

Can Dispensary Loans Increase My Cannabis Profits?



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Anyone who owns and operates a [marijuana dispensary](#) knows it can be a cash-flow-intensive business. Most traditional businesses resort to bank financing to help them manage expenses. Unfortunately, the combination of marijuana's classification as a Schedule I controlled substance and [federal banking regulations](#) makes getting traditional bank financing difficult if not impossible for most marijuana dispensaries.

The good news is that other options for dispensary financing are available. Keep reading to learn how cannabis financing works and how it can help dispensary owners provide vital services to their communities.

How Do Cannabis Dispensaries Obtain Financing?

Thanks to a long effort by pro-cannabis activists, marijuana is legal to use for medical or recreational purposes in [37 states and Washington, D.C.](#) This trend has created numerous opportunities for marijuana dispensaries to open and operate in states that have reformed their cannabis laws. Under normal circumstances, these new businesses would be able to finance their operations via traditional loans from brick-and-mortar banks.

However, current federal laws regarding marijuana use have not kept pace with the changing state legislation. Most financial institutions have shied away from financing cannabis operations of any kind, including dispensaries. Fortunately, a number of private lenders have stepped up to provide vital financing options to dispensary owners.

This financing can help dispensary owners get the financial resources they need to operate in what can be a capital-intensive business. Dispensary owners looking to take advantage of these financing options need to prepare carefully and complete several important steps to give their loan applications the best possible chance of success.

5 Steps to Prepare a Dispensary Loan Application

Examples of the steps dispensary owners will need to take to secure financing include actions like these.

Cost-Benefit Analysis

Is a dispensary loan the best way to get the capital you need? How will your dispensary benefit from the loan? Would raising prices on inventory or finding a cheaper supplier accomplish the same goal as a loan or even offset the amount you need to borrow? Consider all these questions carefully before deciding if a dispensary loan is right for you. Financing should only be an option if you are sure the profit generated by the loan exceeds the cost of paying it back.

Gather your Dispensary's Financial Records Many of the private lenders who do cannabis or dispensary financing restrict their lending to businesses that are already in operation. Your ability to demonstrate that your dispensary is viable through profit and loss sheets and sales receipts will increase your chances of approval dramatically. You may also have to pledge a percentage of your gross receipts as payment for the loan approval. Even if they don't require that, almost all lenders will require gross receipts, and profit and loss sheets when assessing the overall health of your dispensary. Create a Budget for How You Will Spend the Money

Create a budget that maps out how your dispensary will allocate the loan proceeds. If you don't plan properly here, you could end up borrowing more, or less money than your dispensary needs. Either mistake will cost you valuable time and money.

Have a Solid Credit Score

It is vital that both your dispensary and you as its owner have a solid history of paying bills on time. Your business and personal credit rating will be of great importance to the underwriters who assess risk and actually approve your loan. In either case, the higher these credit ratings are, the higher your chances of approval. They may also require you to personally guarantee the loan. As a general rule, you should have a minimum credit score of around 680, but the higher it is, the more friendly your loan terms are likely to be.

Find the Right Lender

Cannabis financing is a very specific field. It's not only the legal concerns that make most banks shy away from lending to dispensaries; it's a lack of understanding. You and your lending partner will have a long relationship. It's important to **find a lender** who has experience in the field and understands the complexities of dispensary financing.

Considerations with Dispensary Loans

Dispensary loans can be of tremendous benefit to the owner, but they shouldn't be entered into without serious consideration. Whenever you borrow money, you're committing a portion of your future revenue to pay it back. So, you will want to consider the following factors.

- **Loan terms:** The annual percentage rate (APR), length of the loan and payment schedule are all important things to understand. In some cases, you may have to pledge a percentage of your net receipts. Regardless of the terms, you need to be 100% certain that you are comfortable with them and confident you can pay the loan back.
- **Growth potential:** Cannabis and marijuana products are a rapidly growing industry. Will the amount of financing you are looking for allow you to expand your operations quickly enough to keep pace with that growth?
- **Local market:** The cities and states where cannabis dispensaries are legal to operate already have a lot of competition. How will your dispensary be able to remain competitive? Are you operating in an area with an overcrowded market? What is the long-term potential of your location?
- **Federal, local and state regulations:** Although the federal government has taken somewhat of a hands-off approach to state and local dispensaries, the regulatory landscape can still be difficult to navigate. Do you have the licenses and government approval required to operate your dispensary legally? Obtaining any kind of dispensary or cannabis financing will be difficult if you're not in compliance with applicable regulations.

How to Use Dispensary Loans

Legal marijuana dispensaries have a wide range of expenses that owners can use a **loan or credit line** to help manage. Examples of those expenses include:

- **Products and inventory:** One of the biggest expenses involved with running a dispensary is keeping it stocked. A loan can help you manage your cash flow and make sure your dispensary has the inventory it needs to stay competitive.
- **Marketing:** Smart marketing helps your dispensary stand out from the crowd. Whether it's through social media or SEO, you can use your loan proceeds to increase your dispensary's visibility.

- **Operating costs:** Line items like payroll, utilities, security services and taxes are all examples of expenses that can be managed through cannabis financing.
- **Research and development:** In addition to buying inventory from suppliers, many dispensaries also develop or grow their own cannabis. A dispensary loan can help with creating new strains, extracts and edibles.

Is Dispensary Financing Right for You?

Running businesses is complicated. That's especially true when it comes to marijuana dispensaries, which are operating in a legal gray area between state and federal law. When those complexities come together, they can really put the squeeze on your finances if you own or operate a dispensary.

If you find yourself between a rock and a hard place, **cannabis financing** might be exactly what you need to keep your operation going. Consider the benefits and the risks carefully. The good news is that unlike in years past, you do have options for getting the capital you need to stay in business or expand your operations.

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