

How to complete a Promissory Note in California

Promise to repay a loan with interest, due date, and default terms.

What this form is for

A promissory note is used when your business borrows money and needs to formalize the repayment promise in writing. This legally binding document outlines the principal amount, interest rate, payment schedule, and what happens if you default, and it's required by nearly all commercial lenders and the SBA.

Before you start

- Loan amount (principal), agreed interest rate, and whether interest is fixed or variable
- Repayment schedule details: monthly payment amount, number of payments, and final maturity date
- Collateral description if the loan is secured (equipment, real estate, inventory)
- Lender's full legal name and address, plus your business's legal name and EIN
- Late fee structure and grace period (typically 10-15 days in California)

Step-by-step

1. Fill in the date of the agreement and the principal loan amount in both numerals and written words to prevent alteration.
2. Identify the borrower (your business legal name as it appears on your formation documents) and the lender with complete addresses.
3. Specify the interest rate as an annual percentage and state whether it's fixed or adjustable. California usury laws generally cap interest at 10 percent for non-exempt lenders, but banks and licensed lenders are exempt.
4. Detail the payment structure: amount of each installment, due date (such as the first of each month), total number of payments, and the final maturity date when any remaining balance is due in full.
5. Indicate whether the note is secured or unsecured. If secured, reference the separate security agreement and describe the collateral briefly.
6. Complete the prepayment clause, stating whether you can pay off the loan early without penalty. California generally favors borrower-friendly prepayment terms.
7. Fill in the late payment section with the grace period and late fee (flat fee or percentage). Make sure this complies with your loan agreement.
8. Include the default and acceleration clause, which allows the lender to demand full immediate payment if you miss payments or breach other terms.

9. Add any additional covenants such as financial reporting requirements, restrictions on additional debt, or insurance requirements.

10. Sign and date in the presence of a notary if required by your lender, though California doesn't mandate notarization for promissory notes to be enforceable.

What lenders look for

- Banks verify that payment amounts actually amortize the loan correctly over the term at the stated interest rate, so double-check your math or use an amortization calculator before submission.
- Vague or missing default language raises red flags; underwriters want clear triggers for default and explicit rights to accelerate the debt and recover costs.
- Inconsistent dates, names, or amounts between the promissory note and other loan documents (security agreement, loan application) will delay funding or trigger rejection.