

Personal Guarantee - Case Study



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In early 2015, the team were approached by the director of a retail business to provide assistance with negotiating the repayment of a personal guarantee.

Jamie Playford, Licensed Insolvency Practitioner conducted an initial review meeting with the director which identified that following the purchase of his business some years previously, he had provided a personal guarantee to his bank in order to secure a £75,000 loan.

At that time, the business was in a strong position with both turnover and profits increasing year on year and the director made the decision to expand into larger premises and employ more staff to meet the demand from his customer base. Sadly, the expansion coincided with a downturn in the economy which heavily impacted sales and meant that the profit projections had quickly become unachievable.

Whilst the director had taken steps to cut costs, including the redundancy of several staff members, difficult trading conditions meant it was becoming more and more difficult to stay afloat.

Whilst the director had considered selling the business to a third party, he had realised that the company was no longer able to pay its debts as and when they became due and knew that steps had to be taken quickly to reduce his personal liability and risk.

At this stage, with an ever growing overdraft, the bank made the decision to call in the director's personal guarantee.

In the first instance, Jamie conducted a full financial review of the company, looking at the sales pipeline, P+L and collating an inventory of all stock and assets.

On the completion of this review, it was apparent that the company was technically insolvent and therefore the director agreed to place the company into a liquidation procedure to avoid any further pressure from creditors.

At this stage, we instructed an Agent to conduct a valuation of the stock and assets which projected a higher return than anticipated. On this basis, we decided to hold a liquidation sale which achieved a total sale value of 52k. This meant that creditors of the company received a higher return than expected and the personal guaranteed was significantly reduced.

Following the sale, we contacted the bank and arranged a full and final settlement payment of just £12,000 to be paid across a 12 month period.

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What is a personal guarantee?

A personal guarantee is a formal agreement with a Lender where an individual, usually a company director agrees to take responsibility for the payment of a particular company debt in the event that they cannot be paid for by the business. It is a very useful tool to help:

- ↗ Secure a business bank loan
- ↗ Secure a leased premises
- ↗ Agree a hire purchase, lease or other finance agreement
- ↗ Open or extend credit lines with suppliers (this is particularly common with the large builders merchants)
- ↗ Explore growth opportunities



A Lender will consider giving the company credit if you provide a personal guarantee as, in essence, they will be able to seize your personal assets should the business not meet its payment obligations.

We work with many directors who have given a personal guarantee in good faith who are now at risk of having their personal finances jeopardised in leaner times. For this reason alone, we would advise you to get in touch to discuss how we can afford you the most protection before signing any form of agreement with a Lender.

If you are a company director who has already given a personal guarantee, our team are experts in helping you renegotiate the terms to ensure your personal finances and assets are protected.