

**Empire State
Development**

Albany, NY 12245

LINKED DEPOSIT PROGRAM
**ANNUAL REPORT TO
THE GOVERNOR AND
THE LEGISLATURE
2012**

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 in 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 4,704 projects for a total amount of \$1.5 billion, leveraging \$3.3 billion in new capital investment by businesses in New York State. During 2011, LDP processed 302 applications and approved 261 loans for deposits totaling more than \$79.7 million which will generate \$162 million in private sector capital investment. The low interest rate environment continued to severely limit utilization of the program as four year CD rates declined from under 2% in the beginning of the year to less than .5% in the last quarter of 2011. Despite the low interest rate environment, LDP performance for 2011 did improve when compared to 2010 (296 applications, 256 approvals, \$69.8 million output). Application volume and the number of projects approved increased by 2% and LDP dollars committed increased by 14.2%.

The increase in utilization is due to Governor Cuomo and the Legislature's enactment of legislative changes which became effective on April 1. The changes increased the lifetime

maximum for all eligible companies from \$1 million to \$2 million, and allowed companies to apply for a four-year extension on current deposits, thus providing up to eight years of assistance on certain loans. As a result, 67 companies applied for additional assistance totaling \$25.5 million in LDP approvals. If these changes were not implemented, LDP activity for 2011 would have decreased by more than 20% when compared to 2010. ESD continued its outreach and marketing efforts focusing on increasing overall participation and performance in two under-served regions with less than 10 approvals in 2010. Efforts included re-educating and training loan officers, providing updated marketing materials and continuous updates on performance and changes, and identifying potential new lenders. As a result, LDP activity increased and total participation in the two under-served regions more than doubled when compared to 2010, and ESD secured the participation of two new lenders. Beginning next year, legislative improvements to LDP will offer additional assistance to expanding agricultural businesses which are an important sector in this State's economy. These improvements are in line with Governor Cuomo's Regional Councils, and the demonstrated benefits are critical in ensuring that New York is open for business.

I. 2011 Program Performance Details:

1. Types of Firms Receiving Linked Loans

Manufacturing Firms	139
Manufacturing Firms / Agricultural	29
Service Businesses	91
Retail Businesses	<u>2</u>
	261

2. Geographic Distribution of Participating Firms

	<u>Approved Projects</u>	<u>Linked Deposit Assistance</u>
Capital Region	25	\$7.5M
Central New York	31	\$8.5M
Finger Lakes	96	\$30.0M
Long Island	8	\$3.8M
Mid-Hudson	13	\$4.2M
Mohawk Valley	12	\$2.6M
New York City	7	\$3.5M
North Country	7	\$2.8M
Southern Tier	15	\$3.9M
Western New York	<u>47</u>	<u>\$12.9M</u>
Total approved projects 2011:	261	\$79.7M

3. Usage of Linked Loans

Equipment Purchase	152
Expansion	35

Real Estate Purchase	44
Renewed Deposits	15
Working Capital	1
Buyouts	<u>14</u>
Total number of approved projects:	261

4. Amount of Money on Deposit for Linked Loans

LDP amount on deposit as of 12/31/11:	\$ 247,347,333	(1,070 deposits)
Total deposits authorized 2/11/94 – 12/31/11:	\$1,501,056,018	(4,704 deposits)

5. Statement of Cost* of LDP to the State and to the Public Authorities (*Cost is measured as interest lost as a result of reduced rates on funds invested in linked deposits.)

Office of the State Comptroller (OSC)	\$ 0**
Department of Taxation and Finance	<u>\$ 27,308.08</u>
Total cost of LDP for 2011:	\$ 27,308.08

**As in Program Year 2010, OSC indicated no cost for LDP for 2011 (they actually made \$1,159,305.55) because the majority of money on deposit was in CDs issued in prior years when rates were substantially higher than they could invest their funds at using 2011 certificate of deposit 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 (261 companies approved)	7,287
NYS jobs to be created (projections made by applicant)	788
NYS jobs to be retained (projections made by applicant)	642

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

- ESD staff continued to offer training to several participating lenders where participation declined, focusing on increasing utilization in two under-served regions. As a result total participation in these regions (Mohawk Valley and

New York City) more than doubled compared to 2010 and one (Mohawk Valley) had more than 10 approvals.

- ESD provided updated marketing materials and performance reports to each bank's marketing manager in an effort to increase utilization.
- ESD added two new participating lenders (one in each of the two under-served regions) and as a result three loans totaling \$1.15 million were approved. LDP staff also continued to actively identify and pursue other non-participating banks to join the program.
- ESD marketed two legislative changes to increase utilization contained in Governor Cuomo's 2011-2012 budget to participating lenders and all other partners.
- ESD notified LDP companies with existing loans of the option to renew a linked deposit for a second four-year period.
- LDP staff is working to identify other changes that could be recommended to increase program utilization and assist Regional Councils in implementing strategic plans, particularly those in under-served regions.
- Presentations were made by ESD staff at various meetings and conferences.
- ESD staff worked with Public Authorities and Corporations to retain their participation.

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 12/31/11, \$247.4 million is being utilized on deposit and \$27.4 million is approved and scheduled for deposit as loans close during 2012, leaving over \$241 million available to fund new projects.

- **TARGETED BUSINESS PARTICIPATION**

Of the 261 projects approved during 2011, 47 projects (18%) benefited businesses that are located in targeted areas or are considered disadvantaged, including: 17 in highly distressed census tracts; 10 in Federal Empowerment Zones or Enterprise or Renewal Communities; 26 certified businesses in Empire Zones, 5 MWBE-certified, 2 minority-owned; and 5 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 2011, 94% (246 of 261) of the loans approved will benefit small businesses and they will have received 91% (\$72.8 million) of the total \$79.7 million committed by LDP.

- **DEPOSIT AMOUNT**

The average deposit for 2011 was \$305,000, 12% higher than the 2010 average of \$272,000, and 7% higher than the average deposit of \$284,000 in 2008 (before the economic recession impacted LDP volume).

- **NEW LEGISLATIVE RECOMMENDATIONS**

Although volume for 2011 increased when compared to 2010, LDP still has over \$241 million in available funding. As in the previous year, ESD researched and explored ways to increase participation and overall utilization of LDP. Recently an additional change to the legislation was identified that could help to increase overall activity. Current LDP legislation allows the majority of agricultural businesses to qualify for a 2% interest reduction under the program. Extending the higher interest rate benefit of 3% to these agricultural businesses will provide an additional incentive that should help to stimulate future farm expansions.

**EMPIRE STATE DEVELOPMENT
REGIONAL OFFICES**

Capital Region

Hedley Park Place
433 River Street – Suite 1003
Troy, NY 12180
(518) 270-1130

Central New York

620 Erie Boulevard West, Suite 112
Syracuse, NY 13204
(315) 425-9110

Finger Lakes

400 Andrews St., Suite 300
Rochester, NY 14604
(585) 399-7050

Long Island

150 Motor Parkway
Hauppauge, NY 11788
(631) 435-0717

Mid-Hudson

33 Airport Center Dr., Suite 201
New Windsor, NY 12553
(845) 567-4882

Mohawk Valley

207 Genesee St.
16th Floor
Utica, NY 13501
(315) 793-2366

New York City

633 Third Avenue, 31st Floor
New York, NY 10017-6706
(212) 803-3130

North Country

401 West Bay Plaza
Plattsburgh, NY 12901
(518) 561-5642
and
Dulles State Office Building
317 Washington St.
Watertown, NY 13601
(315) 785-7907

Southern Tier

State Office Building
44 Hawley St., Room 1508
Binghamton, NY 13901
(607) 721-8605
and
Elmira Savings Bank
333 East Water Street, 4th Floor
Elmira, NY 14901
(607) 734-8130

Western New York

95 Perry Street – Suite 500
Buffalo, NY 14203-3030
(716) 846-8200

LINKED DEPOSIT PROGRAM OFFICE
Dolores O'Connor, Program Manager
Empire State Development
Albany, NY 12245
Telephone (518) 292-5261
Linkeddeposit@esd.ny.gov
www.nyfirst.ny.gov or www.esd.ny.gov