

The German guarantee banks

The Association of German guarantee banks



The Association of German guarantee banks - VDB

- is the voluntary union (lobby) of the legally and economically independent German Guarantee Banks and is **based in Berlin and Brussels-Office**
- represents the joint business and general interests of its members in all matters relating to **banking policy and banking law and state aid**, promotes cooperation between member banks and supports them in the fulfillment of their missions
- represents and promotes the interests of its members through communication with lawmakers on the national and state level, national and international regulatory authorities, the media and the public
- is a **founder member** of the European Association of Mutual Guarantee Banks (AECM)
- carries out no active guarantee business

The German guarantee banks

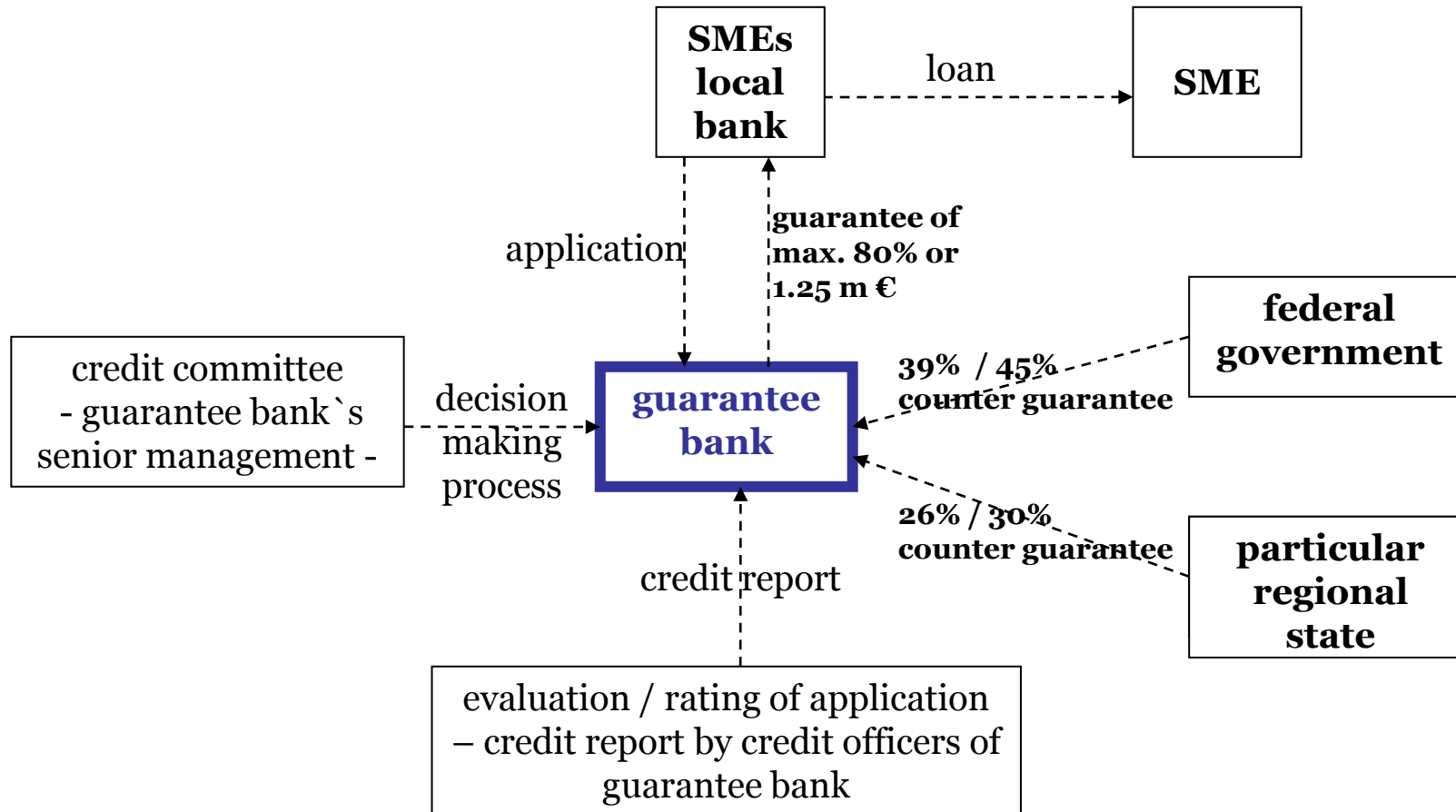
- **Private self-help institutions**
 - The **German guarantee banks are private self-help institutions** (private limited companies) in the form of credit institutions according to the German banking act
 - They were **founded** in the western part of Germany in the beginning of the **1950s** and in the Eastern part – after the fall of the wall – in the **1990s**
 - In principle there is one guarantee bank **in each of the sixteen German Federal States** promoting small and medium-sized enterprises (SMEs) and free professionals in their Federal States
- **Founders and shareholders of the guarantee banks**
 - Chambers of Crafts, of Industry and Commerce, of free professions
 - Trade associations
 - Banks, credit institutions, insurance companies

The German guarantee banks

- **General objective**
 - Assuming default / deficiency guarantees to SMEs to shore up the disadvantage SMEs face on the capital market
 - The guarantees make available credits to healthy companies and freelance professionals which do not have sufficient – if any – collateral for borrowing
 - In addition to granting guarantees to SMEs, guarantee banks make possible equity financing by taking on the main part of default risk of participations by private equity investment companies in SMEs by providing guarantees

- **State / sovereign counter guarantees**
 - Collateralisation of guarantee banks is based mainly on counter guarantees from the German federal government and the German federal states

guarantee bank company profile



What are the financial needs of SMEs?

- Business-orientated startups and corporate financing
- Adequate medium and long term financing of investments
- Funding framework for financing of working capital
- Pre-financing of orders
- Adequate credit line

- **Problem:** Those bank demands collaterals for the financial or credit support. In many cases SMEs have no or insufficient collateral for borrowing

- **Solution:** guarantees of guarantee banks

Eligible development measures

Guarantees regarding the financing by principle banks:

- **Business startup**
 - Investment and/or working capital, cost for tapping a new market etc.

- **Corporate succession**
 - Purchasing price of shares, company value

- **Existing SMEs**
 - Corporate extension, relocation, development costs, cost for tapping new markets, modernisation, working capital

Mandate of development



The guarantee banks guarantee

- for economically appropriate and promising investments projects
- by granting guarantees up to an amount of **1,25 m Euros** maximum and up to a guarantee quota of **80 %** of the credit at most
- in general independent of other collateral (in case other collaterals exist, they have to be provided)
- in general the personal liability (e.g. guarantee) of the natural person “behind” the SME, the initiator of the undertaking, is necessary

Advantages of guarantees for the parties



- **Advantages for the principal bank**
 - sustainable and valuable collateral
 - lower capital adequacy requirements due to the collateral
 - Guarantee banks give the bank a second opinion

- **Advantages for SMEs or final beneficiaries**
 - business-orientated financing
 - scope for further growth

- **Advantages for both parties**
 - External expert knowledge through assessment of the undertaking by commercial and trade chambers

Macroeconomic benefit of German guarantee banks

In 2006 and 2010 the Institute for Small- and Medium-Sized Enterprises at the University of Trier/Germany carried out two studies and demonstrated the significant value of the guarantee banking system

Compared to a scenario where guarantee banks did not exist...

... the gross domestic product increases by an average of 3,4 b Euros per year

... the number of employed workers grows by an average of 29.500 per year

... the number of unemployed workers falls by an average of 23.200 per year

... the state financing balance is about 1 b Euros higher



Business volume of German guarantee banks in 2016

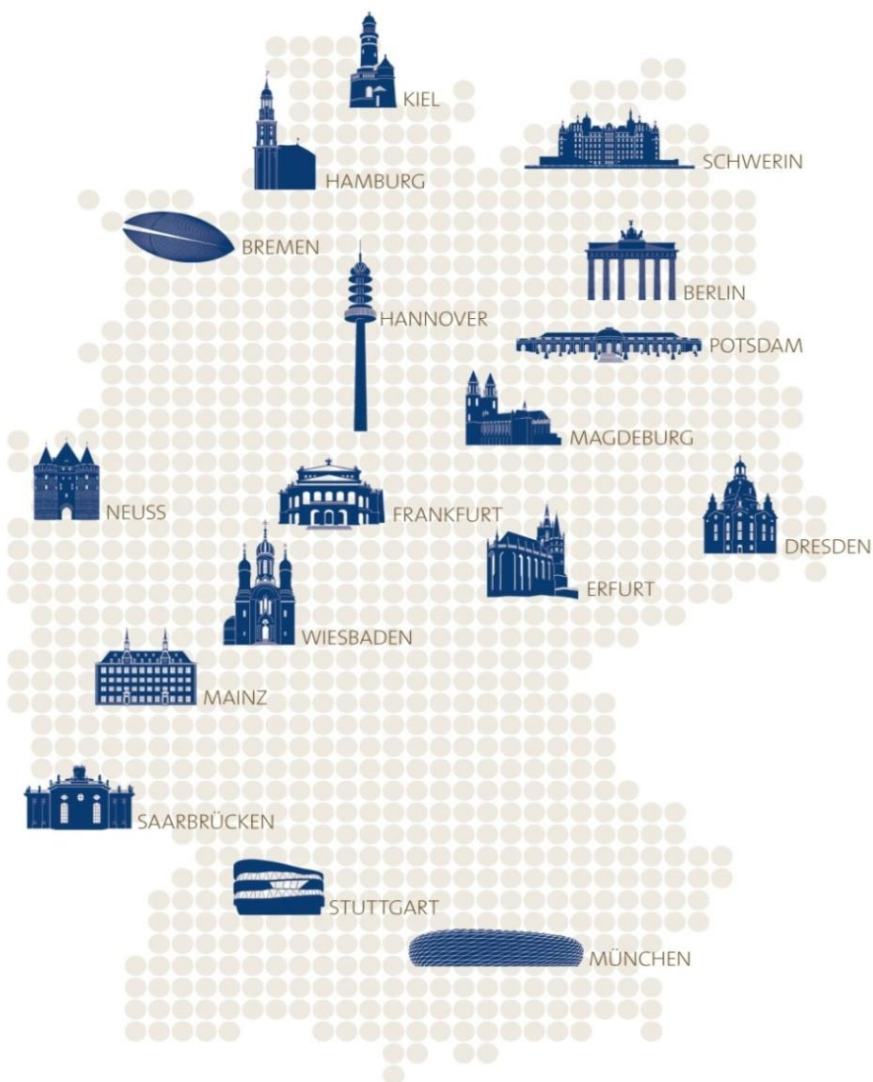


- In 2016 the German guarantee banks granted guarantees for credits and equities amounting to 1,1 b Euros. This amount corresponds to an investment volume of 1,7 b Euros
- 6.226 guarantees were granted by the German guarantee banks in 2016
- In 2016 more than 79.000 jobs were maintained or created as a result of the guarantees
- 3.027 (49% of all guarantees) business start-ups were promoted in 2016
- Total guarantee assets of the guarantee banks at the end of 2016 (number): around 48.000
- Total guarantee assets of the guarantee banks at the end of 2016 (absolute value): around 5,7 b Euros

Challenges of German guarantee banks 2017 - 2020

- Digitalisation - large VDB project to harmonise IT-structure and create digital products (E-guarantees)
- Legal framework and regulation for guarantee banks is challenging
 - Banking law
 - New requirements for risk management (MaRisk 2017)
 - Bank secrecy and data protection
 - KYC - 4AMLD Implementation
 - Registration – Central Bank and BaFin
- Low interest rates for financial investments
- Interests on credits are quite low in Germany – less banks use additional guarantee
- Aging population - less foundations of young people
- More guarantess for subsequent operation / replacement of founders

Thank You!



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