



Washington State Department of Financial Institutions

Division of Banks

WINTER 2020 UPDATE

UPDATES REGARDING INDUSTRIAL HEMP AND BANKING SERVICES

The Agriculture Improvement Act of 2018 (2018 Farm Bill) removed hemp from the list of Schedule I drugs under the Controlled Substances Act and authorized the growing, transportation, and research of industrial hemp. Industrial hemp is anticipated to be a booming agricultural industry, providing financial institutions new business opportunities.

The 2018 Farm Bill allowed the United States Department of Agriculture (USDA) to establish a national regulatory framework for hemp production in the United States. USDA established the U.S. Domestic Hemp Production Program through an interim final rule published on October 31, 2019. This rule outlines provisions for the USDA to approve plans submitted by states and tribes for the domestic production of hemp. The interim final rule discusses the procedural requirements that states or tribes must adopt and notes that states and tribes may not prohibit the interstate transport or shipment of hemp lawfully produced under an approved USDA plan.

On November 20, 2019, the Washington State Department of Agriculture (WSDA) submitted its plan for industrial hemp to the USDA. The WSDA also initiated expedited rulemaking to establish a hemp production program in accordance with RCW 15.140.110. More information about the WSDA's program can be found [here](#).

On December 3, 2019, the federal banking regulatory agencies, in conjunction with the state bank regulators, issued a statement clarifying the legal status of hemp growth and production and the relevant requirements under the Bank Secrecy Act (BSA) for banks providing services to hemp-related businesses. The statement provides clarification on Suspicious Activity Reporting (SARs) related to hemp customers, and provides background on the USDA final rule and legal status of hemp.

State Chartered Numbers At A Glance As of January 1, 2020

30
Commercial Banks

8
Savings Banks

18 Trust Companies

1 Branch of Foreign Banks

\$64.8 Billion
Total Banking Assets

\$66.8 Billion
Total Trust Assets Under
Management

COMMUNITY BANK LEVERAGE RATIO

In November 2019, the federal banking agencies issued a final rule implementing the Community Bank Leverage Ratio (CBLR) framework that was called for by the Economic Growth, Regulatory Relief, and Consumer Protection Act (the Act) signed into law May 24, 2018. The Act required the agencies to adopt a simplified regulatory capital framework for community banks. After receiving comments on their proposed rule earlier in the year, the federal banking agencies finalized the CBLR framework, defining a qualifying community bank or bank holding company as one that:

- Has less than \$10 billion in total consolidated assets;
- Has a leverage ratio of greater than 9 percent;
- Has limited off-balance sheet exposures; and
- Is not an advanced-approaches banking organization

The rule went into effect January 1, 2020. If you have questions about the CBLR election, please reach out to the Division of Banks Chief of Examinations, Shannon Tushar.

BANKING AND TRUST INDUSTRIES AT A GLANCE

Although there have been no new de novo bank charters in Washington, 12 de novo banks have been approved nationwide as of October 2019, with ten more applications for charters pending. The industry continues to see loan and asset growth; average total asset size of Washington chartered banks increased from \$1.5 billion to \$1.7 billion in one year. Competition for quality assets and low cost, stable funding remains stiff throughout the market. Pressure on earnings will continue because of the combination of higher funding costs and increasing provision expenses.

SEEN AND HEARD

Roberta Hollinshead and Matt Harvey continue to present on the topic of banking the cannabis industry and the emerging industrial hemp industry. Throughout 2019, Roberta and Matt presented on these topics at numerous events and conferences including the FFIEC Community and Large Bank Emerging Issues conferences, which state and federal examiners from across the country attend. While there are still challenges providing direct banking services to cannabis related businesses, Washington has emerged as a leader in this space.

Trust Company Town Hall

On October 30, 2019, the Division of Banks hosted an event for all state-chartered trust companies and trust departments. The event created a space for the leaders of each company to meet, share experiences, and swap advice. Director Hollinshead highlighted some of the most significant changes in the Washington Trust Institutions Act. Additionally, division examiners presented on various common regulatory issues faced on examinations such as the fiduciary audit requirements, compliance with the BSA, and information technology and security concerns. The Division also reminded trust companies to notify the Division if they are pursuing accounts with cryptocurrency and digital assets or any marijuana related assets. Division management hopes to host another town hall in 2020.

Upcoming Event: 2020 Cyber and Fintech Town Hall

The Division of Banks is working on the agenda for a banker's town hall to discuss emerging cyber and fintech related topics. It is anticipated the event will occur March 19, 2020, so please save the date!