

**Empire State
Development**

Albany, NY 12245

LINKED DEPOSIT PROGRAM
**ANNUAL REPORT TO
THE GOVERNOR AND
THE LEGISLATURE
2013**

Empire State Development (ESD) is responsible for managing the Linked Deposit Program (LDP), which was created to encourage and assist New York State manufacturers and small businesses to undertake investments that improve performance and competitiveness, leading to a stronger economic climate for New York State. LDP is an important feature in lowering the cost of capital for small businesses, and is one of several ESD initiatives that are critical to ensuring that New York remains open for business. The continued utilization of LDP by both the banking and business communities during this difficult economic period remains very encouraging as the program's economic impact reaches all regions of the state.

The LDP "linked loan" provides businesses with affordable capital based on interest rates that are subsidized by state deposits. Under LDP, eligible businesses can obtain loans from commercial banks, savings banks, savings and loan associations, farm credit institutions and the New York Business Development Corporation at an interest rate that is up to two or three percentage points lower than the prevailing rate on such loans, thereby making borrowing less expensive. Lenders are compensated by deposits of state funds at comparably reduced rates.

There are currently 72 lenders participating in the Linked Deposit Program. Since the Program's inception on February 11, 1994, LDP has funded nearly 4,900 projects for a total amount of \$1.57 billion, leveraging \$3.4 billion in new capital investment by businesses in New York State. During 2012, LDP processed 221 applications and approved 187 loans for deposits totaling more than \$77.4 million which will generate \$147.5 million in private sector capital investment. The low interest rate environment has continued to severely limit utilization of the program as the average four year CD rate declined from under 2% in 2009 to .5% in 2012. While this low interest rate environment resulted in a 27% decrease in volume, LDP's total dollar output declined by only 2.9% when compared to 2011, when the results were 302 applications, 261 approvals, and \$79.7 million in output. The minimal decrease in output is due in part to ESD's implementation and marketing of Governor Cuomo and the Legislature's enactment of changes in 2011 and 2012, as well as the relaxation of LDP program policy limits in 2012.

Two legislative changes were enacted in April 2011 that increased the lifetime maximum for eligible companies from \$1 million to \$2 million, and allowed companies to apply for a four-year extension, providing up to eight years of assistance on certain loans. As a result, 57 loans were approved in 2012 totaling \$28.4 million, including 41 loans (\$23.1 million) to companies that reached the prior lifetime limit, and 16 loans (\$5.3 million) to those that requested four-year extensions.

In April 2012, the program was amended to extend the higher interest rate benefit of 3% to agricultural businesses. Although the current rate environment does not immediately allow for this benefit, ESD marketed this change together with the 2011 legislative changes and 2012 policy enhancements, and as a result 12% of approvals (23 loans) and 16% of output (\$12.7 million) will benefit expanding agricultural businesses, an increase of 14% in agricultural output compared to 2011 (\$11.2 million). Also in 2012, ESD increased LDP's loan limits and announced three policy changes: (1) allowing companies to have any number of linked loans outstanding (prior limit was three loans), (2) increasing the single deposit maximum from \$500,000 to \$1 million, and (3) raising the total dollar value on outstanding deposits from \$1 million to \$1.5 million. As a result, 49 loans totaling \$40.3 million received assistance, generating \$16.8 million in additional output that would not have been possible without these policy changes. In total, 82 loans totaling \$50.4 million (43% of loans and 65% of output for 2012) were approved as a result of these policy and legislative changes. All of these improvements are consistent with Governor Cuomo's commitment to ensure that New York is open for business.

ESD continued its outreach and marketing efforts, focusing on increasing overall participation and performance in three under-served regions that had less than 10 approvals in 2011. Efforts included re-educating and training loan officers, providing updated marketing materials and information on program changes, and identifying potential new lenders for the program. ESD marketing efforts helped to minimize the decrease in LDP output to 2.9%, and resulted in a 25% increase in the average loan amount to \$410,000 in 2012 compared to \$305,000 in 2011. In addition the number of under-served regions in 2012 remained at three (Mid-Hudson, New York, and Long Island) and improvements were made in two of the three under-served regions compared to 2011 (North Country and New York). For example the North Country reported a 40% increase in activity and doubled output compared to 2011, and as a result this region was not under-served in 2012. Although New York and Long Island remain under-served in 2012, output in the New York region increased more than 25% compared to last year. In addition both the number of lenders (72) and the number of under-served regions (3) remain unchanged compared to 2011. In 2013, ESD plans to continue its outreach efforts in conjunction with the Regional Councils, particularly in the three under-served regions.

I. 2012 Program Performance Details:

1. Types of Firms Receiving Linked Loans

Manufacturing Firms

78

Manufacturing Firms / Agricultural	23
Service Businesses	82
Retail Businesses	<u>4</u>
	187

2. Geographic Distribution of Participating Firms

	<u>Approved Projects</u>	<u>Linked Deposit Assistance</u>
Capital Region	19	\$10.5M
Central New York	32	\$10.4M
Finger Lakes	50	\$16.5M
Long Island	2	\$ 1.1M
Mid-Hudson	7	\$ 3.0M
Mohawk Valley	10	\$ 2.7M
New York City	6	\$ 4.4M
North Country	10	\$ 7.3M
Southern Tier	11	\$ 5.8M
Western New York	<u>40</u>	<u>\$15.7M</u>
Total approved projects 2012:	187	\$77.4M

3. Usage of Linked Loans

Equipment Purchase	90
Expansion	27
Real Estate Purchase	46
Renewed Deposits	16
Working Capital	1
Buyouts	<u>7</u>
Total number of approved projects:	187

4. Amount of Money on Deposit for Linked Loans

LDP amount on deposit as of 12/31/12:	\$ 219,059,553	(894 deposits)
Total deposits authorized 2/11/94 – 12/31/12:	\$1,573,419,337	(4,896 deposits)

5. Statement of Cost* of LDP to the State and to the Public Authorities

Office of the State Comptroller (OSC)	\$ 0**
Department of Taxation and Finance	<u>\$ 23,660.14</u>
Total cost of LDP for 2012:	\$ 23,660.14

*Cost is determined by calculating the difference between the average rate on other short term investments and the average rate of return on funds invested in linked deposit CDs.

**As in Program Year 2011, OSC indicated no cost for LDP for 2012 (they actually made

\$118,087.33) because the majority of money on deposit was in CDs issued in prior years when rates were substantially higher than they could have invested in using 2012 short term investment pool market rates.

6. Types of Lenders Making Linked Loans:

Commercial Banks	60
Savings Banks	10
Savings and Loan Associations	0
Farm Credit Institutions	1
New York Business Development Corporation	<u>1</u>
Total Participating Lenders	72

7. Approximate Number of Jobs Created or Retained as a Result of LDP

NYS total jobs at time of application (187 companies approved)	4,946
NYS jobs to be created (projections made by applicant)	527
NYS jobs to be retained (projections made by applicant)	689

8. Actions Taken by Empire State Development to Secure Increased Utilization

- ESD continues to offer training to several participating lenders where participation declined, focusing on increasing utilization in three under-served regions. As a result, output in two regions increased (New York rose 26% and North Country more than doubled) and one (North Country) region’s participation increased 40% and was not under-served in 2012.
- ESD provided updated marketing materials and performance reports to each bank’s marketing manager in an effort to increase utilization.
- ESD implemented and marketed three policy changes in 2012 and as a result 49 loans were approved totaling \$40.3 million in LDP output, generating \$16.8 million in additional output that would not have been possible without these policy changes.
- ESD continued to promote the two legislative changes contained in Governor Cuomo’s 2011-2012 budget described earlier, and as a result 57 loans were approved totaling \$28.4 million in output in 2012.
- ESD implemented a legislative change enacted in April 2012 that allows agricultural businesses to qualify for the higher interest rate subsidy of 3%. While the 2012 rate environment doesn’t support a higher reduction at this time, ESD marketed this benefit together with the 2011 legislative changes and 2012 policy enhancements, and as a result agricultural output increased by 14% compared to 2011.
- ESD continued to identify potential lenders; unfortunately, current economic conditions made it difficult to secure any new participants. The number of LDP participating lenders remains at 72.
- ESD notified LDP companies with existing loans of the option to renew a

linked deposit for a second four-year period, and as a result 16 loans were approved for \$5.3 million.

- LDP staff coordinated with Regional Councils and other stakeholders to address obstacles and refer potential customers to the program.
- Presentations were made by ESD staff at numerous business events to market the program directly to businesses.

II. **ADDITIONAL LDP INFORMATION:**

- **FUNDING**

\$560 million was authorized for this program. Of that amount, \$516 million has been committed to the program from OSC and the public authorities.

As of 12/31/12, \$219 million is being utilized on deposit and \$31.3 million is approved and scheduled for deposit as loans close during 2013, leaving approximately \$266 million available to fund new projects.

- **TARGETED BUSINESS PARTICIPATION**

Of the 187 projects approved during 2012, 33 projects (17%) benefited businesses that are located in targeted areas or are considered disadvantaged, including: 11 in highly distressed census tracts; 6 in Federal Empowerment Zones or Enterprise or Renewal Communities; 18 certified businesses in Empire Zones, 2 MWBE-certified, 3 minority-owned; and 3 woman-owned enterprises.

NOTE: Some businesses qualified in more than one category.

- **SMALL BUSINESS PARTICIPATION**

Since program inception the majority of businesses assisted by LDP are small businesses, which are defined as companies with 100 or fewer employees. During 2012, 97% (183 of 187) of the loans approved will benefit small businesses and they will have received 97% (\$75.5 million) of the total \$77.4 million committed by LDP.

- **DEPOSIT AMOUNT**

The average deposit for 2012 was \$410,000, 25% higher than the 2011 average of \$305,000, and more than 30% higher than the average deposit of \$284,000 in 2008 (before the economic recession impacted LDP volume).

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REGIONAL OFFICES**

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North Country

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and

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