Guarantee banks

SME-oriented investment companies

Guarantees may be as high as Euro 1.25 million per company. In some federal states they may be even higher.

Half of the guarantees are provided for loans of up to Euro 100,000. More than 40% of all guarantees are granted to founders or successors of enterprises. Guarantee banks support approximately 50,000 companies with a total of Euro 5.8 billion.

MBGs provide equity capital in amounts ranging from Euro 50,000 up to Euro 1.25 million or sometimes up to Euro 2.5 million.

On average they contribute less than Euro 300,000; 70% are used for financing growth. MBGs support approximately 4,000 SMEs with a total of more than Euro 1.1 billion. According to the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften ((BVK) association of private equity and venture capital companies)) this is 50% of all participations made in Germany.
Guarantee banks

What are guarantee banks?
The first guarantee banks (Bürgschaftsbanken) were founded in 1950 as private support institutes “by business for business”. They are not profit-oriented; they do not distribute profits. Their shareholders are chambers of commerce or crafts and business federations of all sectors, credit institutes and insurance companies.

Guarantee banks support small and medium-sized companies (SMEs), as well as founders of new business enterprises, in their respective federal state.

Which services do they provide?
Guarantee banks provide guarantees for commercial enterprises and freelancers who do not get loans or get insufficient loans from their usual bank, because they do not have sufficient collaterals.

A guarantee bank will grant guarantees for any type of short-, medium- and long-term loan; for instance for founding a new enterprise, for a takeover, for financing investment and growth or for operation. The guarantees are granted upon the precondition that the project is economically feasible.

Companies can apply through their usual bank, a holding company, a leasing or insurance company.

What are loan default guarantees?
For banks, savings banks and other financial institutes, guarantees are fully adequate loan collaterals. The government of the Federal Republic of Germany and the governments of the federal states provide counter guarantees as part of their support for SMEs.

Guarantee banks may also provide guarantees for holding companies, thus providing securities, typically for dormant equity holdings.

Guarantee banks SME-oriented investment companies in Germany

SME-oriented investment companies

What are SME-oriented investment companies?
SME-oriented investment companies (Mittelständische Beteiligungsgesellschaften or MBGs) were created from the 1970s onwards by private business as support institutions. As with the guarantee banks their objective is to provide support “by business for business”. They work closely with the guarantee banks. As with the guarantee banks their shareholders are chambers of commerce and trades as well as business federations of all sectors, credit institutes and insurance companies. In their position as regional societies they support commercial SMEs in their respective federal state.

What do MBGs do?
The MBGs improve the balance relations of founders of new enterprises and companies of trade and industry by means of providing equity capital on a long-term basis – usually as mezzanine capital similar to equity, typically in the form of dormant equity holdings. However, they do not interfere with day-to-day operation. MBG-equity exists for all sectors. They are provided on the precondition that the projects are potentially profitable and economically feasible. Companies may submit their applications directly to the MBGs.

How can this equity capital be used?
Companies may use equity capital provided by MBGs as an alternative to bank loans or for complementing them. It is recognized as functional equity. It improves the company’s equity ratio and rating. Equity capital is provided for financing growth, investments for expansion, rationalisation and replacement, establishing new enterprises or for innovation. Also management buy out or management buy in, monetary compensation for shareholders or turn-arounds can be financed by means of MBG funds.