**Do Business Loans Have Personal Guarantees?**

In simple terms the answer is YES. There are some exceptions to the rule; however the purpose of the personal guarantee on a loan is to prevent fraud against the borrower. Almost all business loans have personal guarantees. With this being said, its rare if the loan is collateralized with appraised assets such as a building that a lender will go after your personal assets such as a home. This is an unwritten rule and depends if the loan is sufficiently collateralized. Unsecured loans will have less flexibility as to the extent of that guarantee.

Why? The reason is to be able to mitigate the lender risk and make approval for loans with small businesses (under 1 Billion Dollars) possible and competitive. You as a business owner can request a loan without a personal guarantee, however unless you are Conrad Hilton, chances are you will be paying double digit rates to cover that loan. In addition, if the loan is collateralized, the lender will require a much greater percentage of the collateral as a down payment.

For example: a hotel project for $10,000,000 may allow with a personal guarantee an amount of up to $7,000,000 to $7,500,000 in loan valuation at a rate of let's say 6% to 8% depending on your credit score (this is for illustration purposes).

That same project of $10,000,000 for a small hotel if done fully non-recourse without a personal guarantee may only allow a loan of $5,000,000 and at a rate of 10%+ for the same loan. So as you can see, this hardly makes sense for most businesses to truly do a non-recourse loan (again for illustrative comparison).

When does the personal guarantee affect your loan in case of default?

If there is sufficient enough collateral based on appraisals with little or no shortfall, then the personal guarantee means nothing because the assets would be sold off and the loan paid off.

Here is where it can make a difference. If the business loan is not using collateral or under collateralized then it is possible for the lender to go after personal assets. Most collateralized loans limit the extent as to the personal guarantee. No lender wants to neither put a business owner out of their personal residence nor

wipe out all of your personal retirement accounts. This is not in the best interest of anyone. Even with the personal guarantee, a lender does not want that reputation at hand. However, if a borrower has committed fraud by grossly overstating the valuations of the business and or its property or worthiness, then the lender will more likely act on their personal guarantee. Interestingly, even in non-recourse loans, there may be a “bad boy” provision that still would not protect you in the case where a lender can prove fraud.

In summary, unless you have a very substantial business such as a public company with a high net worth from their assets, it probably does not make sense to take out a non-recourse loan. Chances of approval are very low and interest rates due to the increased risk are very high for a private small business owner to obtain.

Here is a helpful article to read:

**TAKING OUT A LOAN CAN** keep your business running smoothly and allow it to scale, but there's one potential catch: Lenders may require a personal guarantee.

In most cases, you should plan to sign a personal guarantee if you want to qualify for business financing. Though not always required, lenders often ask for a personal guarantee as additional assurance that any money they lend you will be repaid. But before you sign, you should know exactly what you're agreeing to.

### What Is a Personal Guarantee for a Business Loan?

"A personal guarantee is a legal contract requiring an individual – typically an officer or owner of the business borrowing money – to personally repay the loan in the event the business is unable to do so," says Mike Luebbers, chief credit officer for revenue-based financing lender Lighter Capital.

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Guarantees come in many different flavors, Luebbers says.

"Some limit the amount of the guarantee to a portion of the loan and some require that the individual's home or other personal assets be pledged as collateral," he says. "The vanilla version is typically unsecured and obligates the guarantor for the full amount of the loan, including any interest or fees owed."

The Small Business Administration, for example, requires an unlimited personal guarantee. This guarantee makes you responsible for repaying 100% of what you borrow for your business, as well as any associated loan fees.

A lender might impose a limited guarantee if your business has one or more owners. And in some cases, the lender may include a clause in the loan agreement allowing it to convert a limited guarantee to an unlimited personal guarantee. The conversion is usually contingent on certain negative actions, such as missing payments on the loan or falling behind on your business tax payments.

**When and Why Lenders Require a Personal Guarantee for Business Loans**

Krista Morgan, co-founder and CEO of online lender P2Binvestor, says personal guarantees are fairly standard for most business loans and they're a form of protection for lenders.

"If a business defaults on their loan, lenders have limited options to collect on the debt," Morgan says. A lender may have to go through a court process "to liquidate the assets of the company to recover the value of the loan."

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She says in the case of accounts receivable and inventory financing, which use outstanding invoices and the value of inventory purchased with the loan as collateral respectively, lenders can attempt to recover cash associated with payment of those invoices or sale of the inventory. But, "if these sources of capital are insufficient, then the lender is forced to go after the loan guarantors for the remainder."

A personal guarantee allows lenders to sue you personally, not just the business, for repayment of the loan. Specifically, it makes it possible for a lender to attach your bank account or other assets or garnish your wages as payment for the loan.

"Lenders generally require personal guarantees when the business is unproven or lacks collateral to otherwise qualify for the loan," Luebbers says. "In some cases, lenders require a guarantee simply to confirm that the entrepreneur is on the same page and strongly motivated to help the business succeed."

**Personal Guarantees and Your Credit Score**

Personal guarantees don't have a direct impact on your personal or business credit history, or credit score unless you run into trouble.

"They don't typically show up on credit reports," Luebbers says.

But, a personal guarantee could affect your credit if you have late payments or default on the loan.

"In the event the guarantee is enforced and results in a judgment against the individual, those events would likely impact his or her personal credit," Luebbers says. Negative actions associated with the loan, such as late or missed payments, could also be reported to your business credit history, potentially taking points off your business credit scores.

Negative information, including late payments and judgments, can linger on your personal credit reports for up to seven years. The time frame for negative items remaining on business credit reports is six years and nine months.

That could make it more difficult for you to apply for future business financing, or personal credit cards and lines of credit. And if you do qualify, you may be stuck paying higher interest rates on what you borrow.

Even if you maintain a positive account history, having a personal guarantee in place could still influence your ability to get credit.

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"Individuals applying for other credit are sometimes asked if they guarantee any other loans," Luebbers says. "And that information could be taken into consideration in the lender's final credit decision."

**When to Sign a Personal Guarantee for a Business Loan**

It's not easy to get a business loan approved, but signing a personal guarantee could make getting approved for a business loan less of a headache.

"It's absolutely easier to get a loan, especially larger loans, by signing a personal guarantee," Morgan says. A personal guarantee makes the transaction less risky for the lender, since it still has an avenue for recovering the loan if you default.

Morgan says borrowers may also find that lenders offer more favorable interest rates and repayment terms when a personal guarantee is in place. "By not signing a personal guarantee, lenders usually make their loans much more expensive for a small business in order to reasonably manage risk."

A personal guarantee can also be a more attractive option if you'd prefer not to tie collateral to a loan, or don't have collateral to secure one.

## What Is a Business Line of Credit?

A business line of credit can be a lifeline for you and your business.
**Erica Sandberg**Nov. 5, 2018

### Are There Business Financing Options That Don't Require a Personal Guarantee?

Yes, says Luebbers, although you may have to look beyond a traditional bank for a business loan.

"A few non-bank lenders differentiate themselves from competitors in part by offering small business loans without requiring personal guarantees," he says.

Generally, personal guarantees are more likely to be required with unsecured term loans and lines of credit. You may be able to get a secured loan without a personal guarantee, but not always. Some equipment and vehicle leases may require a personal guarantee, as well as using the equipment or vehicle as collateral.

Invoice financing or a merchant cash advance, which use your future credit card receipts as collateral, are other ways to get financing for your business without a personal guarantee. While business credit cards typically require a personal guarantee since you're using your Social Security number to apply, you may be able to have the bank waive the guarantee if you have an established banking relationship or meet certain revenue or size requirements.

Just keep in mind that these options may have downsides. "To mitigate the risk of a default, the interest rates tend to be much higher for nonpersonal guarantee financing and the loan amounts tend to be much smaller," Morgan says.

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Invoice financing and merchant cash advance financing, for example, can carry effective annual percentage rates approaching the triple-digit range. Even a business credit card's APR could be around 25%. Your credit limit could also be much smaller than what you could borrow with a business loan.

**Do Your Research Before Signing a Personal Guarantee**

Agreeing to a personal guarantee is a trade-off, Luebbers says. "A personal guarantee could help a business get a loan it otherwise couldn't get, but like anything, it comes with a cost."

That cost is the risk borrowers assume by signing a guarantee. Depending on the type of guarantee and the terms of your loan agreement, that could mean:

- Being subject to legal action.
- Potential loss of personal assets.
- Carrying the cost of default for yourself and your business partners.

If you're planning to sign a personal guarantee to qualify for a business loan, there are a few things you can do to manage your risk:

- Ask for a limited guarantee, with clear details on when and how it would take effect.
- Ask the lender to consider reducing the guarantee as your business grows and revenues stabilize.
- Request that certain personal assets be excluded from the guarantee, including assets held jointly with a spouse.
- Consider negotiating a higher interest rate for a smaller guarantee.
- Think about buying personal guarantee insurance, which can protect your personal assets if the guarantee is enforced.

Reviewing your business's financial statements and cash flow projections can also help mitigate risk.

"All things considered, you should be very confident you can repay your loan no matter the size and terms of the financing," Morgan says. You can also manage risk by working with a trusted lender and using capital responsibly. "By following those steps, the recourse actions of a personal guarantee should never have to go into effect."

**Rebecca Lake**, **Contributor**