GUIDE

Personal Guarantees Explained

A personal guarantee is one of the most misunderstood things a business owner signs. Here is what it actually is, what triggers it, and how to keep your exposure sensible.

What a personal guarantee is

It is a promise that if the business cannot meet its obligation under a finance agreement, you will meet it personally. It bridges the gap between the business as a separate legal entity and the funder's need for recourse. It is common, and it is not something to sign without reading.

What typically triggers it

- The business defaults on the agreement and cannot put it right.
- The business becomes insolvent while the balance is outstanding.
- A specific breach set out in the agreement, read this section carefully.

How to keep exposure sensible

1. Check whether the guarantee is capped. A capped guarantee limits your exposure to a set figure.
2. Understand whether it is joint or several where there are multiple directors, several liability can put the whole amount on you.
3. Ask what the funder must do before calling on you, and in what order.
4. Keep a copy, and diarise when the underlying agreement ends and the guarantee falls away.

Questions worth asking before you sign

- Is the guarantee capped, and at what figure?
- Does it fall away when this specific agreement is repaid?
- What exactly counts as a trigger?

The bottom line

A personal guarantee is normal, but the detail matters. Read it, ask about caps and triggers, and take independent advice if the sum is significant. This guide is general information, not legal advice.

hello@merchantbusinessloans.co.uk · 07448 434762 · merchantbusinessloans.co.uk