Understanding What Types of Documents Are Known Legally As Promissory Notes

A promissory note is form of negotiable instrument whereby a party (the issuer) makes an unconditional promise in writing to pay a sum of money to another party (the payee). Payment becomes due under a promissory note at fixed time stated within the promissory note or upon demand by the payee to the issuer. The *Bills of Exchange Act*, R.S.C. 1985, c. B-4 defines a promissory note as:

> 176 (1) A promissory note is an unconditional promise in writing made by one person to another person, signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer.

In accounting terminology, a promissory note is commonly referred to and known as a note payable or simply just a note. The term bank note is simply a promissory note held by a bank and payable upon demand by the bank to the bearer of the note. The terms of the note are stated within the note. Usual terms include the principal amount due, the applicable interest rate, the parties, the date of issue, the repayment terms, and the due date. Provisions may also include the payee's rights in event of default such as foreclosure action upon assets. Demand notes are promissory notes without a specific due date as such a note becomes due upon demand of payment. Promissory notes are evidence of a loan but are legally distinct from a loan agreement as a loan agreement will contain all terms and conditions.

Notes & IOU's

An IOU is only an acknowledgement of debt whereas a promissory note contains the specific terms relating to the promise to repay.