

# Case Study: Core Scientific—A Defining Moment for AI-Driven Lending

## Background

In December 2021, Indigo Direct Lending funded a \$3,108,795 senior secured term loan for Core Scientific, Inc., a vertically integrated provider of infrastructure, software, and hosting solutions for blockchain and artificial intelligence applications. The collateral securing the loan consisted of critical power generation equipment required to support the operation of high-performance NVIDIA GPUs at Core Scientific's Dalton, Georgia data hosting facility.

At the time, Core Scientific was closely affiliated with a major software developer in Seattle, WA, supporting OpenAI's Generative AI model training efforts, including early iterations of GPT technology. What began as a traditional equipment financing transaction soon became a pivotal moment, highlighting the revolutionary potential of Generative AI. This deal introduced our credit fund to the broader implications of AI-driven lending and solidified our strategic pivot toward integrating AI technology into financial operations.

## Understanding the Investment

As the Chief Credit Officer, and primary underwriter of this novel transaction, Matthew Dobson was tasked with evaluating not only the creditworthiness of Core Scientific but also the long-term implications of the financed assets - 54 commercial electrical switchboards essential for powering AI training clusters. This deep dive into AI infrastructure exposed the critical role of reliable power generation in enabling large-scale model training, opening my eyes to the sheer computational demands of Generative AI.

Throughout 2021 and into 2022, Matthew's immersion in the topic led to a groundbreaking realization: Generative AI was a technological leap akin to the advent of personal computing, Microsoft Excel, and the Internet. Even in its early form, it was clear that Large Language Models (LLMs) had the potential to fundamentally alter the way financial professionals interacted with data. This financing transaction became the turning point, illustrating that the ability for highly trained finance professionals to engage with workflow data conversationally via AI would change computing - and secured lending - forever.

## Key Insights from the Deal

### 1. Generative AI's Infrastructure Needs

The transaction underscored that Generative AI relies not only on cutting-edge GPUs but also on mission-critical power generation and data hosting infrastructure. The successful deployment of AI technologies requires lenders to adapt their risk assessments to account for these dependencies, recognizing the growing intersection between AI and traditional financing.

### 2. Implications for Secured Lending

This deal highlighted a critical **paradigm shift in secured lending**. Generative AI introduced a transformative capability—enabling lenders to conduct underwriting and collateral analysis with unprecedented speed and the ability to leverage AI for **real-time data synthesis and analysis** allowing underwriters to move past static financial statements and appraisal reports, instead interacting with vast amounts of structured and unstructured data conversationally. This shift empowered credit professionals to rapidly identify emerging risks, uncover hidden value in collateral, and make data-backed decisions with greater confidence.

### 3. The AI Copilot Vision

The experience of underwriting this deal ignited an obsession with Generative AI's application in lending operations, leading to the development of **AI Credit Trials 7, 8, and 9**, which focused solely on Generative AI integration into underwriting and portfolio management. The realization that skilled finance professionals could interact with data conversationally using LLMs was the defining moment—this was no longer about automation but augmentation. AI was poised to serve as a **copilot**, enhancing efficiency, risk assessment, and customer interactions in ways that were previously unimaginable.

### Impact on Lending Strategy

The Core Scientific deal proved to be the catalyst for a fundamental shift in our lending strategy. It became clear that Generative AI wasn't just another tool—it was the **only way forward**. The ability to analyze vast volumes of financial data, generate insights in real time, and facilitate intuitive human-AI interactions was a game-changer. The transition from traditional underwriting to AI-augmented decision-making was no longer a theoretical concept but an operational necessity.

As a result the Indigo bank-backed private credit fund took decisive action by incorporating AI into every stage of the lending process. Generative AI became an indispensable asset, assisting in data extraction, risk analysis, financial modeling, and portfolio monitoring. This experience cemented our belief that successful lending in the AI era required not only capital but also **technological acumen and a willingness to embrace change**.

### Conclusion

The **Core Scientific Case Study: A Defining Moment for AI-Driven Lending** was more than just a financing transaction - it was the spark that ignited an obsession with Generative AI and its potential to revolutionize commercial lending. This deal introduced a groundbreaking realization: the ability for a highly trained finance professional to interact with complex credit workflows using Large Language Models (LLMs) was a **game-changer**.

Even in its early form in 2022, Generative AI demonstrated an unprecedented technological leap. For the first time, professionals in the lending industry could **"talk to their data,"** engaging with underwriting, risk analysis, and operational workflows through intuitive natural language interfaces. The implications were clear - this wasn't just an incremental improvement; it was a fundamental shift that would redefine the way financial professionals process information, make decisions, and serve clients.

The ability to bridge the gap between human expertise and AI-powered insights marked the dawn of a new era in computing. No longer constrained by rigid software interfaces and manual data retrieval, finance professionals could now engage with data conversationally, unlocking efficiency, accuracy, and speed at levels never before imagined. This realization galvanized our commitment to integrating Generative AI across all aspects of lending operations, leading directly to the focus of Trials 7, 8, and 9 on augmentation rather than automation.

As we stand in April 2024, it is evident that the Core Scientific deal was the defining moment that validated Generative AI's place in lending. The technology that once seemed futuristic is now an everyday reality - transforming how loans are underwritten, risks are assessed, and relationships are managed. This leap forward in **Human-AI collaboration** is not just the future; it is the present, and it continues to shape the evolution of financial services. We have enclosed the Funding Notice for this pivotal transaction in December 2021 for the records.

CREDIT ANALYSIS MEMORANDUM

BORROWER PROFILE

<b>Loan ID</b>	544001001	<b>NAICS</b>	<b>Borrower</b>	<b>Guarantor</b>
<b>Borrower/Lessee</b>	Core Scientific, Inc.	<b>Industry</b>	518210	518210
<b>Borrower Type</b>	Corporation	<b>Tax ID</b>	Data Processing and Hosting Svcs	Same
<b>Operating Company</b>	Core Scientific, Inc.	<b>Year Est.</b>	82-3805526	NA
<b>Guarantors</b>	Core Scientific Core Holding Co.	<b>Ownership</b>	2017	2020
		<b>Structure</b>	NA	NA
		<b>DBA</b>	Corporation	DE C-Corp
<b>Borrower Address</b>	2800 Northup Way #220, Bellevue, WA 98004	<b>Business</b>	Core Scientific	NA
<b>Guarantor Address</b>	2800 Northup Way #220, Bellevue, WA 98004		Vertically integrated provider of infrastructure, software, hosting, mining and equipment sales for Blockchain and Artificial Intelligence	

LOAN PROFILE

Loan Type	Senior Secured
Collateral Type	Equipment
Loan Purpose	Purchase

CREDIT PURPOSE

To purchase commercial equipment for the purpose of power generation for Dalton, GA data hosting facility (144,000 sf / 185MW); Critical-use equipment; Revenue generating; Switchboards/breakers/power eqmnt useful life > 10 years

TRANSACTION STRUCTURE & LOAN DETAILS

Sources	Amount	Rate	PPP	Payment	Term	Index	Index Floor	Spread
Senior Term Loan	\$ 3,108,795	8.00%	NA	\$0	48m to \$1	LTS	1.252%	6.748%
Deposit	\$ -							
Borrower Equity	\$ -							
Total	\$ 3,108,795							

Uses

Purchase Price	\$ 3,108,795
Deposit	\$ -
Est. Closing Costs	\$ -
Total	\$ 3,108,795

Uses - Detail

Closing Costs	\$0
NA	\$0
NA	\$0
NA	\$0
NA	\$0

Index Rate

Closing Date:

COLLATERAL OVERVIEW

Property Type	Address	Equipment Type:
New Equipment; Electrical Equipmnt	2205 Industrial South Dalton GA 30721	Eight (8) Invoices totalling fifty-four (54) units of commercial electrical equipment described as follows: 4000 AMP SWITCHBOARDS WITH (36) 125AMP BREAKERS IN EACH. Equipment inspection completed December 09, 2021.

<b>Project Costs</b>	\$ 3,108,795	<b>Appraisal</b>	N/A	N/A
<b>Market Value</b>	\$ 3,108,795	<b>Environmental</b>	N/A	N/A

<b>Equipment Lease</b>	<b>LTV</b> 100.0%	<b>LTC</b> 100.0%	<b>Prop Tax Status:</b> Explanation/Detail:	N/A
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CREDIT REPORTING

	Type	EFF	LxNx-BK	LxNx-Jdg/Liens	Notes:
<b>Lessee-OC</b>	CORP	NA	0	0	Business credit is in good standing; Credit accounts current;
<b>Guarantor</b>	NA	NA	NA	NA	
<b>Guarantor</b>	NA	NA	NA	NA	

CASH FLOW

Income Statement	2018	2019	2020	2021-8m	Balance Sheet	12/31/21
Revenue	\$ 19,322	\$ 59,523	\$ 60,320	\$ 185,360	Assets	\$ 916,769 100.0%
Pre-Tax Income	\$ (50,856)	\$ (11,922)	\$ (12,206)	\$ 23,590	Debt	\$ 802,848 87.6%
EBITDA	\$ -	\$ (5,569)	\$ 2,966	\$ 61,843	Equity	\$ 113,921 12.4%
<b>DSCR</b>	<b>0.00x</b>	<b>0.00x</b>	<b>0.13x</b>	<b>2.28x</b>		

all amounts in 000's

LENDER INFORMATION

	Company	Contact
Lender:	Indigo Direct Lending	Michelle Kernan
Seller:	Liberty Commercial Fin	NA
NA	NA	NA

CREDIT APPROVALS

Name / Title	
Mary Kay Parsek	Inv. Cmte. Chair
Brent E. Carey	Inv. Cmte. Mbr.
Matthew Dobson	Credit Underwriter

COMPLIANCE CHECKLIST

LOAN ID:

54400101 (CORE SCIENTIFIC)

1.2 Limits & Exposure Check

Deal Size

Geographic Concentration

Borrower Concentration

Max Deal Size

1.4 Pricing Check

Committee Pre-Approval

1.5 Eligibility & Advance Check

SBA 504

3.3.2 Underwriting Review Check

DSCR within policy

3.4 Cash Flow Check

Acceptable Exit

3.6 Waivers (if applicable)

Acceptable Exit

☒ YES

☐ NO

☐ N/A

☒ YES

☐ NO

☐ N/A

☒ YES

☐ NO

☐ N/A

☒ YES

☐ NO

☐ N/A

☒ YES

☐ NO

☐ N/A

☐ YES

☐ NO

☒ N/A

☒ YES

☐ NO

☐ N/A

☒ YES

☐ NO

☐ N/A

☒ YES

☐ NO

☐ N/A

☐ YES

☐ NO

☒ N/A

Notes:

