

EXERCISE

GUARANTIES

Background

Your client, TrueWay Holdco, is a parent holding company with several operating subsidiaries in the cosmetics industry. TrueWay Holdco is currently negotiating a revolving loan to fund general working capital needs for all of its subsidiaries. You've been asked to put together the first draft of a guaranty agreement. Before you get started, the partner asks you to come by her office to discuss what you plan to put in the agreement.

Instructions

Come prepared to discuss the following:

- Who will be a party to the guaranty agreement?
- What happens if the client creates or acquires a new subsidiary during the life of the loan?
- What will happen if TrueWay Holdco sells a subsidiary?
- What type of liability will the guarantor(s) have?
- Which types of guaranties do you plan to offer in the first draft of the agreement?