Jason has handed me the baton to continue talking about convertible debt. Next up, we're going to talk about interest rates.

Clint: How do interest rates show up in a convertible note and how important should this be to the entrepreneur.

Brad: Interest rates are almost always explicitly defined in the note. The interest rates in the note generally have no real correlation to what you could get alone from a bank at. The interest rate and fed funds and that sort of thing have no real correlation on the rates you're paying your investors when the interest rates are low.

Generally, you'll see an interest rate in a convertible note of somewhere between 8-12%. A lot of times, you'll see it at 10% or 12% just for ease of calculating whether it is imputed monthly or on an annual basis.

Think of the interest rate on the convertible note as just some additional juice for the investor who is giving you the convertible note. They're getting a little bit of return, which almost always translates into a discount on the financing. It's not worth fighting for a meaningful lower interest rate unless the investor is asking for something particularly high. So if you find an interest rate that looks at 18 or 20%, it's worth pushing back because that's on the high side for what this would be.

Also, recognize that there are some laws about how high it can be. So generally, you're not going to see interest rates of numbers significantly about 28%.

Clint: Do you ever see an entrepreneur say, "Hey, look. You got a great deal on the valuation. How about we just do 0% interest rate?"

Brad: Legally, you have to have an interest rate for it to be debt. Generally, you'll have a very small interest rate in any scenario. However, I'm not sure that the actual notion of "they've already gotten a great deal on the debt" is the right way to think about it. You're offering a convertible note to the investor with or without a cap, whatever that dynamic is.

They don't have any control over how long that note is out for. It might be out for a month or two months or three months or it might be out for a year or two years. So given the fact that they've got your money for that period of time, giving them some interest on it is a nice way to give them some incremental return because you're using that money, presumably, to create more value in your company.