



CORPORATE · GUIDE

Personal guarantees: what you're really signing

Where they show up (leases, loans, supplier accounts), how they expose your personal assets, and how to limit them.

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You incorporated your business partly to keep its problems away from your personal finances. Then a landlord, a bank, or a supplier slides a document across the table and asks you to personally guarantee the company's obligations, and if you sign it without thinking, you have just handed back a big piece of the protection you incorporated to get. Personal guarantees are everywhere in business, they are heavily negotiable, and most people sign them without understanding what they are giving up. Here is what they actually do and how to limit the damage.

What a personal guarantee is

A personal guarantee is your personal promise to be responsible for an obligation of your corporation. If the corporation does not pay or perform, the other party can come after you personally to make good on it. Your personal assets, your savings, sometimes your home, can be on the line, even though the underlying deal is the company's.

This is the whole point of it from the other side's perspective. They know the corporation might have limited assets, so they want a real person standing behind it. A guarantee turns "the company owes us" into "and if the company can't pay, you do."

Where they show up

Personal guarantees appear in more places than people expect:

- Commercial leases. Landlords very commonly require the business owner to personally guarantee the lease. Given how large a multi-year lease obligation can be, this is often the biggest personal exposure a small business owner takes on.
- Bank loans and lines of credit. Lenders frequently require the owner to guarantee the corporation's borrowing. If the business cannot repay, the lender looks to you.
- Supplier and trade accounts. When you set up credit with a supplier, the credit application often contains a personal guarantee buried in the terms, so you can be personally liable for the company's unpaid invoices.
- Equipment financing and leases. Often guaranteed by the owner.
- Franchise agreements and various other commercial arrangements.

The supplier one is especially sneaky, because people fill out a credit application without realizing they just personally guaranteed every future order.

Why it undercuts the corporate shield

Here is the key point. Incorporation is supposed to keep the business's liabilities away from you personally. A personal guarantee deliberately bypasses that. To the extent of the guarantee, you are personally exposed exactly as if there were no corporation between you and that obligation. So if most of your significant obligations are personally guaranteed, the practical protection of incorporating is much smaller than you think, because your real exposure runs through the guarantees.

That does not mean guarantees are always a bad deal. Often you cannot get the lease, the loan, or the credit without one. The point is to know you are giving up the shield, and to limit how much you give up.

How to limit a personal guarantee

A guarantee is a negotiation, not a take-it-or-leave-it. Levers worth pushing on:

- Cap the amount. Rather than guaranteeing the entire open-ended obligation, try to limit your exposure to a specific dollar amount. A capped guarantee is far safer than an unlimited one.
- Limit it in time. On a lease, for example, you might negotiate a guarantee that covers only the first year or two, or that falls away once the business meets certain conditions or has paid reliably for a period. Landlords sometimes accept this.
- Limit what it covers. Try to narrow the guarantee to specific obligations rather than everything the corporation might ever owe.
- Avoid joint and several exposure where you can. If there are several owners, a guarantee that makes each of you fully responsible for the whole amount (joint and several) means the other side can collect all of it from you alone. Negotiating to limit each guarantor to their share is better, though the other side will often resist.
- Push back on the supplier credit application guarantee. These are often presented as standard, but you can ask to strike or limit the personal guarantee, or to deal on a corporate-only basis. Sometimes they say yes.
- Know whether a spouse is being asked to sign too, and what that means, before either of you does.

Whether any of these can be achieved depends on your bargaining position and the other side, but you rarely get a limit you do not ask for. The default document is always written in the other side's favour.

Before you sign

- Read it and find the guarantee. It is sometimes a separate document and sometimes a clause buried in a longer agreement or application. Know when you are being asked to give one.

- Understand your exposure. Is it capped or unlimited? Time-limited or open-ended? Just you, or joint and several with others?
- Negotiate before signing. Your leverage is highest before you sign and gone afterward.
- Get advice on anything significant. For a major lease or loan guarantee, a quick review and a few negotiated limits can dramatically reduce your personal risk.

Bottom line

A personal guarantee makes you personally responsible for your company's obligations and deliberately bypasses the protection of incorporating. They are common in leases, loans, and supplier accounts, and they are negotiable far more often than people assume. The goal is not necessarily to refuse them, since sometimes you cannot, but to know when you are signing one and to limit it in amount, time, and scope so your personal exposure is contained. Before you guarantee anything significant, talk to us so we can help you understand and limit what you are taking on.

This is general information about personal guarantees in Ontario, not legal advice for your situation. Whether a guarantee can be limited or challenged depends on its wording and your circumstances. Talk to us before you sign one.

Questions about your own situation? Book a free consultation at lucianolegal.com/contact.html, call 647-479-4585, or email info@lucianolegal.com.

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