

Surety—Personal Guarantees for a Business Loan

During the mid-1980s, it took about three years for me to convince a Christian businessman that giving his personal guarantee in regard to his company's bank loan was inconsistent with what God's Word said about surety.

The issue of surety (guaranteeing payment of a debt for another) arises when one takes on a financial obligation without a certain way to pay. When the owner of a company gives a personal guarantee in regard to the company's debt, that person assumes that the company will be profitable enough and have sufficient cash flow to service the debt—without the debt falling back onto the personal guarantor. God warns us that we do not know what will happen tomorrow. James states,

Now listen, you who say, "Today or tomorrow we will go to this or that city, spend a year there, carry on business and make money." Why, you do not even know what will happen tomorrow. What is your life? You are a mist that appears for a little while and then vanishes. Instead, you ought to say, "If it is the Lord's will, we will live and do this or that. (James 4:13–15)

Although it is commonplace for the owner of a company to provide a personal guarantee in respect of the company's bank loans, the past 30 years have shown that many businesspeople have lost their homes when their businesses incurred losses and the bank took legal action against them. God warns that if you sign surety for debts, then your "bed" (i.e., your home) may be taken from you. "Do not be one of those who shakes hands in a pledge, *one of those who is surety for debts*; If you have nothing with which to pay, Why should he take away your bed from under you?" (Proverbs 22:26, 27 NKJV, emphasis added)

I was finally able to convince that businessman I mentioned that signing personal guarantees is inconsistent with God's Word. As a result, he negotiated a deal with his bank by which he did not have to provide personal guarantees. From 1990 until 1995, there was a severe recession. His business became insolvent, and the bank took legal action. However, because he had not provided any personal guarantees, his personal assets were protected, and today he enjoys a good retirement. On the other hand, if he had continued to give personal guarantees, he would have been forced into personal bankruptcy and lost everything, including his home, retirement fund, etc.

Avoiding surety is a biblical principle. It is not a sin to sign surety. However, God warns that if you sign surety, you may very well suffer some negative consequences. Unfortunately, over the past 30 years or so, many businesspeople (frequently including their spouses) have personally guaranteed their company's bank loans and lost everything when the company got into financial difficulty.

In summary, God warns of the dangers of signing surety, one form of which is for a business owner to give a personal guarantee in regard to the company's bank loans.