

Cannabis Industry: Growing Easier Than Raising Capital

Securing Traditional Banking Services: A Major Hurdle for US Cannabis Businesses

As cannabis remains illegal under federal law, most financial institutions avoid the industry due to legal and reputational risks.

“You’ve got a very disjointed framework that is currently in place,” said Michael Makofsky, principal at McCarthy, Lebit, Crystal & Liffman. “There’s a complete disconnect where banks don’t know how to maneuver in this environment, so the default response is that they won’t.”

Federal Legal Obstacles

Cannabis is a Schedule I drug under federal law, placing it under strict controls. Even if reclassified, it would still be subject to federal rules.

The Federal Bank Secrecy Act prohibits financial institutions from accepting money from illegal narcotics, including cannabis. Anti-money laundering laws require national banks to file reports on suspected illegal activity.

Reliance on Cash and Limited Banking Options

Most potential cannabis clients are excluded from traditional banking, noted Eric Grischow, regional director of HBK Cannabis Solutions. Without access to banking or credit card processing, the industry is heavily reliant on cash, which is problematic.

Finding Alternative Banking Solutions

Due to limited banking services, cannabis businesses may use credit unions or smaller state-chartered banks. Entrepreneurs should approach these outlets cautiously and be prepared to answer detailed questions about their business.

Legislative Changes on the Horizon

Pending legislation, like the Secure and Fair Enforcement (SAFER) Banking Act, could reshape the financial landscape for marijuana businesses. The act would offer protection to federal banks working with legal cannabis businesses.

Cleveland attorney Michael Makofsky said the pending law creates a necessary conversation about marijuana policy. “The legislation would try to resolve the tension between federal and state laws regarding banking, because it essentially offers safe harbors to banks, and allows them to handle money for legal marijuana businesses.”

Email: info@cannabisriskmanager.com | Phone: +415-226-4060

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