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Personal Guarantee

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What is a Personal Guarantee

A personal guarantee is an individual's legal promise to repay [credit](#) issued to a business for which they serve as an executive or partner. Providing a personal guarantee means that if the business becomes unable to repay a debt then the individual is personally responsible. The personal guarantee provides an extra level of protection to credit issuers, who want to make sure they will be repaid.

BREAKING DOWN Personal Guarantee

A personal guarantee can be used in a credit deal to secure funding for a business. Small business founders and executives will often use a personal guarantee since they have a vested interest in the launch and business development of a company. Oftentimes small business owners and executives will make a substantial initial investment using their own capital. To obtain additional capital executives can also seek funding with the backing of a personal guarantee. This requires the company to pay creditors monthly installment payments rather than generating return for equity investors.



With a personal guarantee an executive can pledge their own [assets](#) and agree to repay a debt from personal capital in the case of default. A personal guarantee gives a creditor a legal claim to the personal assets of the individual which can make credit more accessible for a business and also improve the terms which will be based on the profile of both the business and the individual in the underwriting process.

Funding Process

An individual seeking to provide a personal guarantee for credit will need to include their own credit history and profile in the [credit application](#) process along with the credit information for the business. In some cases a small business may have little to no credit history of their own for lenders to consider. Thus the profile of the associated executive forms the primary basis for underwriting.

A small business loan or credit card application will typically require an [employer identification number](#) and details on the business' financial statements. If a personal guarantee is being used then it will also require the social security number of the individual for a hard credit inquiry as well as details on the individual's personal income. Some lenders may also require detailed information on the personal assets of the individual.

Business owners should be especially careful when applying for a business credit card as terms may require a personal guarantee from the applicant. Applicants should look for language such as "you, as an individual and the authorizing officer of the company...are agreeing to be jointly and severally liable with the company for all charges to the account."

Assets Pledged

Well-established businesses that have a significant [commercial credit](#) profile may be able to obtain credit without a personal guarantee. However, if a personal guarantee is used in obtaining credit then the individual is liable if default occurs. Using a personal guarantee gives a creditor legal claim to an individual's personal assets for a specific loan or credit card. Credit with a personal guarantee can be a low cost way for a business to obtain funds. However, if the business is unsuccessful in generating revenue and earnings then an individual could suffer significant losses. A personal guarantee gives a creditor rights to all of an individual's personal assets. This can include checking accounts, savings accounts, cars and real estate. Thus, individuals should do thorough due diligence on the prospects of their