

Personal Guarantees? Limit your liability before you sign!

Are you a business owner or director who has invested your personal money into your business? Do you have a loan or overdraft facility with a bank or invoicing company? If you do, it is likely that they asked you to sign a personal guarantee when you set up the account. This means you could be personally liable for the whole debt in the event that the company cannot pay.

How do you know if you have signed a personal guarantee agreement?

Personal guarantees do not have to be called “personal”, or even labelled as “guarantees”. Although the word guarantee may be mentioned next to where you sign as a director that “you will guarantee the debt will be paid” – but what does this mean? How will you know if you are signing as a director on behalf of the company, or personally?

As a person in business there are no strict rules saying that the impact of these guarantees needs to be explained to you before you sign up, meaning that you could sign away the right for the bank to bankrupt you without you realising it.

Are you one of a number of directors, or partners in a business?

If more than one person signs a guarantee it will often be worded that you will have “joint and several liability”. This means that instead of each of you being liable for your percentage share, each of you could be liable for the whole sum. The bank or lender has the right to come after whichever one of you they consider most likely to be able to pay.

Owner managed businesses, and even many larger ones, trade and provide services from week to week and month to month with little or no regard to the underlying financial liabilities they as a company or as individuals are carrying.

Then bang!

An event happens a supplier sues for late payment of a bill, a client does not pay a bill or the bank just say we need to reduce the overdraft facility or worse still the bank increases the interest payable on loans. The impact is sleepless nights, getting irritable with work colleagues family and friends and taking eye off the ball. The company goes into further decline and the personal liabilities start to grow without you even realising

The consequence and implications can become far reaching for your business and for you personally

We have been working with a number of companies and individuals in this area for some time. We cannot correct things which have gone too far. Although we can start putting in place options and identify ways forward. Ideally we would like to work with clients before any of these events happen to be the non-executive role in the company to advise and provide options to avoid these situations arising. We have the skills and experience to do that where it

can be done. We are also working with clients in setting up new companies which are being designed and structured to minimise or illuminate risk.

Too many owners of companies put their own money into their company and lose the time and money invested and much more. There comes a time when a different form of positive action is needed. Do not work for the banks and put your own money into the company and also have to pay the personal guarantees as well. It does not make sense. Structure something which does

We can help. It may just prove to be a better investment for your business than the last new car you bought or event you sponsored!

Does this sound like you or your business? Whether you are a new start up, established business or whether you are finding yourself in a rocky patch contact Robin Hooper today to see how we can improve your future and contingency plans!