



3 Important Things You Need to Know About Personal Debt & Your Business

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Credit is the lifeblood of your business.

It doesn't matter if you want to lease office space, buy supplies, or pay for advertising, at some point or another, your business is going to need credit.

It's not a big deal if you own an established firm with a steady revenue stream and a

history of paying your bills on time. But what happens if you're a startup or your business is struggling?

Today, we're talking about how your personal debt can affect your business' opportunities for credit cards, loans, and leases and your options for paying down and managing debt when things don't go as planned.

Debt is a normal part of starting and growing a business

Fact 1: Your Personal Credit Can Affect Your Business

One of the biggest misconceptions new business owners have is that their personal debt has no bearing on their business.

While this is true for established businesses, the reality for many small business owners can be a bit more complicated.

In fact, there are two common scenarios where your personal credit could have a direct bearing on your company's creditworthiness.

1. New businesses without an established, verifiable revenue stream or credit history
2. If the business is a sole proprietor, LLC, or family business

In both situations, the lender may require a business owner to act as a guarantor for a credit card, loan, or line of credit.

When that happens, your personal debt is a direct reflection of your company's creditworthiness and will affect your ability to get credit for your business.

It can also affect the type and quality of credit available to you.

For example, if you have excellent credit, your business may qualify for more favorable rates or a higher line of credit.

On the other hand, if you're carrying a lot of personal debt, the lender may decline your application or extend an offer for less money than you need.

This may not seem like a big deal if you just want a

separate credit card for business expenses, but if you need to buy or lease equipment or vehicles, it could be the difference between starting a business and waiting until your credit situation improves.

Fact 2: You May Get Stuck with Your Company's Bills

Nobody takes out a loan intending to default.

Business owners borrow money to start or grow their business all the time.

The problem is that there are a lot of things outside of your control that can derail those plans.

- Injury and illness
- Natural disasters
- Supply chain failure
- Loss of important clients

You can minimize some of the risk with a

When you guarantee a business loan, you promise to take on the debt if your business defaults

comprehensive risk management strategy, but it won't protect you from everything. (*See How to Keep Your Business Running Through Injury and Illness*)

If your business defaults on a credit card, loan, or line of credit that you guaranteed, the lender will expect you to step up and pay it.

Take a moment to consider what this means.

If your business is not making money and you haven't been taking a paycheck, how will you pay your own bills and the business loans you've guaranteed?

We're not trying to scare you, but this is something you should think about before guaranteeing a loan for your business.

Lenders can, and will, use all the legal remedies

available to them to recover their money. (Think judgments, liens, and garnishments.)

Fact 3: Don't Panic, You Have Rights and Options

Receiving phone calls and dunning letters from creditors can be frustrating, frightening, and overwhelming.

Melissa Balon from the **National Legal Center** says, "A lot of people struggle in those situations and are embarrassed to talk about it."

Depending on your situation, you may be dealing with health issues, legal problems, or any number of worries on top of the stress of taking on your company's debt.

While many companies are polite and professional, others can be rude and antagonistic.

Some may even blur the lines of legally acceptable practices.

Know that you don't have to face it on your own.

You have legal protection from state and federal laws that dictate what your creditors can do, what they can say, how they can contact you, and how often they can do it.

While each state has its own laws about debt collection, the federal **Fair Debt Collection Practices Act** (FDCPA) provides a standard guideline for what collection agencies can and can't do in the United States.

If you feel a creditor has crossed the line and broken a state or federal law, you can file a complaint with your state attorney general's office or seek legal guidance from an

attorney.

It may seem counterintuitive to spend money on a professional service when you're struggling with a financial situation, but a good attorney can help you look at your options and choose the right action, such as:

- Review your rights and responsibilities
- Provide a buffer from the calls and letters
- Negotiate smaller payments or settlements

Law firms that specialize in debt can offer a variety of legal services, including debt resolution, help with FDCPA violations, or bankruptcy.

They can also stand as your legal representative to negotiate on your behalf with your creditors.

Credit counseling is another option.

Nonprofits like

Consumer Credit Counseling Service and **American Consumer Credit Counseling** typically offer free help with budgeting and credit counseling, and charge fees for hands-on services like debt resolution and bankruptcy.

As Balon says, debt can be incredibly stressful, especially when there are other issues involved, but you don't have to let it consume you.

The right counsel can help you evaluate the best choices for your situation

and help you reduce your stress by acting as your representative with your creditors.

The moral of this story is that it's easy for your personal and business finances, especially a sole proprietorship or single member LLC, to affect both sides of your life.

Go in with your eyes wide open and understand that you may have to guarantee your business debt until your company establishes its own credit history.

Finally, don't be afraid to ask for help. ✓

