HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Dame Meg Hillier MP
House of Commons
Palace of Westminster
London
SW1A 0AA

Dear Dame Meg,

Update on Personal Guarantees

One of my predecessors (Tulip Siddiq MP) wrote to you in December 2024 in relation to the previous Treasury Select Committee's Inquiry on SME Finance. At the time, she indicated that the Government would continue to monitor for evidence of the effect and proportionality of the use of personal guarantees and seek evidence in this area, saying she would write to the Committee in due course.

Since then, the Government sought evidence on personal guarantees through the Call for Evidence on Access to Finance run principally by the Department of Business & Trade but with input from the Treasury, in March 2025. The Government response to the Call for Evidence was recently published, in December 2025, which is why I am writing to you now.

In the response, the Government noted the feedback received in this area, including recognising the important role that personal guarantees play in supporting SME access to lending which otherwise may not be available or only at higher cost. The Government acknowledged that the use of personal guarantees also reflects in part broader changes in the lending market in recent years, partly compensating for information asymmetries in the wider context of an increase in digital loan provision and the rise in smaller SMEs lacking collateral.

Evidence noted that personal guarantees are viewed as an important tool by lenders, helping to provide the necessary security for lenders to make informed credit decisions, deter fraud, encourage responsible risk-taking by businesses, and help reduce expected losses.

Business respondents highlighted that the requirement for a personal guarantee can, however, be a barrier to demand for many businesses and expressed concern as to whether these are enforced only as a last resort.

Overall, the evidence did not point to adjusting the regulatory framework in relation to personal guarantees specifically (you will be aware that business loans are treated largely as a commercial matter, although access to dispute resolution in individual cases is possible under the jurisdiction of the Financial Ombudsman Service). The Government recognised that there are, however, some important perception issues around these guarantees which may affect the demand for credit and some concern about how they are or will be used.

This evidence-gathering and the conclusions we have reached have informed future policy work in this area, as first articulated under the Plan for Small and Medium Sized Businesses. In relation to the use of personal guarantees, the Government has committed to:

- Working with lenders on the appropriate use of personal guarantees, including on a mandatory Code of Conduct for accredited lenders that use the British Business Bank's Growth Guarantee Scheme (GGS) to ensure the use of personal guarantees under the GGS is fair and transparent.

- Recognising the necessary role that personal guarantees play in business lending, working with UK Finance to build on their existing lender commitments to use personal guarantees responsibly, and with the business finance community as a whole to build businesses' understanding of how to access the right finance on the right terms to meet their needs and to help businesses better understand the role of personal guarantees.

The response to the Call for Evidence on SME Finance noted that the Government has already begun work on the mandatory code of conduct for GGS accredited lenders. We stated that we will aim to have this in place as a priority, and will work with UK Finance to build on their existing lender commitments. Work is ongoing in this area, and we look forward to it concluding later this year.

Yours sincerely,

LR

LUCY RIGBY KC MP
ECONOMIC SECRETARY TO THE TREASURY