Public Guarantees

Why Using Public Guarantees

New companies often experience difficulties securing financing through the capital markets as, frequently, the required loans can only be collateralized to an insufficient degree. In these cases – with economically appropriate projects – public guarantees can replace or supplement any shortfall in securities.

How Public Guarantees Work

A public guarantee is a financial instrument that encourages financial institutions, i.e. commercial banks but also public banks, to offer loans to new companies. Guarantee programs are specially designed to help entrepreneurs obtain bank financing by dealing with the collateral constraint. However, guarantees do not provide cash support or any kind of credit.

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

Different Public Guarantee Programs

Different types of public guarantee programs exist to support different types of investment projects within Germany. The guarantee program depends on the required amount, the size of the enterprise, and the investment region. Generally speaking, public guarantees are accessible for financing of an investment project or for working capital loans.

The maturity is generally 15 years, or eight years for 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 actual guaranteed amount at the beginning of the year concerned. This is fixed over the whole duration of the loan.

Guarantee programs are avaiable via a federal state's guarantee banks, via the individual state government or via the individual state government together with the federal government.

Guarantees by State Development Banks

The public state development banks of the federal states in Germany are able to issue guarantees to small and medium-sized companies. Usually, they guarantee for amounts of up to EUR 1.25 million.

Application has to be filed to the state development bank of the federal state the respective investment project is located at.

Guarantees by Individual State Governments

Public guarantees issued by individual state governments are available throughout Germany. They cover up to 80 percent of the loan amount. For investment projects in eastern Germany, the amount guaranteed for is limited to EUR 10 million. Higher amounts might be guaranteed for by the respective state government together with the federal government. The amount guarantted for is unlimited for projects throughout the rest of Germany.

Applications have to be handed in before the investment starts. They have to be submitted to a state mandatary (usually the respective public state development bank) via the investor's bank. A state guarantee committee then delibartes on the application and issues a recommendation. Finally, the State Minister of Finance decides on the allocation of a state guarantee.

Guarantees by State Governemnts + Federal Government

Public guarantees issued by state governments together with the federal government are available in eastern Germany and parts of Berlin only. They cover up the 80 percent of the loan amount and guarantee for amounts exceeding EUR 10 million.

Before the investment starts, the application has to be submitted to a federal mandatary (PWC) via the investor's bank. A guarantee committee analyses the application. Finally, approval is given by the federal authorities in cooperation with the respective state. Concurent notification with EU authorities is necessary.

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Submit your question

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