

# A GUIDE TO DRAFTING AND REVIEWING COMMERCIAL LOAN DOCUMENTS



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Published on [www.lorman.com](http://www.lorman.com) - September 2017

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Commercial lending professionals and attorneys need to know how to draft and review commercial loan documents. It is important that they understand credit agreements, promissory notes, guaranties and collateral documents when they are operating in their field. These documents are necessary for the funds to transfer from the lender to the borrower, and they must be generated correctly.

### **Why Would a Business Need to Borrow Money?**

When a company owner wants to borrow funds for their business, they will generally need to have money to invest in what they do for a living. This will allow them to keep operating. They might need to use it for better equipment. In some cases, they will use it to invest in their inventory. Others use it to help pay for the rent on the buildings that they are using. Since various businesses have different incomes, they might need the credit assistance from a commercial lending source. It is important that the lender be familiar with the various types of lending instruments and that they check them when they are completed.

### **Where Can a Borrower Find a Good Commercial Lending Company?**

There are plenty of great commercial lending companies in all different areas. One great way for a business owner to locate them is by getting referrals from friends, family and colleagues that they know. Since other people will have already completed business with them, they will have a good idea that they will work well for them too. Another way for an owner to locate a lender is through looking in the Yellow Pages. There will be several of them listed, and they will need to do their research on each one of them. Many other business owners rely on the Internet to find a lender that will work well with their situation. It is easy for them to do a simple search and compare the different companies. The Small Business Association is also another great way to find the lender that will be right for a certain situation. It is important that a business owner compare the different lenders rates and terms before they make a decision to go with them on a commercial loan.

## **Commercial Lending Professionals**

Commercial lending professionals are educated and trained in what they do. They are in business to lend money to business owners and entrepreneurs that are in need of financial assistance. They let the business owner borrow money and include an interest rate so that they will make money over the course of the loan. By lending a business owner money, the lending institution facilitates the growth of that particular organization.

### **Attorneys Review Documents for Commercial Lending Companies and for the Borrower**

Many attorneys are retained by commercial lending companies to check over the documents that they have developed with borrowers. They will be able to understand the terms and conditions, and they will make sure that the documents will hold up in a court of law. In some cases, the attorney may be retained by the borrower so that they are aware of what they are getting into when they decide to borrow money.

### **Finding a Good Attorney**

When a business owner wants to be sure that they find an attorney that will work with their situation, they will want to get a referral from someone that has used one in the past. Referrals are always a great indication that the attorney did a good job for someone else before. Since they will be given a recommendation of the attorney, that particular one will be a good one for them to retain. They can also locate them by using the Internet and the Yellow Pages. When they have their first consultation with the lawyer it will usually be free. This will give them the chance to understand what they can do for them and if they want to go with them.

## **Checking the Credit Worthiness of a Borrower That is Interested in Getting Funds From a Commercial Lending Institution**

When a borrower first comes to the commercial lender to apply for any type of loan, the commercial lending institution needs to do a full credit check on them. They need to make sure that this business will operate so that the borrower will be able to make the money they will need to pay the money back to them. Since verification is needed, they should request to see a variety of proof from the borrower, like income tax returns and various other proof items of what the business will be able to make. It is always a good idea to have an in person consultation with the borrower, although in many cases, this type of information can be taken over the phone or Internet in order to facilitate the process in quicker time frame.

## **Drafting and Reviewing Documents in the Commercial Loan Field**

It is important that anyone that handles commercial loan documents be aware of how to draft them and how to review them. They need to know what specific types of financial agreements will work best for business owners when they come to them for assistance. When they have a good customer that wants to borrow for their business, they will usually receive repeat business from them at a later date. Many company owners will need to continue to borrow in order to stay ahead of the competition in their field, and they will return for credit if they are handled properly the first time.

## **There are Several Different Types of Commercial Loans**

Since there are several different types of commercial loans, the professional will need to explain them to the borrower to find the one that is best for them. These different loans are the commercial credit agreement, the promissory note, the guarantee and the collateral agreement. Using any of these or a combination of them will allow a business owner to get the funds that they need when they want them.

## **Tips on How to Draft a Commercial Credit Agreement**

A commercial credit agreement is given to business owners by commercial lending companies so they can borrow money to continue operating at the level that they have been accustomed to. The funds are used to allow the owner to operate business on a regular basis. Most commercial lending companies have standard forms that they use within their organization. In other cases, they will need to draft one up to give to their customer.

- The document needs to be specific and clearly written.
- All sections of the agreement need to be accurate.
- Terms and clauses should be explained so that they can be understood readily by the borrower.
- A printed name of the borrower is necessary, as well as a signature and date.

## **Tips on How to Draft a Promissory Note**

The promissory note is a binding document that commits a person to a repayment schedule of a loan. It will have all the information that is necessary on it to make sure that the borrower knows what the terms are of the loan, the interest rates, names and signatures. It will also include information that can happen to the borrower if they do not fulfill their obligation of the repayment of the loan. Drafting out a promissory note can be done by the lending institution or by a lawyer. It can be used in conjunction with a regular commercial loan or on its own. It depends on the nature of the original conversation between the lender and the borrower.

- The correct terms of the amount of the loan needs to be stated.
- All sections need to be accurate.
- The repayment schedule needs to be drawn out.
- An interest rate needs to be provided.
- A clearly printed name of the borrower and their signature need to be on the document.
- It is important to make sure that there is a section for the date, and that the promissory note is signed and that it is correct.

## **Tips on How to Draft Guaranties**

Guaranties are made by a third party to a lender. The third party will assume the debt when the initial borrower does not honor the loan. These guaranties are promises to pay the loan by the third party. The lending institution, the borrower and the third party will need to get a copy of the loan. It is important that the terms be written out clearly, and that it is specified that the person will assume the debt if the borrower does not make good on the loan.

- The document must be clearly written to establish what the third party is actually committed to.
- It is important to make sure that the lending institution, the borrower and the third party must get a copy of the document.
- Full names of the borrower and the third party must be printed out on the form and their signatures are also necessary.
- The correct date will need to be put on the document.

## **Tips on How to Draft Collateral Agreements**

When a borrower is putting up some type of collateral in order to get the loan, the agreement must clearly include this. Usually a borrower will use their business or a home for collateral when applying for a business loan. There are other ways for them to post collateral, but those are the main ones. When the collateral is posted on the agreement, it can be taken if the borrower does not make good on the loan. That is why it is extremely important that the agreement be drawn up clearly, and it needs to state what the collateral is and how much it is worth.

- The nature of the collateral must be clearly stated on the agreement.
- An amount must be specified on the agreement in order to be able to take the collateral if the loan is not honored by the borrower.
- A clearly printed name needs to be on the agreement.
- The signature and date needs to be correct.



## **Tips on How to Review a Commercial Credit Agreement**

When reviewing the commercial credit agreement, a commercial lending professional or attorney will need to check for proper wording and information. Every bit of information that the business owner puts on the agreement should be checked for accuracy. Income of the borrower needs to be verified. The signature and date need to be clearly visible on the document. It is important that the document be reviewed so that if there are problems in the future it can be presented in a court of law. In a court of law, documents need to be clearly written and the information needs to be correct.

- Check for accuracy of the agreement, including the money that will be given to the borrower.
- Each clause should be checked and double-checked to make sure that it clearly explains the document.
- The name should be printed out in the document.
- The signature should be clearly visible.
- It is important to make sure the date is correct for the agreement to be valid.

## **Tips on How to Review a Promissory Note**

The promissory note is very important because it gives the details on how much the loan will be for and the details involving how it will be when it is paid back. It needs to be written clearly and checked for errors. When reviewing the document, all sections should be checked out thoroughly.

- The date needs to be accurate.
- A borrowers name needs to be printed out clearly.
- The signature needs to be on the promissory note.
- All information needs to be accurate.
- The amount of the loan and the repayment schedule need to be clearly noted.



## **Tips on How to Review Guaranties**

When a guaranty is documented, it needs to be reviewed. The professionals that have drafted the document need to check the entire document for clarity and to make sure that there aren't any errors. If there are errors, they need to be corrected. The terms need to be spelled out entirely, and they need to be able to be understood by all three parties, the lender, the borrower and the third party.

- Reviewing the documents requires scrutiny.
- The terms and clauses need to make sense so that all three parties understand what is happening with the loan.
- Names need to be printed and also require signatures and a proper date.

## **Tips on How to Review Collateral Agreements**

When reviewing the collateral agreements, it is important to check for the accuracy of what the collateral is, and how much it is worth. This should be clearly stated, and in the process, there should also be documentation that proves that it is worth the value that the borrower has stated. Many times, a borrower may say that the collateral is worth more than it is in reality, and that is why the proper documentation needs to be provided. All the clauses in the document need to be clearly stated and checked for errors. They should be corrected if there are any discrepancies.

- The collateral type and what it is worth should be clearly noted.
- Proof of the value of the collateral is needed.
- Review for a clearly printed name of the borrower, a signature and a date.

## **Putting in the Proper Words and Clauses is Very Important**

When the loan documents are being developed, they need to have the proper wording and clauses in them. They need to be simple and to the point because they have to be clear for the borrower to understand. Since there is a need to make sure that these words and clauses are correct, they need to be checked and rechecked before the documents are given to the borrower for a signature. If the borrower has any questions about what the document's clauses mean, they should ask them right away. The information in the document is legally binding, and the borrowing party needs to understand what it all means. There are many times that a borrower may need to have a lawyer look over the documents so that they fully understand what they are about to sign. In many cases, the lender will allow the borrower to take the document with them to look over it closely before they sit down for a final meeting to sign the papers. Once they do sign the papers, they should be given a copy of the agreement, and the lending institution should have one too. If there is a third party involved in the agreement, they should also be able to retain a copy of the agreement.

## **Specific Fields That Need to be Included in the Documents**

Specific fields that must be included in the documents are varied. The most important ones will be listed here. These fields will give pertinent information so that the borrower and the lender will have a copy of them for their files to refer to.

- The name, address, phone number and fax number of the lender.
- It is imperative that the name of the person that is the borrower be accounted for in the document.
- Detailed promise to pay information must be in the document.
- The amount of the loan and the interest rate must be spelled out.
- It is also important to add the final amount of the loan after it is paid back.
- A date of the document is imperative.
- The signature of the borrower and of the lending institution is a must.

## **A Proper Work Space is Needed for People That Will Be Working on Various Commercial Loans**

It is important that people in the field have the desk space that they need. Many commercial lending companies have separate offices for each of their people. This is so the information can be kept confidential when a client comes in to discuss the details of their loan. They will also need to have a good computer, and the ability to check credit ratings and scores when they need to. Having a good chair can make a difference for many workers. The ergonomic chairs provide for comfort as they complete their duties. Many lending companies have these things readily available for their workers to use. When the workers have the proper work unit, the process of drafting and reviewing the different lending instruments will work much smoother and easier.

## **Proper Supplies are Also Necessary for the Workers in the Commercial Lending Field**

There are many reasons why a good phone system is necessary for commercial lending workers to do their best work. They will need to take incoming and outgoing calls in order to set up and finalize the business transactions that they are completing for their borrowers. Having a good phone system will allow them to do so. They should also be equipped with the necessary supplies such as pens, pencils, sharpeners, staplers, envelopes, paper clips and more. They will also need to have company letterhead, envelopes and the forms that they will need to fill out the loans that they will be giving out. Having all of these supplies on hand will allow them to complete their job in a timely manner which will result in more business being completed.

## **The Commercial Lending Field**

Being in the commercial lending field is interesting and lucrative. People that want to enter the field should make sure that they have the proper education and training that they need. When they enter the field, they should develop good communications with the borrowers that they will be assisting, and they will return over and over again to do more business with them.

Making sure that commercial lending professionals and attorneys are adept at drafting and reviewing commercial loan documents is very important. Any mistakes in them can lead to problems down the line. The documents are legally binding, and they must be done correctly. When they are operating in the field, they will be able to use the above information to help them. This way they can service business owners with their financial needs on a regular basis.

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