

Financing the Cannabis Industry in NYC 2022

2022 will be the year when the last details of the cannabis legislation in New York State will finally settle. Opt-ins and Opt-outs are over, and municipalities have to set regulations finally.

As the new industry cements itself in the legal market - although it's good news - it will not be easy for cannabis businesses to succeed during their first years. 38 states have legalized the medical use of cannabis, and 19 have legalized recreational use, including the District of Columbia. But the Federal Government still treats cannabis as an illegal substance, which causes some discrepancies between state and federal law that affect businesses directly.

The Banking Challenge for Cannabis Businesses

Banking is seemingly the main problem for any cannabis business. Cannabis products are illegal on the federal level, which leads banks to be very cautious when it comes to providing services for these clients.

According to Mason Tvert, communications advisor for the Vicente Sederberg LLP cannabis law firm, "a lot of financial institutions will look at the law and determine that it's not worth the risk because cannabis is illegal at the federal level. They worry there is a potential risk of running afoul of federal money laundering and drug trafficking charges."

In addition to this, banks that do decide to provide services for cannabis businesses will probably charge higher rates and will function mostly with cash. A New Dawn Risk cannabis report has shown that approximately 70% of cannabis-related businesses work solely on a cash-only basis and have no relationship with a financial institution.

Getting Loans or Credit

Most major US banks are not likely to approve loans until the Federal Law changes. This means that canna-businesses will have to rely on credit unions or cannabis-focused banks like the New York-based Fincann bank or Abaca, a financial and regulatory technology company that has some services available in the state.

Moreover, if indeed cannabis is removed from the list of illegal substances at the federal level, cannabis businesses will be able to access loans and services legitimately and cannabis products will be imposed a tax of 5%.

Finding Investment or Capital Brokers

Businessmen are cognizant of the multimillion-dollar opportunity that the cannabis industry is, so finding investors is not going to be too tough. Groups like Tuatara Capital and JW Asset Management support canna-businesses and are often looking for new products or services to invest in.

Also, capital brokers are firms that will advise and help businesses find the support they need, including investment. Finding a capital broker that specializes in canna-businesses will come in handy to find the right and most qualified investors in the cannabis sector.

However, it's important to consider that investors will often lend money at higher interest rates or ask for an ownership stake.

Insurance for a Cannabis Company

Cannabis companies are faced with a particular set of risks that not all companies face. Starting with licenses and the regulatory requirements for manufacturers, the need to have robust dispensaries to cope with the changes in the legal environment, issues with real estate and having to pay rent by cash, or landlords unwilling to rent to cannabis businesses to avoid insurance companies refusing to cover any damages. And then also, more typical issues like theft, vandalism, equipment breakdown or more, that could be very costly.

As the new market is growing and the landscape is slowly becoming more open, it is possible to find the right insurance coverage for a cannabis company and create an effective and efficient risk management system. Brokers are also a great idea to help find the ideal insurance provider that fits the specific needs of the company.

Can we rely on cryptocurrency?

A good way to simplify things is to rely on crypto-currency for cannabis transactions. Since banks are in the gray area of whether they are legally permitted or not to offer services to canna-businesses, cryptocurrencies make it easier for companies to carry out their operations as they have no relationship with banks.

There even are cannabis-specific cryptocurrencies such as PotCoin, CannabisCoin, CopeCoin, and HempCoin that are specially designed to solve banking problems, and ease and secure businesses in the canna industry.

Examples of Cannabusiness Success

Right now, only 10 companies have a license to operate with medical cannabis in New York, and as the "original growers," they will be given certain advantages over newcomers. These companies are:

- Acreage Holdings
- Etain Health
- PharmaCann
- iAnthus Capital Holdings
- Curaleaf
- Vireo Health
- Green Thumb Industries
- MedMen
- Columbia Care
- Cresco Labs

Overall, the fight has paid off regardless of the difficulties a recreational or medicinal marijuana business could face, and New Yorkers will continue to work to normalize this industry. With 61% of the population having said they support legalization at the state level and 60% supporting federal legalization, the mere fact that cannabis has been legalized in the state is significantly tremendous.

Being considered one of the most progressive states, New York poses a huge influence over the rest that have not legalized, as well as economic pressure to explore the benefits the industry brings. Furthermore, banks are considering working with licensed companies as the NYS Department of Financial Services may issue regulatory guidance to follow when offering services.

PITCH DECK

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- 61% of New Yorkers have said they support legalization at the state level, and 60% support federal legalization.
- Cannabis products are illegal on the Federal level, which leads banks to be very cautious when it comes to providing services for these clients.
- Cryptocurrencies make it easier for companies to carry out their operations as they have no relationship with banks.