## Personal Guarantee & Surety Bonds

Most Australian business owners are asked to sign a personal guarantee before a lender, a landlord or a project owner will proceed. That signature moves risk off the company's balance sheet and onto yours — putting the family home, savings and other personal assets within reach of a creditor if the business fails. Guarantees also tend to outlive the facilities they supported, sitting quietly in place years after the original loan was repaid.

There is a parallel problem on the cashflow side. Landlords ask for cash bonds. Project owners ask for performance security. Lenders ask for collateral. Each request locks up working capital the business would otherwise be using to trade and grow.

There are established products that address these problems. Funding Strategies does not issue or underwrite them — they are provided by a specialist firm we work with under a referral arrangement. What we do is review your guarantees and security obligations, explain which products are likely to be relevant, and introduce you to the provider if it looks like a fit.

### How we can help

- We review your existing guarantees, facilities and security arrangements to establish where personal exposure actually sits — which is frequently broader than directors expect, because legacy guarantees are easy to lose track of.
- We explain how each of these products works and which are likely to be relevant to your circumstances, so you can go into the conversation with the provider already informed.
- We make the introduction. From that point the provider handles the application, underwriting, pricing and issue of the policy or bond directly with you.
- Because we already work across debt financing, capital raising and restructuring, a review of your personal exposure can sit inside a broader funding strategy rather than being dealt with in isolation.

## Personal Guarantee Insurance

*Category: personal asset security*

Personal Guarantee Insurance covers a proportion of the value a director has personally guaranteed. If the business is wound up and the lender moves to recover against the guarantee, the policy responds — paying up to 80% of the guaranteed amount, subject to underwriting and the terms of the policy.

It is worth being clear about what the product does and does not do. It does not release you from the guarantee, and it does not cover the full amount. What it does is convert an open-ended personal exposure into a substantially reduced one, which for most directors is the difference between a setback and a personal insolvency.

- **How Personal Guarantee Insurance protects directors' personal assets**

A personal guarantee gives a lender a direct claim against you as an individual, entirely separate from any claim against the company. When a business is wound up, the lender is not limited to recovering from company assets; it can pursue the guarantor personally, and in practice that means the family home is often the largest asset in play.

Personal Guarantee Insurance sits between that claim and your personal balance sheet. When the policy is triggered, it pays out against the guaranteed amount, reducing what the lender can recover from you directly.

- **Cover across multiple and legacy facilities**

Directors rarely have just one guarantee. Over the life of a business, guarantees accumulate — an equipment facility, an overdraft, a trade line, a lease — and many remain in force long after the underlying debt has been repaid or refinanced. These legacy guarantees are the most commonly overlooked source of personal exposure, precisely because they are no longer front of mind.

A single policy can be structured to cover several facilities, including legacy guarantees, giving a consolidated view of personal exposure rather than a piecemeal one.

## Surety Bonds

A surety bond is an undertaking from an approved issuer to a beneficiary — a lender, a landlord or a project owner — that a specified obligation will be met. If the obligation is not met, the issuer pays the beneficiary and then recovers the amount from the business. In practical terms, a bond does the job of a cash deposit without requiring the cash.

The commercial logic is straightforward: the beneficiary receives security of equivalent standing, and the business keeps its working capital available to trade. Three types are commonly used in Australia, and all three are available through the provider we refer to:

- **Credit Enhancement Bonds**

A Credit Enhancement Bond is taken out by a borrower or a lender to strengthen the credit profile behind a facility. It is triggered on default — including technical default, such as a breach of a financial covenant, rather than a missed payment alone — and pays the outstanding loan balance to the lender.

For the lender, this materially reduces risk on the facility. For the borrower, that reduction in risk is what improves the terms available: A bond can be the difference between a facility being declined, being priced punitively, or being approved on commercial terms. Bonds typically run for one to two years and can extend to five, depending on the structure of the underlying loan.

- **Landlord Lease Bonds**

A Landlord Lease Bond replaces the cash bond a commercial tenant would otherwise lodge with a landlord at the start of a lease. If the tenant defaults on its lease obligations, the bond issuer pays the landlord and then recovers the amount from the tenant.

The cashflow benefit is immediate. Rather than surrendering several months' rent as a lump sum at the point of signing — typically the same moment a business is paying for a fit-out and a move — the tenant pays the first two years upfront and then moves to annual payments for the remainder of the term. The capital that would have been locked in the landlord's account stays in the business.

- **Performance Surety Bonds**

Construction contracts almost always require the contractor to provide performance security, and that security has traditionally been given as cash retention or a bank guarantee backed by collateral. Either way, capital is tied up for the duration of the project and often well beyond practical completion.

A Performance Surety Bond can be substituted for that collateral. The project owner receives the same assurance that the contract will be performed, and the contractor keeps its working capital free to fund labour, materials and the next tender. For contractors and subcontractors running several projects concurrently, the cumulative effect across a portfolio is significant.

## Who these products suit

- Directors and business owners who have signed personal guarantees and want to limit their personal exposure.
- Businesses carrying layered debt across several facilities, including legacy guarantees that remain in force.
- Borrowers seeking to improve the terms available on a new or refinanced facility.
- Commercial tenants entering or renewing a lease who would prefer not to surrender a cash bond.
- Construction contractors and subcontractors required to provide performance security under contract.

## How to proceed

If you would like to understand your exposure and whether these products are worth pursuing, please send through details of the guarantee, facility, lease or contract in question to brisbane@fundingstrategies.com.au for discussion. Where the products look like a fit, Funding Strategies will then introduce you to the provider, who takes the application from there.

## Frequently Asked Questions

- **Does Funding Strategies provide these products?**

No. We do not issue, underwrite or arrange them. They are provided by a specialist firm we work with, and our role is to review your circumstances, explain the options and make an introduction where appropriate.

- **What is Personal Guarantee Insurance used for?**

It protects a guarantor's personal assets. If the business is wound up and the lender enforces the guarantee, the policy pays up to 80% of the guaranteed loan value, subject to underwriting and policy terms. Cover can extend across multiple facilities, including legacy guarantees still in force from earlier borrowing.

- **Does Personal Guarantee Insurance cover the full amount I have guaranteed?**

No. Cover is capped at 80% of the guaranteed value and is subject to underwriting and the terms of the policy. It reduces personal exposure considerably but does not eliminate it, and it does not release you from the guarantee itself.

- **How do Credit Enhancement Bonds improve creditworthiness?**

They act as a backstop for the lender, paying out the remaining loan balance on default — including technical default. Because the lender's risk on the facility is reduced, the terms available to the borrower generally improve.

- **What triggers a Landlord Lease Bond payout?**

The bond is triggered when a tenant defaults on its lease obligations. The issuer pays the landlord first and then recovers the amount from the tenant. The bond is not a waiver of the tenant's liability — it changes when and how the money is paid, not whether it is owed.

- **Can a Performance Surety Bond replace cash collateral in construction contracts?**

In most cases, yes. Performance bonds are widely accepted as an alternative to cash retention or collateral-backed bank guarantees, freeing up working capital while still satisfying the project owner's security requirements. Acceptance depends on the terms of the individual contract, so the contract should be checked before a bond is arranged.

- **What is the typical duration of a Credit Enhancement Bond?**

Most run for one to two years, though terms can extend to five years depending on the structure of the underlying loan.

### Disclaimer

Funding Strategies does not issue, underwrite or arrange the products described on this page. They are provided by a third-party specialist firm, and our role is limited to reviewing your circumstances and introducing you to that firm. The information on this page is general in nature, does not take account of your objectives, financial situation or needs, and is not financial product advice. Products are subject to underwriting, eligibility criteria and the terms of the relevant policy or bond. You should consider your own circumstances and obtain independent advice before deciding whether a product is appropriate for you.