

# BUSINESS PARTNER INFO

Frequently Asked Questions

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**Why would I need a Business Partner? . . . . .**

In order to setup business funding through banks, it is necessary for the borrower to provide a personal guarantee (PG) for the requested debts. To provide this guarantee you must have excellent credit. If the primary business owner’s credit is not currently sufficient to be accepted by the banks as a guarantor, there is still good news. They can bring on a new business partner with good personal credit and still get the business funding they need.

**Who could I consider as a Business Partner? . . . . .**

You have a number of options when looking for a business partner. The following is a list of potential people you can approach when seeking business partners with better credit:



**Business Associate**

The first people you should ask are your existing business partners or company board members. Check with them and see if anyone has sufficient credit to guarantee the funding. They have the most to gain from your business succeeding, and thus should be most likely to participate.



**Parents/Family Members**

Family members are usually a good place to continue your search. In many cases, family members will be willing to go in on the business with you and will keep your best interests in mind as you grow.



**Friends**

Your close friends are a good source of people who would be interested in working with your business.



**Spouse**

It is possible to find someone you don’t already know to guarantee your funding, however this method brings unique risks. A good rule of thumb is if you wouldn’t want them to participate in your business it’s best not to offer this opportunity to them.

**What Is A Personal Guarantee? . . . . .**

A Personal Guarantee is “A promise made by the guarantor which obligates him/her to personally repay debts the corporation defaults on.”

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**Is It Safe & Legal? . . . . .**

Definitely, as long as your new business partner understands what the program entails and what their liabilities are. Businesses bring on partners all the time. Having a partner with good credit legitimizes your business, with the added benefit being the business lines of credit do not appear on your partner’s credit report, reducing the impact of this person helping you

NOTE: Personal credit lines, unlike business lines, will appear on your business partners credit report).

**What Are The Responsibilities Of My New Business Partner? . . . . .**

They have no new responsibilities or duties in the business. Anyone can be your business partner, but what this entails is completely up to you. You both may find that your business can be more successful more quickly with your new partner's participation and input. Your partner may want to be involved in order to ensure that the business is run in a way that ensures the repayment of the new credit, which is why the bank is now willing to extend you credit when previously they were not.

**Will It Affect My Business Partner’s Personal Credit? . . . . .**

These are business lines in the business name, so they will not show up on their personal credit report, unless the lines go into default with the banks. What will appear are inquiries from when we apply for the credit lines, but the impact of these inquiries is minor and dissipates quickly (personal credit lines do appear on your business partners credit report).

**Does My Business Partner Have To Repay The Business Debts If My Company Defaults? . . . . .**

The Answer to this is both Yes and No.

**WHY YES:** If the company defaults on its obligation to repay the debt the banks will typically require the guarantor to repay the debts. To limit this risk we always tell our clients to request enough money to run their business for at least 12 months after they start, so that they don’t have to worry about defaulting while they get their business up and running. An important factor is if the banks believe there was fraudulent behavior they will hold the guarantor liable, meaning they believe the money was not spent on generally accepted business expenses. To limit this risk we will show you methods on how to track major company purchases through the company to justify your purchases as business expenses.

**WHY NO:** If the company defaults after the business partner has left the company, and after personal guarantees have been transferred to someone else who remains in the company, your business partner is generally released from liability for those debts. We recommend that if your business partner plans to leave the business that someone else in the company have the liability transferred to them. Once the banks agree to transfer liability the previous guarantor is released from liability for the debt.

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