Securing Bank Loans with Public Guarantees

The loans required for economically appropriate projects can often only be collateralized to a partial degree. Where this is indeed the case, company attempts to attract financing can be something of a challenge. Public guarantees serve as a loan security or supplement in the case of any shortfall in securities. Public guarantees, in this function, encourage financial institutions (i.e. commercial banks) to offer loans to companies. It should however be noted that public guarantees do not provide cash support or any kind of credit.

At a Glance

- Ease loans in case of insufficient collateral
- Cover up to 80 percent of respective loan amount
- Available through different programs and institutions depending upon the loan amount to be secured

How Public Guarantees Work

The guarantee functions as a promise by the guarantor to the lender that, in the event of the borrower defaulting on payment, the guarantor will repay the lender a specified proportion of the foregone principal. In other words, guarantees will be provided by a guarantor to pay all or part of the loan in the case of borrower payment default.

General Terms and Conditions
The guarantee maturity is generally 15 years and eight years in the case of working capital loans. Commitments vouched for within public guarantees are normally subject to intensive individual examination by external assessors. Guarantee fees are paid annually. The fee paid is a percentage of the pending guaranteed amount at the start of the year in question. The applicant has to submit relevant documents (i.e. business plan, company economic documents etc.) to the respective guarantee bank or the mandatory in order to initiate the necessary evaluation procedure.

In 2016, a total of EUR 1.1 billion in public guarantees was used to secure loans for small and medium-sized enterprises by guarantee banks in Germany.

VDB – Association of German Guarantee Banks

Different Public Guarantee Programs
As a financial instrument, the public guarantee is very flexible. Different types of public guarantee programs exist to support different types of investment projects within Germany. The most suitable guarantee program depends on the required amount, the size of the enterprise, and the investment region.

Loan Guarantee Procedure

Guarantee banks, which have a presence in each federal state as private economic developers, support short-term, mid-term, and long-term loan financing for small and medium-sized enterprises with guarantees generally of up to EUR 1.25 million. In certain federal states, public guarantees above this amount are granted directly by either the development banks or by the federal states. The amount for these guarantees is unlimited in western German federal states. Eastern German federal states and their economic development banks cover guarantee requirements of up to EUR 10 million. Guarantees in eastern German federal states above EUR 10 million are granted as joint guarantees by the relevant state and the federal government.

Application Process
Before starting the investment, the guarantee application has to be submitted to the respective guarantee bank or state mandatory (normally the respective state development bank) via the investor's commercial bank. In the case of state guarantees (usually above EUR 1.25 million), a committee deliberates on the application and submits a recommendation. Finally, the state Minister of Finance decides on the allocation. For joint guarantees in eastern Germany covering guarantee needs above EUR 10 million, guarantee authorization is given by federal authorities in cooperation with the respective state. Concurrent EU notification is necessary.

Germany Trade & Invest's financing experts assist investors in identifying appropriate public guarantee programs.

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