Securing Bank Loans with Public Guarantees

Occasionally, loans required for investment projects can only be collaterized partially. Where this is the case, for companies it could be a challenge to attract financing. Public guarantees serve as a loan security or supplement in the case of any shortfall in loan collateral. 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.

In 2018, more than EUR 1.1 billion in public guarantees was used to secure 5,800 financing projects in Germany.

VDB – Association of German Guarantee Banks

General Terms and Conditions

The guarantee maturity is generally connected to the financing the guarantee is used for. Commitments vouched for within public guarantees are normally subject to intensive individual examination. 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. The guarantee costs are divided into one-off costs (e.g. document fee) and an annual fee. The annual fee paid is a percentage of the pending guaranteed amount of the year in question.

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 privately organised 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. The specific maximum possible guarantee amount depends on the regulation of the respective guarantee bank. Public guarantees of up to EUR 3 million are generally offered by the business development banks of the respective federal state. A public guarantee offerings check of the business development bank of the individual federal state would be necessary. A guarantee amount of more than EUR 3 million can be guaranteed directly by the federal states. In individual federal states, a mandatary is in charge of assessing applications for a federal state guarantee.

Application Process

Before starting the investment, the guarantee application has to be submitted to the respective guarantee bank or state mandatory in order to initiate the necessary evaluation process via the investor's commercial bank. In the case of federal state guarantees, a committee deliberates on the application and submits a recommendation. Finally, the state Minister of Finance decides on the allocation. Concurrent EU notification is necessary for guarantees above EUR 15 million.

Germany Trade & Invest's financing experts assist investors in identifying appropriate public guarantee programs and inform about the application procedure.

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