Brickflow **PROPERTY DEVELOPER GUIDES**

Personal Guarantees

Defined

A personal guarantee is your legal promise to repay loans issued to a business where you are a beneficial owner. Providing a personal guarantee means if the business becomes unable to repay a debt, then you accept personal liability, meaning you can't just walk away.

They are standard practice for development finance and are required from all shareholders, or as a corporate guarantee. The Industry average is 15%-25% of total loan amount.

Normally, the higher the LTGDV, the higher the personal guarantee. Banks usually want twice the cover on a personal guarantee amount, so if the amount is £1m, they require evidence of a Net Asset Value (NAV) of more than £2m.

Need to know

- Liability is joint and several, so if two of three shareholders do a runner, you will be responsible for the full amount, not just a third
- They are not charges over other properties. You will need to submit an Asset & Liability (A&L) schedule during the application process and the bank will look for sufficient equity value to cover the personal guarantee amount
- Personal guarantees include liquid assets and property assets (property is preferred as cash can disappear)
- Equity in your main residence can count towards the NAV but the lender may discount this as it's harder to realise in the event of a claim
- The lowest level of personal guarantee is cost overruns, which are normally only allowed for loans with a lower LTGDV

In practice

Personal guarantees are conceptual security, rather than actual, alternative security. They're there to ensure both lender and borrower are strategically aligned. Lenders don't expect to enforce them and they only do as a last resort, but they exist in case things go wrong.

Each lender will take a different approach, but here's how they might work in reality:

- If you're unable to repay a loan (normally because a development is over time, budget or property prices are falling), you would first use the contingency built into your loan
- After the contingency is spent, you can ask the lender for more funding, but the lender may decline if you are already at the leverage limit
- Further shortfalls could be met out of liquid assets, but failing that the bank could look to enforce the personal guarantee (through the courts if necessary)

Here's how you may be able to reduce a personal guarantee amount:

- Increase your contingency, which is built into your loan. Industry standard is 5% of build costs, so look to up this
- Lower your LTGDV to below 50%, and lenders may make an exception
- Offer a cash deposit as an alternative, or supplement part of the personal guarantee with cash
- Get your contractor to secure a performance bond