

Personal Guarantee Insurance Can Protect Business Owners

By: Tharp and Howell

Small and medium sized business owners are often faced with the dilemma of providing a personal guarantee to a bank in order to secure a business loan or business financing. This state of affairs is regrettable and risky since most small and medium sized businesses have taken legal steps to shield themselves from personal liability in connection with their business by forming a separate corporate entity, establishing separate bank accounts and segregating personal versus business funds, etc.

All of this business planning and legal effort may be for naught if a personal guarantee is required and the business ultimately defaults on the obligation for which the personal guarantee is given. If there are insufficient business assets to satisfy the debt, the bank or other holder of the personal guarantee can take steps to collect the remaining debt from the personal assets of the business owner, including their home, personal bank accounts, etc.

But now the small to medium sized business owner has a new form of protection against losing personal assets when a personal guarantee is required. Insurance companies have begun offering *personal guarantee insurance*, a policy which, according to an [article in Smart Business](#), is “designed to pay up to 70% of a deficiency judgment in the event of a loan default.”

Small to medium sized business owners facing requests from banks and others for personal guarantees may now feel more confident moving forward, allowing them to borrow capital for expansion, enter into a business lease or finance an equipment purchase where before they hesitated out of caution and concern that the burden of default would fall disproportionately upon personal assets built up over a lifetime.

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