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## Personal Guarantees Explained

A Personal Guarantee is a promise to repay credit issued to a business (usually a director or partner of the business). It is typically signed during the loan application process and is a legally binding contract.

Small business owners will often use a Personal Guarantee, as they have a vested interest in the success of their business. If the business becomes unable to repay this debt at any point, then the individual who has signed the Personal Guarantee may become personally responsible for the debt.

The lender may call on the Personal Guarantee to cover any outstanding debts and will go after the guarantor's personal assets, such as their home.

Few SMEs have enough cash within their organisation to self-fund growth, so Personal Guarantees can be a very useful method of securing crucial business finance that an SME may not have been able to secure otherwise, and could help propel a business forward. The Personal Guarantee is therefore seen as "added security" for lenders.

### Personal Guarantee Insurance

When a business owner or director signs a Personal Guarantee, they are essentially putting their personal assets on the line, most notably their home. If the business can no longer repay the loan, the business owner or director could suffer as a result.

Personal Guarantee Insurance (PGI) is designed to give confidence to grow businesses through securing crucial finance and protecting personal assets.

There are many unforeseen circumstances that can have adverse effects on businesses and their bottom line, from market downturns and key customers going out of business, to suppliers failing in their duty and illness or absence of a key individual within the company.

PGI can be tailored to each individual, so businesses can state the amount they want to insure, and they can choose how many directors they would like to be noted on the policy. Purchasing this insurance policy can help to reduce the risk to personal estates, leaving owners and directors to get on with running your business and securing financial peace of mind.

PGI is available against Personal Guarantees provided against a wide range of business loans:

#### Secured loans

Where the lender has taken a charge over company assets or has a contractual right of recover over a company asset that funds have been lent against in addition to the Personal Guarantee.

- Asset finance
- Commercial mortgages
- Invoice finance
- Other secured loans
- Qualifying peer to peer loans

#### Unsecured loans

Where the Personal Guarantee and any associated charges over personal assets are the only security the lender has taken.

- Credit cards
- Overdrafts
- Peer to peer loans
- Short-term working capital loans
- Other unsecured loans