

Avoid the “For Sale” sign Have you given Personal and Directors Guarantees?

With many of Australia’s estimated 2.7 million businesses taking on debt to start or grow their business it may be considered prudent to take stock regularly to rediscover exactly what is on the line.

Its not uncommon for a debt arrangement to come in many shapes and sizes including, but not limited to bank loans, trade accounts, overdraft facilities, hire purchase contracts etc – It is also not uncommon that to secure this debt, banks or creditors call on owners to provide their personal or directors guarantee in respect to the debts of the company.

For those of us in business that have applied for some type of debt facility this will come with no surprise. In fact, it’s estimated that 74% of business owners secure a debt facility for their business by guaranteeing the loan with their personal wealth – *primarily the equity in the family home.*



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But what is the risk?

The general course of action if a business fails to repay its loan is that creditors will try to recoup their losses from the business first. If this is not possible, the creditors may choose to “call in the loan” and seek repayment immediately and directly from the guarantor – effectively forcing a liquidation of personal assets.

One of the more common reasons why a business may find itself in financial difficulty is where a health event (premature death, disability or critical illness) has forced either an owner, or a Keyperson from the business thus having an immediate effect on cashflow and profitability.

There are two questions that business owners exposed to such guarantees need to reflect on. The first relates to their credit provider; how nervous would they be and what is the likelihood that the loan would be called in if the business lost a Keyperson .i.e. how reliant really is your business on its key people? The second question relates to themselves and their own comfort level with regards to potentially having a “For Sale” sign posted at the front of their family home?

So what is the solution?

While most business owners understand the necessity of having insurance in place covering tangible business assets like plant and equipment, liability and indemnity, many fail to insure against their personal exposure to the company’s debts, or its inability to meet its commitments.

Should there be a health event to an owner or key person (a “Guarantor”) coverage can be implemented to extinguish business debt – thus not only protecting and providing a safety buffer for the business, but also to provide a level of certainty and comfort in that personal assets of the individual guarantor(s) are protected.

So if like most in business you’ve given a guarantee... or two, and would like to ensure that the necessary coverage is in place please let us know

Who are we?

Executive Risk Advice is a specialist risk adviser focused on assisting business owners and executives in regards to their business succession, keyperson and guarantor protection needs. I would encourage all business owners to call on 1300 615 232 for further information in this area, or to set a time to start discussions around these critical issues; obligation free.