner of High Quality in Corvallis, recalled the first advice he received on how to safeguard his cash: "Put your money in empty pipes, and put it under your compost or under where your dog poops."

A lot of the business still gets done in cash. The state Department of Revenue says most cannabis tax payments are now made by check or money order, but about 40% arrive in cash. The agency built a special facility to securely handle that money.

Alport now banks through MAPS, and he uses an armored car service to make his cash deposits. In his shop, credit card shoppers can either use the ATM or a smartphone app that customers can load with money from their checking account.

A bigger challenge is getting access to a different kind of cash — capital to grow the business. Even financial institutions that work with the industry tend to be wary about loans.

Alan Hanson, a Portland cannabis lawyer who once worked for MAPS, said banks are always worried about the future stability of businesses based on a drug still prohibited at the federal level.

"It's pretty easy for a bank to say, 'We're closing your account, here's the check,'" Hanson said. "It's a lot more difficult to say, 'Yeah, that million-dollar loan we just gave you? We need that back tomorrow.'"

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