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[Association of German guarantee banks]

Comments

from the Association of German guarantee banks <Verband Deutscher Bürgschaftsbanken e. V. (VDB)> on the EBA "Discussion Paper and Call for Evidence on SMEs and the SME Supporting Factor

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I. Remarks

The guarantee banks grant guarantees for the financing of small and medium enterprises (SMEs) as well as founders of new business enterprises. The activities of guarantee banks are only made possible by partial, government-backed counter guarantees on the issued guarantees.

The development and maintenance of German SMEs is paramount. The activities of the guarantee banks are not profit-orientated; furthermore, dividend pay outs are prohibited. They are obliged by national law, with some exceptions, to observe CRR legislation.

II. Regarding the consultation:

With Basel III, significantly higher equity ratios were decided. Only a supporting factor can prevent that lending to small and medium enterprises does not suffer.

Therefore, credits up to 1.5 million Euros have been excluded from the general increase – in that way, they profit from more favourable lending conditions.

If all credits were to be regulated without taking company size into consideration, it would have a significant effect on company financing. Additionally, one should not underestimate the significance of credits to medium sized enterprises as a stability anchor for companies such as banks. The 23 million small and medium enterprises (SMEs) represent the majority of all companies in the EU and create two thirds of the total number of workplaces in the private economy. It is much harder for them to obtain credit than for larger companies – even in Germany, as again demonstrated by the most recent financing survey undertaken by the German Chamber of Industry and Commerce. Therefore, protecting the supply of credit from further limitations does not only benefit EU countries, who must accept the burden of the current reform, but the European economy in general.

Stable lending to small and medium enterprise strengthens the financial system. This is due to the fact that numerous smaller SME loans are generally often lower risk than loans of equal amount to a small number of larger companies: SMEs loans are less dependent on large global fiscal trends. This reduces the risk that many creditors simultaneously get in trouble – and trigger a crisis which could threaten the bank's existence.

Therefore, the SME supporting factor is not a special concession which was introduced to privilege a specific group of companies. On the contrary: It simply recognises the stabilising effect that the spreading the risks through SME credits has on a bank's business. Further, there are a number of grounds which argue that it might even have been set too low.

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The German Central Bank[1] suggests, that in comparing SME loans with those for large companies – definitely in Germany's case – the former should actually even have lower equity ratio requirements.

The supportin factor should be retained in its current format, otherwise this could threaten the investment opportunities and therefore the competitiveness of small and medium enterprises.

However, it would be sensible to have a higher upper limit for SME loans. This is due to the fact that the maximum loan limit of 1.5 million Euros is quickly attained. For sole traders in particular, the entrepreneur's private credits are included in the calculation. As the risk does not dramatically increase when the loan limit of 1.5 million is surpassed, there is room for an increase.

We ask that you take the problems presented above into consideration when evaluating the future SME correction factor.

Best regards,

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Managing Director

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General Counsel

[1] Deutsche Bundesbank, Paper No 22/2013; Evaluation of minimum capital requirements for bank loans to SMEs (Klaus Düllmann, Philipp Koziol)