



Bank Personal Guarantees: Written in Stone?

Many banks, as a matter of course, require personal guarantees as conditions for business loans. Such agreements can be structured in different ways, but all essentially require a firm's individual principals to take personal responsibility for the firm's borrowing.

That may not seem fair — surely a plant, the land under it and the computerized machinery inside it are sufficient collateral for a loan. And isn't the main purpose of incorporation to shield individual assets? But ask a bank for a loan to expand your warehouse, so you can bid on a big contract and make some real money, and it may well ask for your personal pledge on top of the company's collateral.

Hard To Avoid Entirely

The best time to exit a personal guarantee, of course, is before you enter it. But that's difficult, no matter where you bank. Most credit unions are forbidden by charter to lend without such guarantees, while Small Business Administration and commercial lenders do so rarely — and almost never to young businesses.

Still, make your case. Showcase your company's clean financials, sound projections and high-value collateral, and you might get lucky.

But if you don't, you can still heed General Sherman's advice: *Never give up an inch of ground that is not utterly and irretrievably lost.* Even when a company confronts a bank's unswerving demand for personal guarantees, it may have some opportunity to negotiate the terms — an opportunity that many companies miss.

Even today, some car buyers accept the figure on a car's window as the fixed price of the vehicle, while other shoppers, armed with a little knowledge, pay thousands less and drive away the same

models.

The Lender Wants To Lend

Consider the bank's position. Its business is lending money in order to make money, safely. It wants a solid guarantee of its loans — not your empty warehouse or idle press brakes, whose value may decline. But remember too that the bank wants to help you succeed. It wants your business today and tomorrow. And smaller, community-oriented banks may be especially eager to win your patronage.

In any case, some negotiation may be possible. The terms of a personal guarantee aren't preordained; see if the bank is flexible enough to:

- *Limit the obligation.* Will your bank accept a \$1 million personal guarantee on a \$4 million loan?
- *Spread the exposure.* Can four principals each guarantee a quarter of the loan? Be sure to resist demands for "joint and several" liability, which holds each guarantor responsible for the entire amount.
- *Limit the time frame.* Halfway through the loan, you'll have paid it down substantially. Your collateral may have increased in value, and your company will have matured and built a solid credit history. By then, the bank may be less concerned about a personal guarantee.
- *Tie the guarantee to specific metrics.* If your company reaches agreed-upon profit goals over three years, or meets other criteria, will the bank waive a personal guarantee?
- *Exclude certain assets,* such as your home, from a personal guarantee.

If you can't include such provisions in the original agreement, you'll have little leverage later. Three years into the loan, your request for release may meet stony silence — but again, don't give up. Present your company's successes and make your case. Even if the bank won't release your guarantee, it may grant better terms. And always ask the bank to set a date to revisit the matter. *Bankers loan money every day, but you don't borrow it often. In situations like that, an experienced advisor can make the difference. We have experience in helping our clients in bank negotiations, and we'll be glad to help you.*