

How Long Does It Take to Raise Venture Debt?

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Raising venture debt typically takes four to five months. Learn what lenders require, how the process works, and what founders can do to speed it up.

As a founder, entrepreneur, or head of finance at a startup, you may be evaluating whether to use venture debt as a less costly way to help grow your business. Aside from the big question of whether venture debt makes sense in the first place, you will want to understand the ins and outs of a fundraising process.

In a [previous article](https://eiexchange.com/content/what-startup-founders-should-know-about-venture-debt) (<https://eiexchange.com/content/what-startup-founders-should-know-about-venture-debt>) we covered the fundamentals of venture lending, the different types of capital providers, and when to consider using it. In this article we want to share what is involved, the timelines, diligence items and specifics of the process itself. We will also highlight best practices that will optimize for the most important resource a founder has: time.

This article features a conversation with [Marshall Hawks](https://www.marshallhawks.com) (<https://www.marshallhawks.com>), a 20-year veteran of venture lending stalwart Silicon Valley Bank and the author of the recently released book, [Venture Debt Deals](https://www.venturedebtdeals.com) (<https://www.venturedebtdeals.com>).

Setting a Realistic Time Frame

Peter Birkeland: *If someone is just starting down the path of exploring venture debt, what are some of the major tasks they will encounter, and what is a reasonable timeline?*

Marshall Hawks: I'll start with the timeline first. An efficient, well-run venture debt fundraise with no hiccups can be done in 90 days. Typically, that happens if all parties are motivated and there's a specific event or

date on the calendar, like an M&A transaction, that motivates everyone to move quickly. More commonly, a venture debt fundraise will take 4-5 months. By timeframe, regardless of how short or long, I mean the point where you have the first conversation with a lender to the point where cash is in your bank account.

There are five components of a venture debt fundraise. First, there is an initial screening, where a lender will try to get a short overview of the business, equity fundraising history, how much debt the company is seeking, and how it will be used.

Most good lenders will screen out most situations that are not a fit for their firm, in an attempt to avoid burning their or the company's time unnecessarily. The company may get an immediate "no" or "this is worth pursuing" response from the lender during the initial call. At most, you should expect to hear back from lender(s) within a couple of days.

If a lender is interested, the next major task is due diligence. Lenders all want to see the same set of core documents:

- The most recent investment deck or company overview,
- Annual and monthly financials (prior two years),
- Monthly or quarterly projections,
- A/R and A/P agings if the company has revenue,
- Detailed cap table,
- Articles of incorporation, and
- The 409a valuation.

These items should be readily available for a company and lenders are not trying to make companies create anything from scratch.

If you get that list to a lender within a few days, most lenders will come back within a week or so to schedule



in-person meetings to cover questions that came up during their review. Lenders may also want to speak with board members, typically your largest investor and the most recent lead investor. While the level of depth varies, you should expect the diligence phase to run 2-4 weeks.

The third phase is the Term Sheet. Assuming everything looks good so far, after the initial diligence you will receive a term sheet from the lender. (Note: the next article in this series will cover the term sheet in greater detail; for now, we'll assume you have a term sheet in hand.) You can negotiate the term sheet—it's not a take-it-or-leave-it document. There will be some back and forth on terms, perhaps on economics, or duration. The term sheet phase can have wide time ranges, depending on how aggressively both parties want to negotiate but generally takes 1-3 weeks.

The fourth and fifth phases, final credit approval and legal documentation, happen concurrently. The final credit approval is the lender's internal process to formally sign off on the new loan. That usually lasts 2-4 weeks.

Legal documentation is the longer process, where outside counsel on both sides get involved and it usually takes 6-8 weeks. Similar to term sheet negotiations, legal negotiations can extend well beyond that timeframe depending on how hard the company or the lender try to hold the line on specific terms.

Streamlining the Process

PB: *Knowing the process and average timeframes, what best practices do you recommend to keep a fundraise short and efficient?*

MH: From the beginning, don't start down the venture lending path until you have all the diligence information readily available. In many cases you'll have to provide supporting documents as well, so make sure you are ready to spend that time. If you haven't prepared in advance or try to juggle too many things alongside a venture debt fundraise, that can easily push out timelines by weeks or even months.

Next, don't burn time talking with too many lenders. Occasionally I would have conversations with companies where it was obvious they had 10 venture debt firms actively in discussion. It may seem counterintuitive, but talking with that many lenders is

going to burn too much time on the company end. Equally, if not more important, most lenders can tell when they are in that kind of bake-off, and will not put their best foot forward, because they know it is unlikely they carry the day. Suboptimal all around.

I recommend talking to at least three, but not more than five lenders that you think are likely to be interested in your business. That allows you to concentrate your efforts with a smaller number of potential partners. A better use of your time.

It also gives the lenders in discussion the potential to build a better relationship with you and know they have a real chance at winning the business. The practical impact for the company is a better working dynamic with the firm you ultimately partner with and the best terms relative to the situation.

Once things get into the legal documentation phase, there are numerous things that can bog down the process. One item in particular is to be sure to use outside counsel to negotiate the legal documents alongside the company. This may seem obvious, but in the case where a company already has a general counsel, it can become a stumbling block.

Yes, your general counsel knows you and your company, but they don't see venture debt documents frequently. I've never seen a process move faster or be less costly when a GC wanted to negotiate documents on their own. Avoid that issue and work with good, experienced outside counsel, who likely see hundreds of these types of transactions every year.

Maintain the Relationship

PB: *Once a company has venture debt in place, is there anything they should be doing post-deal, or is it really, 'just send in financials and make your monthly payments?'*

MH: There are some founders and entrepreneurs who do just that, but I would tell a company they are not getting everything they can from their lending partner if that's how they approach it.

You want to continue building the lending relationship, even after the debt is in place. Even the best businesses will have moments where things aren't working. A lender's willingness to be flexible or accommodating when things aren't working will be driven by a variety of

factors, but trust is a big component. The way to build trust with your lender is to be proactive in sharing news about the company—positive AND negative.

Being transparent and honest about what is working, and particularly what is not working, gives lenders more confidence in you and your business, not less. Experienced lenders know building a new business is hard and always comes with challenges. If they don't hear about the challenges in the business directly from you, they have to spend time guessing. Don't force them to go looking for the wrinkles in the business. This will pay dividends when you need their help down the road.

Like any relationship in business, strive to under-promise and over-deliver. The eternally optimistic founder can quickly erode their credibility if whatever they say never quite materializes. It's a lot better to share a realistic outcome and hit that than to come up with some audacious goal and fall short. Lenders are focused on risk mitigation, so realistic statements about the future really matter to them. The hype about the future? Not so much.