COVID-19: Germany Update — Corporate Liquidity Issues in the Time of the Coronavirus Crisis

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The following article is the translation of an associated podcast, which is available in German here.

This article focuses on financing issues and opportunities for German companies during the coronavirus pandemic, specifically in respect of existing loans, new loans supported by KfW (the German state-owned development bank) and equity measures of the German Economic Stabilization Fund (Wirtschaftsstabilisierungsfonds).

Existing Loans

KfW currently does not offer any programs supporting existing loans. If a borrower is unable to meet financial covenants or is likely to breach other terms of a financing agreement, the company should contact its lender. Hopefully the lender and the borrower can work on a consensual solution in order to reduce the burden on the company through temporary deferrals, waivers or other adjustments to loan agreements.

A second option for borrowers may be to fully draw on all available credit lines, even beyond the amount of funds currently needed. This avoids the risk that the bank might refuse to disburse the loan at a later point in time due to a deterioration in the company's financial situation. Of course, the borrower will need to consider the additional interest costs that may be incurred and be confident that the additional amounts can be repaid over time.

New Loans

If the above options are not promising or sufficient, the company could consider taking out a new loan, for which KfW support may be an option. Companies must be experiencing a liquidity shortage caused by the coronavirus in order to qualify for KfW support. The bank will support the financing as part of a syndicate of banks, by refinancing or assuming the risk of the participating banks. Most of the KfW's coronavirus-related programs support up to 80-90% of the loan volume. Depending on the company's size, commencement of business operations and required financing amount, KfW has initially set up three programs, which generally can be used for all types of new financings in the next 12-18 months. However, as mentioned above, no KfW program is currently available for the expansion, extension or refinancing of existing loans.

In order to be eligible for one of KfW's support programs, a company must:

- demonstrate a likelihood that it will be able to repay the entire loan amount within the next few years, assuming that the economy recovers from the effects of the coronavirus-related constraints in the near future — the exact repayment period depends on the type and size of the investment and ranges between two and six years; and
- complete the entire standard credit process for the full loan amount, *i.e.*, also for the part of the loan for which KfW assumes the default risk.

Initial feedback from the business community has shown that for a number of companies, meeting these requirements is difficult. As a response, in early April, an additional KfW program for small and medium-sized businesses was approved. Under this additional program, KfW assumes 100% of the default risk for loans up to €800,000, and no separate credit risk assessment is required to be carried out.

Those who are interested in a KfW support program should contact a commercial or savings bank.

German Economic Stabilization Fund

The German federal government has established certain instruments under its Economic Stabilization Fund, through which the government may participate in corporate financings by means of a number of equity capital measures. The federal government may, for example, acquire company shares, convertible bonds, profit participation rights or subordinated debt instruments, as well as silent partnership investments. The investment is accompanied by various restrictions on the relevant company.

This program is also only available to companies that are experiencing a liquidity shortage caused by the coronavirus. In addition, the company must be part of the real economy and its existence must be vital for the economy, technological sovereignty, certainty of supply, critical infrastructure or the labor market.

Conclusion

Even in times of crisis, companies have a wide range of options for coping with liquidity shortages. It is crucial to analyze in each individual case which instrument works best for your company.