

## Covering Business Debt

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Few businesses get away without taking out a loan, even if it's only to launch their bright and new endeavours in the business world.

Establishing a new business or expanding an established business is an exciting time. There's usually much enthusiasm and passion involved, and you might hear plenty of encouraging and supportive words from your bank manager, too.

However, when it comes to protecting that loan they've so readily given you, banks are ruthless.

It's their job to play hard-ball, keeping proceedings 'strictly business.' A loan is a loan and must be re-paid. The emotions your family will be experiencing if you die or are seriously disabled, have no bearing on a bank's lending terms.

As recently as last year, we recommended a small business-owner take out insurance to cover his debt. However, he preferred to simply give a personal guarantee to the bank, along with the normal terms of the loan agreement.

Distressingly, he was later involved in an accident which left him with severe injuries, including serious head trauma. There was no prospect of his ever returning to work.

As far as a bank is concerned, that situation is the equivalent of his having died. His bank moved very quickly to recover their loan. The business was wound up and the assets were sold under fire sale circumstances.

Had the business owner taken our advice, the debt insurance would have covered the loan re-payment to the bank. The business could have been wound up or sold in a more orderly manner – and undoubtedly would have realised a much higher sale price for the now-disabled owner and his family.

Debt insurance is ideal for a number of business loan situations, from loans for up-dating or purchasing equipment and machinery to loans for buying out one's business partner or perhaps to complete a research and development project.

There are just as many loan options available as there are reasons for wanting one. They include term loans, revolving credit, mortgage finance, corporate finance and lease arrangements. These can be secured in several ways, such as putting in place loan agreements or mortgages, a personal guarantee or a deed of debt.

Unfortunately, the risks associated with debt are numerous and daunting. Potential financial disasters come in the form of bankruptcy, bank foreclosure, major issues with key people – directors and shareholders – and all the possible events which render a business incapable of repaying a loan (or the interest) on its due date or on demand.

As always, in business, the stress, distress and grief which come with the injury or death of a business owner or share-holder impact heavily on those left behind – even causing life-changing or life-threatening health issues. Insurance is damage-control which is so much

easier to put in place than it is to manage the fall-out from not having debt insurance cover at all.