



**BuchalterNemer**  
A Professional Law Corporation

## Tech Industry Bulletin



January/February 2015

### Bank/Finance: Debt Financing for Tech Companies That Do Not Have a Long Credit History

By: Bukola Mabadeje

Small and medium size technology companies that do not have the benefit of a long credit history are often faced with a challenge when it comes time to obtain debt financing. Traditional lending institutions look to a company's credit history to make credit decisions. Credit history in turn is based on the historical cash flow of the company. Notwithstanding, there are alternative bases on which a lender could extend credit to a borrower that either lacks or has an inadequate credit background.

It is now fairly common for banks and other commercial lenders to make loans without a long credit history of the borrower, as long as there are assets of the borrower which the lender can look to as a source of repayment and also as collateral in the event of failure to repay the loans.

Such assets go beyond the obvious real estate assets, to include less obvious assets like accounts receivable, equipment and inventory of a company, which could form the borrowing base of a loan, as well as the assets to which the bank may take a lien. The more readily convertible assets for such loans are accounts receivable—i.e. the income due to a borrower from any number of third party contracts for the supply of goods or services. A lender would simply appraise the value of such accounts receivable, and advance credit based on the expected income.

To illustrate, suppose the borrower anticipates an approximate dollar amount of receipts from its contracts within a certain period of time. The lender would lend a percentage of that expected income with the expectation that the payment received would be used to pay off the loan. The lender also would perfect its security interest in the accounts receivable by filing a financing statement at the appropriate State UCC filing office.

With a steady and sizeable portfolio of assets along with the right lender, there may be an abundance of financing sources available to the atypical borrower.



*Bukola Mabadeje is an attorney in the firm's Bank and Finance Practice Group in the San Francisco office. She can be reached at 415.227.3510 or [bmabadeje@buchalter.com](mailto:bmabadeje@buchalter.com).*