



# Understanding Director's Guarantee

It is important to understand what you are signing and the consequences that can result by doing so.

## RESOURCE GUIDE



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# Understanding Director's Guarantee

## what is it?

Director's Guarantees are not uncommon. They are usually asked for when a company is small or has limited assets when applying for a loan, a lease or other types of finance. Usually this is to give extra security to the lender.

Any company director that signs a Director's Guarantee is effectively giving his or her personal guarantee that, should the company be unable to meet their financial obligation, the director will personally be liable for the debt or commitment.

## What it can do

### for you and your business

When you own a business, the corporation (or corporate person) stands separately from you (an individual). This is only true if the business is a limited company.

This can offer you some protection against debts and liabilities of the company.

By providing a Director's Guarantee as security against a loan, you could be held personally liable to pay the debt owned by the company. Your assets can be seized (such as family homes) to recover the debt. This is, however, the worst case scenario.

## Understanding joint and several liability

If more than one guarantor (such as another company director) provides a guarantee, there may, depending on terms, be joint and several liability for the debt. If this is accepted, then you could each be held liable for the debt. Sometimes, the debt can be enforced onto just one party.

You need to be sure that yourself and other parties fully understand their commitment and the consequences that could follow. If one director cannot meet their obligation, it can fall back to you to do so.

Be aware that if the creditor has the right under the terms to selectively enforce the debt, then they will likely pick the person who has the most assets.

## What if I leave the business?

By leaving the company, you are not relinquished of your duties. Be sure you know how your liability ends in circumstances where the company continues to trade but you are no longer a director and/or no longer a member of staff at the company.

## Should I sign a director's guarantee?

Often, a Director's Guarantee is simply an unavoidable part of achieving a lend, loan or lease. Many small businesses have to do them, as few lenders are willing to take the risk of granting a loan that doesn't give them a safety net. It's understandable.

Ask the important questions, because with so much at stake, you must be sure you fully understand the implications, as well as the advantages.