



“Personal Guarantees During a Business Failure – They Can Come Back To Haunt You”

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It is best not to provide any personal guarantees for the business in any way. That being said, this is very difficult to do if you are starting a new business.

No creditor will loan money to an unproven business. If you have built up a business, and the business has a lot of assets and is firmly established, then creditors will extend credit in the name of the business and will not require a personal guarantee.

If, however, you are just starting out, creditors will require that you personally guarantee any credit they extend you. For example, if you want to establish a credit card account in the name of the business, they will likely only do it if you guarantee the account personally.

Usually, when businesses start up, the owners make a few personal guarantees. This is simply the way most small businesses get going. If the owners do not guarantee the credit account, then they do not get the credit and the business does not start up. It is a chicken and egg sort of thing:

What comes first, the chick or the egg?

What comes first, the business or the personal guarantee?

What a personal guarantee means is that you must pay for any amounts the business fails to pay for. If you guarantee a credit card, and five years (or 20 years) later the business dissolves and the business does not pay off the balance of that credit card, guess what? The credit card clerk is going to go to the file cabinet and get out that agreement you signed 20 years ago that said you would personally guarantee the credit card.



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They don't care that the business is bankrupt and 20 years (or any number for that matter) have passed since you signed the agreement. You personally guaranteed it, so YOU owe the money, and if YOU don't pay, then they can take you to court, even if the business is long gone.