Entrepreneur & Innovation Exchange
Published online at EIX.org on May 11 2026
DOI: 10.32617/1380-6a01c14d3f5eb

What Startup Founders Should Know About Venture Debt

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KEYWORDS: Venture Capital, financing, funding for startups, venture debt.

Venture debt can help startups extend their cash runway without giving up more equity. Marshall Hawks explains how it works, who qualifies, and when founders should consider it.

EDITOR'S NOTE: Most entrepreneurs and founders are familiar with venture capital, but another form of available capital is far less known: venture debt. Even within the banking world venture debt is a niche product. Very few commercial lenders work with startups, and very few finance courses cover it. But if you're an entrepreneur or involved in the innovation ecosystem, it can be a critical part of your growth strategy.

Recently EIX editorial board member Peter Birkeland had the opportunity to sit down with Marshall Hawks (https://www.marshallhawks.com/) , who spent years working at industry stalwart Silicon Valley Bank (SVB) and has insights and stories involving companies we've all heard of like Airbnb and Fitbit, as well as hundreds of other companies. He recently published a book entitled "Venture Debt Deals." (https://www.marshallhawks.com/book)

This is the first article of Peter's three-part series, which will cover the fundamentals of venture lending, the different types of lenders, and who should consider using it. The second article will focus on the mechanics of venture debt and the key terms entrepreneurs must understand. The third article highlights best practices in running a venture debt process, for both lenders and borrowers.

How it Works

Peter Birkeland*: Let's start with a basic question: What is venture debt?*

Marshall Hawks: It is a term loan that usually runs out 3 to 5 years, and the main purpose is to extend the cash runway of the company using the debt. It is not tied to assets like accounts receivable or equipment. It has no or minimal financial covenants and does not require guarantees of the founders. The term loan is either paid back in equal payments, starting 12 to 24 months from origination, or potentially all due at the end of the life of the loan.

Filling a Funding Gap

PB: *Why does venture debt even exist? How do lenders get comfortable providing this type of capital?*

MH: The short answer is that the average startup company is considered very risky by most commercial banks. Banks typically like to see significant corporate history and profitability, meaningful assets on the balance sheet, and in most cases will also want personal guarantees from senior execs. Banks will want to see, at a minimum, recurring revenues where they can tie a line of credit to those revenues.

Startups are usually the exact opposite. They don't have a track record, might not have launched a product or have meaningful revenues. They generally aren't profitable and have few assets. Enter the venture lending industry, which is composed of a small subset of commercial banks and private credit firms, to fill the funding gap.

Venture lenders look past those commercial bank "shortcomings" for several reasons. First, the bar to access venture debt in the first place is that a company needs to have raised a sizeable amount of outside equity financing, usually at least a small Series A. Venture lenders get the benefit of the progress made to date and the diligence done by the venture capital firm(s) involved. This doesn't fully reduce the risk of lending to a startup, but it is a meaningful milestone to have raised outside equity.

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Venture lenders pay close attention to the investors involved in a potential portfolio company. They will typically talk with the board members during their diligence process because they want to understand the investment thesis, potential areas of concern, and other factors. Lenders will also be considering the size and vintage year of the venture funds involved. The larger and newer the fund is, the better. A venture lender's experience working with each investor on the cap table, if any, will also come into play. Have these venture funds supported their portfolio companies through good and bad times?

For earlier stage companies, lenders are not generally trying to pick winners, as much as they would like to fund the next OpenAI or SpaceX. While they would certainly like to have a few unicorns in the portfolio, they are actually trying to decide which companies they think are most likely to make enough progress to raise another equity round.

That is a very different question than trying to pick the next generational company. Lenders that focus on earlier stage companies are also trying to build a portfolio of venture debt borrowers to maximize the chance of having a few long-term winners, while mitigating risk by having any individual venture debt loan be granular in size.

Later stage lenders are doing something more akin to picking winners. The companies they are evaluating have more history and metrics to evaluate. They are also more easily comparable to public companies in a similar vertical.

Benefits to Startups

PB: *Why would a startup want to bring on venture debt in the first place?*

MH: The reason to consider using venture debt is the potential that it can help reduce dilution (i.e. selling stock to outside investors) a startup company has to take during its lifecycle. If used well, venture debt can meaningfully impact the ownership stake of founders, employees, and existing shareholders, to the positive.

How Much Money?

PB: *What are the typical amounts, or range of amounts, from various venture lenders?*

MH: To answer that question, you need to understand that there are, broadly speaking, two types of lenders that provide venture debt: venture banks and private credit funds. There are some significant differences between banks and private credit funds. The biggest difference is who provides the funding for the venture debt.

Private credit funds are managed more like a venture capital fund—they raise capital from investors or limited partners who are expecting a return. They don't take deposits and their only source of income is the loan repayment and possibly some warrants on future equity rounds. Venture banks leverage the deposit base they have from their portfolio companies to provide venture debt.

In general, venture debt from banks will be less expensive than venture debt from private credit. But, while private credit firms are typically more expensive, they can often be more flexible at times when lending and they certainly can provide larger amounts of money than venture banks.

So, there are tradeoffs for startups considering venture debt, especially those startups seeking $25 million to $45 million because both venture banks and private credit firms try to work with startups in that window.

In today's market (1st half 2026), venture banks can provide venture debt amounts up to $30 million, and private credit tends to play where debt amounts are $40 million or more, but there is some overlap.

The cost of venture debt will vary for each individual company but debt from venture banks will be around WSJ Prime + 1-2%, whereas debt from private credit will be WSJ Prime + 5-6%. In addition to the interest rate, costs to a borrower also include a warrant in the company (20-30bps of fully diluted ownership is a good benchmark) plus fees, including legal costs.

More Options for Startups Today

PB: *What does the venture lending landscape look like today?*

MH: You can think about the lender landscape in terms of pre-SVB collapse, and post-SVB collapse, which happened in March 2023. In the decade or so prior to its collapse, SVB was the dominant lender in the innovation economy and the only publicly traded bank focused on the innovation economy. Between 2009 and 2021

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SVB's stock price had a 68-fold increase, its total loans grew from $4.5 billion to $74 billion, and its total deposits grew from $25 billion to $375 billion.

SVB worked with 50% of the venture-backed companies, and two-thirds of the active venture capital funds were SVB clients. If you were looking for a venture loan any time prior to 2023, you most likely had SVB at the top of your list.

Then March 8, 2023 happened. SVB had gotten sideways because of its bond portfolio; the CEO, Greg Becker, informed internal stakeholders that SVB sold $21 billion of its bond portfolio with a $1.6 billion loss. On March 9 the stock dropped 34%, and on March 10 the FDIC took over the bank.

While I provide a detailed account of the collapse in the book, the long and short of it is that after SVB's failure a number of credible players in venture lending emerged. Some of the very best people from SVB joined other banks or private credit firms, leading to more competition and aggressive pricing. That's a win for startups—more opportunities for borrowing at favorable prices to them.

Behind the Book

PB: *Recently you wrote a book on these topics called, "Venture Debt Deals."* (https://www.marshallhawks.com/book) *What inspired you to write the book, and who is your target reader?*

MH: I was initially inspired by a book written by Brad Feld and Jason Mendleson, called *Venture Deals.* It was released back in 2011 and very quickly it became required reading within the innovation ecosystem because it helped demystify venture capital. Before that book, the venture world was a bit of a black box and there was a steep learning curve for founders to figure out what was going on. How do venture firms make decisions? What are the normal parts of a term sheet for investment? What is involved in a venture capital fundraise process?

Venture Deals pulled back the curtain and helped remove the information asymmetry between founders and investors. These days, information on venture capital funds and how they invest is broadly available. Thanks in no small part to *Venture Deals.*

In *Venture Debt Deals*, in addition to a similar book title, I've aimed to give entrepreneurs, finance teams, and investors a similar look behind the curtain of the venture lending industry. How do venture lenders function and make decisions? What are the normal components of a venture debt term sheet? What is involved in the average venture debt fundraise?

Across my 20 years in the venture lending industry I've seen numerous good and bad outcomes, and I wanted to share best practices from those situations. I wrote *Venture Debt Deals* because I want to educate founders specifically on when, and when not to consider using venture debt to help fund their businesses.

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