Managing Risk: Personal Guaranties in Commercial Transactions

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Commercial lenders routinely require one or more owners or managers of a business to personally guaranty payment of business debt. A personal guaranty is not a substitute for borrower creditworthiness; the business remains the primary source of repayment. The guaranty is a contract separate from the underlying obligation that requires the guarantor to perform only in the event the business defaults. A personal guaranty provides the lender with additional security for the loan. It also ensures that management has as much of a financial stake in the business as the lender.

Practice Areas

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