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Ohio Supreme Court Ruling Clarifies Whether Banks Owe a Duty to Loan Guarantors

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The Ohio Supreme Court overturned the First Appellate District's ruling in *Huntington National Bank v. Schneider (Case No. 2024-0208)*, clarifying when banks must disclose material information to loan guarantors. In a case involving a $77 million credit facility, the Court held that banks generally have no duty to inform guarantors about risks that might affect their exposure, even when those risks materially increase the guarantor's potential liability. Rather, under the state's contract law, parties are assumed to have the opportunity to learn relevant information, and no party is obligated to reveal material information to another unless a "relationship of special trust or confidence" is established between the parties. Thus, there is no duty to disclose even if a party to an agreement is a surety.

This case arises from a dispute where a business owner guaranteed loans for a company managed by his partner, who later committed check-kiting fraud. The guarantor argued he would never have signed the agreement if he had known of the borrower's deteriorating financial condition, which the bank had a duty to disclose. The Ohio Supreme Court disagreed, emphasizing that commercial parties must protect themselves through proper investigation rather than relying on the other party's disclosure.

For parties contemplating becoming a guarantor or surety, the key takeaway is that when signing guaranty agreements, the burden is on you to investigate and understand all relevant risks. For lenders, they must continue to take care to behave in an "arms-length" manner such that no "special trust or confidence" relationship develops, thereby creating a duty to disclose.