

Loan Covenant Pre-Sign Checklist
What Smart Founders Review Before Signing Any Loan
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Content

Section 1 = The Core Mistake

Most founders ask:

“What does this covenant mean?”

Successful founders ask:

□ “How will this behave when my business changes slightly?”

Section 2 = The 8-Point Checklist

Before signing, answer:

1. What event triggers this covenant?
2. How close do my current numbers sit to that trigger?
3. How often is this tested (monthly/quarterly)?
4. Is there a buffer, or immediate escalation?
5. What does a breach change internally?
6. Is there a cure period?
7. How has this lender handled breaches historically?
8. Can this be renegotiated later, or only now?

Section 3 = Real-World Insight

Most covenant issues don't come from:

- bad businesses

They come from:

normal fluctuations hitting rigid structures

Section 4 = Decision Tool

If your business had:

- 10% lower revenue
- 15% higher costs

Would this covenant:

- stay comfortable
- or trigger pressure?

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