

**Empire State
Development
30 South Pearl Street
Albany, NY 12245**

**LINKED DEPOSIT PROGRAM
ANNUAL REPORT TO
THE GOVERNOR AND
THE LEGISLATURE
2011**

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. 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 4,454 projects for a total amount of \$1.4 billion, leveraging more than \$3.1 billion in new capital investment by businesses in New York State. During 2010, LDP processed 296 applications and approved 256 loans for deposits totaling more than \$69.8 million which will generate \$167.5 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 2010 to less than 1% by year's end. Despite the low interest rate environment, LDP performance for 2010 did improve and resulted in a 14% increase in application volume, 18% increase in the number of projects approved and 32.5% increase in LDP dollars committed compared to Program Year 2009 when LDP processed 259 applications and approved 217 loans totaling \$52.6 million.

The increase in utilization is due in part to ESD's outreach and marketing efforts, which focused on increasing overall participation and increasing performance in five under-served ESD regions with less than 10 approvals in 2009. LDP compiled performance history of several existing lenders and contacted those in which utilization had decreased, offering to re-educate and train loan officers and provide updated marketing materials. This coordinated effort provided in-depth training to hundreds of loan officers and allowed LDP to identify and address other lender concerns, which will help to streamline efforts and increase participation. As a result of the training, many lenders increased participation when compared to 2009 and LDP utilization increased in all but two of the five under-served ESD regions in 2010 (only Mohawk Valley and New York City had less than 10

approvals). LDP continues to offer training to all participating lenders and provides continuous updates on performance and changes throughout the year. Moreover, two legislative changes are included in Governor Cuomo's fiscal year 2011-2012 budget that should increase utilization.

I. LDP Legislation Requires an Annual Report on the Following Information:

1. Types and Number of Firms Receiving Linked Loans

Manufacturing Firms	98
Manufacturing Firms / Agricultural	20
Service Businesses	137
Retail Businesses	<u>1</u>
	256

2. Geographic Distribution of Participating Firms

	<u>Approved projects</u>	<u>Linked Deposit Assistance</u>
Capital Region	32	\$7.1M
Central New York	26	\$7.0M
Finger Lakes	70	\$19.1M
Long Island	10	\$5.0M
Mid-Hudson	14	\$3.5M
Mohawk Valley	4	\$718K
New York City	4	\$1.6M
North Country	11	\$2.9M
Southern Tier	12	\$3.2M
Western New York	<u>73</u>	<u>\$19.6M</u>
Total approved projects 2010:	256	\$69.8M

3. Types and Number of Linked Loans

Equipment Purchase	144
Expansion	42
Real Estate Purchase	54
Working Capital	3
Buyouts	<u>13</u>
Total number of approved projects:	256

4. Amount of Money on Deposit for Linked Loans

LDP amount on deposit as of 12/31/10:	\$ 279,857,654	(1,249 deposits)
Total deposits authorized 2/11/94 – 12/31/10:	\$1,427,810,370	(4,454 deposits)

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

(considered as a whole because of reduced rates on funds invested in linked deposits)

Office of the State Comptroller (OSC)	\$ -- 0 -- *
Department of Taxation and Finance	<u>\$ 49,039.73</u>

Total cost of LDP for 2010: \$ 49,039.73

*As in Program Year 2009, OSC indicated no cost for LDP for 2010 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 2010 certificate of deposit rates.

6. Types and Number of Banks Making Linked Loans:

Commercial Banks	61
Savings Banks	9
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 (256 companies approved)	5,493
NYS jobs to be created (projections made by applicant)	671
NYS jobs to be retained (projections made by applicant)	759

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

- ESD staff compared past performance of several participating lenders to find out where participation declined, focusing on increasing utilization in ESD's five under-served regions.
- ESD coordinated a massive outreach and marketing effort and as a result provided training and updated marketing materials to hundreds of loan officers, reaching half of LDP's 72 lenders.
- ESD followed-up with those that participated in the marketing effort to update them on their bank's performance after training was provided.
- ESD provided updated marketing materials to lenders that did not receive training in an effort to reach all of LDP's 72 lending institutions.
- ESD staff continued to actively identify and pursue new banks to join the program, particularly those in under-served regions.
- ESD supported two legislative changes to increase utilization contained in Governor Cuomo's fiscal year 2011-2012 budget proposals.
- 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 12/31/10, \$280 million is being utilized on deposit and \$31.6 million is approved and scheduled for deposit as loans close during 2011, leaving over \$204 million available to fund new projects.

- **TARGETED BUSINESS PARTICIPATION**

Of the 256 projects approved during 2010, 58 projects (23%) benefited businesses that are located in targeted or economically disadvantaged areas, which include highly distressed census tracts, Federal Empowerment Zones or Enterprise or Renewal Communities, or were certified businesses in Empire Zones, or MWBE-certified, or minority- or woman-owned enterprises.

10	Located in a highly distressed area
7	Located in a Federal Empowerment Zone, or Enterprise or Renewal Community
38	Empire Zone Certified
9	MWBE-certified
3	Minority Owned
16	Woman Owned

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 2010, one-hundred percent (256) of the businesses assisted and all of the \$69.8 million committed by LDP will benefit small businesses with 100 or fewer employees.

- **DEPOSIT AMOUNT**

The average deposit during 2010 was \$272,000, up slightly from the average of \$242,500 in 2009; however, still less than the average deposit of \$284,000 in 2008.

- **NEW LEGISLATIVE RECOMMENDATIONS**

Although volume for this year increased when compared to 2009, LDP still has over \$204 million in available funding. During 2010, ESD researched and explored ways to increase participation and overall utilization of LDP. LDP staff expanded its marketing efforts with participating lenders by providing training sessions and updates throughout the year and also identified new lenders as potential partners. In addition, changes to the legislation were identified that could help to increase overall activity. Current LDP legislation caps the lifetime maximum linked deposit loan at \$1 million and no longer provides for renewal of a linked deposit loan (section 220 of the State Finance Law repealed in 2004.) Included in Governor Cuomo's budget proposal are two changes to the State Finance Law that will benefit LDP borrowers and help to increase program utilization.

- The first change increases a borrower's lifetime maximum from \$1 million to \$2 million. Over 300 companies have reached the lifetime maximum and many have inquired about receiving additional assistance. Increasing the

lifetime limit will expand utilization of the program and make more dollars available for New York's small businesses to grow and create new jobs.

- The second change will allow for a four-year renewal on certain linked loans, thus expanding the total term of LDP assistance on such loans to eight years. Several LDP recipients have requested and indicated their support of extensions on current loans and this change will benefit those financing longer term loans such as for the purchase or expansion of real estate. It is anticipated that the increased timeframe of the benefit would help companies create jobs and expand growth during these difficult economic times.

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Finger Lakes

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North Country

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Southern Tier

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