

How to complete a Promissory Note in Illinois

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

What this form is for

A Promissory Note is used when a borrower receives a loan and promises to repay it under specific terms. Small-business owners complete this form when borrowing from banks, private lenders, investors, or even friends and family to formalize the repayment obligation with enforceable terms.

Before you start

- The exact principal amount being borrowed and the purpose of the loan
- The annual interest rate agreed upon and whether it is fixed or variable
- The repayment schedule including payment frequency, amount per payment, and the final maturity date
- Details about any collateral securing the loan and whether a separate security agreement exists
- Information about late payment penalties, prepayment rights, and what events trigger default under Illinois law

Step-by-step

1. Fill in the date of the agreement and the full legal names and addresses of both the borrower and lender. For businesses, include the entity type and state of formation.
2. Enter the principal loan amount in both numerals and written words to prevent disputes. Specify the date the funds will be or were disbursed.
3. State the annual interest rate as a percentage. Illinois does not have a general usury cap for business loans, but consumer loans over 9% require specific disclosures, so clarify if this is a business or personal obligation.
4. Define the repayment terms including the number of payments, payment amounts, due dates, and whether payments are interest-only or amortized. Specify the final maturity date when the entire balance is due.
5. Include any prepayment terms, stating whether the borrower can pay early without penalty. Many lenders include prepayment fees, so negotiate this clearly.
6. Detail late payment penalties, typically a percentage of the overdue amount or a flat fee. Ensure the penalty complies with Illinois regulations and does not constitute a penalty clause courts might void.
7. List events of default such as missed payments, bankruptcy, or breach of other agreements. Specify the grace period, if any, before default is triggered.
8. Add an acceleration clause allowing the lender to demand full repayment immediately upon default. Include any right to cure periods.

9. Both parties sign and date the note. While Illinois does not require notarization for enforceability, notarization adds credibility and may be required by some lenders.

What lenders look for

- Banks scrutinize whether the interest rate and terms align with market standards for similar loans. Unusually favorable terms to insiders raise red flags about arm's-length transactions.
- Missing or vague default definitions are a common mistake. Lenders want clear triggers and remedies, so be exhaustive about what constitutes default.
- Ensure consistency between the Promissory Note and any related loan agreements, security agreements, or personal guarantees. Conflicting terms can delay approval or create enforcement problems.