

Saying “No” To Personal Guarantees By Spouses

Your company’s banker wants the personal guarantee of your spouse. **Just say No.** The best way to say it and make it stick is never to even hint that a guarantee from your spouse might be possible. This applies whether you are applying for a new facility at the same or a new bank, or during your banker’s annual review.

You will not always be successful, and in the end the reality may be a choice may be between foregoing the financing and imperiling the business or its future growth, or risking the combined assets of your household and family.

A good place to start is the Net Worth form which you are usually asked to prepare. They always contain spaces to complete your spouse’s name, and then go on from there for details like your spouse’s occupation, income and assets. Do not fill any of this in – not even his or her name. Just write instead: “GUARANTEE NOT AVAILABLE”. That will often cause the bank to back off, or if it doesn’t, it sets the stage for your oral position that “My spouse will not give any guarantees”. This implies to the banker that the details of your marriage are out of bounds. Be firm, polite and unconditional; waffling sounds a lot like “maybe”.

If in the circumstances it is obvious that a spousal guarantee will become necessary, instead of admitting that it may be possible, use it as a comeback for the next meeting, and only come back with a limited offer; for example, “My spouse will guarantee only up to \$25,000 for 1 year, which is [you say] large and painful enough to prove his/her full support for the venture”. Your comeback can be limited to amount, length of time or even to limited recourse to assets.

Be sure to be honest when completing a net worth statement – don’t fudge the ownership of assets between you and your spouse. Smart lenders are alert to this, and dishonesty will destroy any relationship and certainly the chances of obtaining the credit. Among other things, this means that before applying for the loan or credit, you need to plan the ownership of assets as far in advance as possible. Beware also that re-arranging assets between spouses has Family Law consequences as well, especially when dealing with assets other than the matrimonial home. Family law advice, or even a marriage agreement in some instances, may be appropriate.

A work of caution...the purpose here is to protect against catastrophic loss. If you pauperize yourself and put every asset into the name of the guarantee-free spouse, the chances of prevailing with your position are greatly reduced. The lender needs to see that you “have skin in the game”. For example, if your home has lots of equity in it, your spouse should own it. You might own the cottage with the large mortgage on it. As another tip, think of the family cars as liabilities on the asset side of your net worth statement – there is nothing wrong with owning them and recording them as assets. If the bank were ever to call the loan, they really aren’t worth very much.

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