

<p>Empire State Development Albany, NY 12245</p>	<p align="center"><i>LINKED DEPOSIT PROGRAM</i> ANNUAL REPORT TO THE GOVERNOR AND THE LEGISLATURE 2014</p>
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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 low interest rate environment, highlights the program’s success as the 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 71 lenders participating in the Linked Deposit Program. Since the Program’s inception on February 11, 1994, LDP has funded over 5,000 projects for a total amount of \$1.66 billion, leveraging \$3.57 billion in new capital investment by businesses in New York State. During 2013, LDP processed 157 applications and approved 142 loans for deposits totaling more than \$58.2 million which will generate \$97.1 million in private sector capital investment. Applications received decreased by 29% and LDP’s total dollar output declined by 23%, compared to last year’s results, when LDP received 221 applications, issued 187 approvals with \$77.4 million in output.

As a result of the recession and the current low interest rate environment, program activity has declined since 2009. The average interest rate on four year certificates of deposit for 2009 was just under 2%, for 2010 it was 1%, for 2011 and 2012 it was approximately .50%. During 2013 rates have started to move upward, and the average rate for the year was .82%. As rates continue to increase, program activity will also increase providing borrowers with the full 2 and 3 percent interest subsidy.

The Cuomo administration and the legislature have effected changes to the program to maximize activity and further assist NYS businesses despite the low interest rate environment. In April 2011, the lifetime maximum for eligible companies increased from \$1 million to \$2 million, and

another change allowed companies to apply for a four-year extension, providing up to eight years of assistance on certain loans. In April 2012, legislation was amended to extend the higher interest rate benefit of 3 percent to agricultural businesses. In March 2013, it was changed to also allow technology and innovation companies to receive the 3 percent interest subsidy. The present interest rate environment does not immediately allow the agricultural, technology and innovative businesses to realize the 3 percent interest rate reduction; however these firms will be able to receive the higher subsidy when CD rates increase.

As a result of the 2011 legislative changes, borrowers were able to utilize the Link Deposit Program for significantly greater amounts during 2013. In 2013, five borrowers were able to apply for four year renewals and receive extended assistance on their loans, totaling \$2.01 million. Also, twelve borrowers were able to utilize the increased lifetime maximum, and reached their total lifetime assistance of \$2 million in 2013, generating an additional \$11.4 million in LDP output. As a result of the 2012 changes, fourteen agricultural businesses were approved for the 3 percent subsidy on sixteen Linked Deposit loans, for a total of \$4.4 million in 2013.

The 2013 legislative change allowed five technology and innovation companies to qualify for the 3 percent subsidy on five loans, for a total of \$1.02 million in LDP output. The technology and innovation businesses spanned three regions, Central NY, Southern Tier and the Finger Lakes regions. The legislation allows the increased subsidy for firms engaged in biotechnologies, information and communication technologies, advanced materials and processing technologies, electronic and photonic devices and components, energy efficiency, renewable energy and environmental technologies, and small scale systems integration and packaging.

ESD has also implemented a series of policy changes to further induce program activity and increase the benefit to expanding firms. In 2012, ESD increased the maximum deposit from \$500,000 to \$1 million and allowed any number of loans outstanding at one time, not to exceed \$1.5 million. The previous policy allowed the maximum of three loans or a total of \$1 million outstanding. In September 2013, ESD again raised the loan limits, the maximum loan amount allowed and the total concurrent amount outstanding at one time is now \$2 million, which is the lifetime maximum allowed under LDP legislation.

As a result of the 2012 policy changes, 33 loans with deposits higher than \$500,000 totaling \$28.88 million received assistance, generating \$12.38 million in additional output during 2013. Seven other loans were also approved that otherwise would not have been, for each borrower had more than 3 loans outstanding or a total of \$1 million, which created additional output of approximately \$1.5 million in 2013.

Eight borrowers were able to increase LDP assistance in the last four months of 2013 as a result of the September policy changes. Seven borrowers were able to receive assistance on deposits more than \$1 million, increasing output from \$7 million to \$10.86 million and one borrower was able to benefit from the increase of the outstanding amount at one time, increasing their assistance from \$1.5 million to \$1.8 million. Two borrowers that submitted applications during 2012 also benefitted from this policy change, increasing their collective deposits from \$2 million to \$3.58 million. All of the

legislative and policy changes combined increased LDP output by over \$31 million. All of these improvements are consistent with Governor Cuomo’s commitment to ensure that New York is open for business.

During 2013, ESD continued its outreach and marketing efforts, focusing on increased overall participation and performance. Efforts included promoting the 2013 policy changes to members of the Independent Bankers Association of NYS, re-educating and training loan officers, providing updated marketing materials and information on program changes, and identifying potential new lenders for the program. ESD regional office staff promotes LDP at all events and client meetings, and consider LDP a valuable economic development tool. In February 2013, all loan officers participating in LDP were surveyed, to solicit their ideas and suggestions for increasing program activity. Responses were received from 23 loan officers, and ESD implemented the changes to the extent possible. Participating lenders continued to provide positive feedback, expressing how valuable LDP is to their business clients and how much they appreciate the program.

As in previous years, mergers and acquisitions continued to reduce the number of participating lending institutions. In FY2013, the number of LDP participating lenders declined to 71 lenders due to NBT Bank, National Association acquiring Alliance Bank, N.A. in March 2013. Under-served regions increased slightly from last year, the North Country is now also an underserved region. The Mid-Hudson, New York, and Long Island regions were also underserved this year as well as last year, with those regions realizing fewer than ten applications. However, two ESD regions increased LDP volume and or output when compared to the previous year’s results. The Finger Lakes region LDP output increased from \$15.4 million to \$20.3 million; in the Mohawk Valley the number of applications increased from ten to twelve and LDP output increased from \$2.7 million to \$4.5 million. In 2014, ESD plans to continue its outreach efforts in conjunction with the Regional Councils, particularly in the four under-served regions.

I. 2013 Program Performance Details:

1. Types of Firms Receiving Linked Loans

Manufacturing Firms	68
Manufacturing Firms / Agricultural	16
Service Businesses	57
Retail Businesses	<u>1</u>
	142

2. Geographic Distribution of Participating Firms

	<u>Approved Projects</u>	<u>Linked Deposit Assistance</u>
Capital Region	12	\$ 5.4M
Central New York	22	\$ 5.2M
Finger Lakes	43	\$20.3M
Long Island	3	\$ 1.6M
Mid-Hudson	3	\$ 1.1M
Mohawk Valley	12	\$ 4.5M

New York City	2	\$ 3.3M
North Country	3	\$ 2.3M
Southern Tier	10	\$ 3.2M
Western New York	<u>32</u>	<u>\$11.3M</u>
Total approved projects 2013:	142	\$58.2M

3. Usage of Linked Loans

Equipment Purchase	79
Expansion	28
Real Estate Purchase	27
Renewed Deposits	5
Buyouts	<u>3</u>
Total number of approved projects:	142

4. Amount of Money on Deposit for Linked Loans

LDP amount on deposit as of 12/31/13:	\$201,622,790 (741 deposits)
Total deposits authorized 2/11/94 – 12/31/13:	\$1,659,983,808 (5,088 deposits)

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

Office of the State Comptroller (OSC)	\$220,733.79
Department of Taxation and Finance	<u>\$ 16,594.88</u>
Total cost of LDP for 2013:	\$237,328.67

*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.

6. Types of Lenders Making Linked Loans:

Commercial Banks	59
Savings Banks	10
Savings and Loan Associations	0
Farm Credit Institutions	1
New York Business Development Corporation	<u>1</u>
Total Participating Lenders	71

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

NYS total jobs at time of application (142 companies approved)	3,725
NYS jobs to be created (projections made by applicant)	433
NYS jobs to be retained (projections made by applicant)	611

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 four under-served regions.
- ESD provided updated marketing materials and performance reports to each bank's marketing manager in an effort to increase utilization.

- ESD implemented and marketed policy changes in September 2013; seven borrowers were able to receive assistance on deposits more than \$1 million, increasing output from \$7 million to \$10.86 million; one borrower was able to benefit from the increase of the outstanding amount at one time, increasing their assistance from \$1.5 million to \$1.8 million; two borrowers who submitted applications during 2012 also increased their collective deposits from \$2 million to \$3.58 million.
- ESD continued to promote the four legislative changes described earlier, five borrowers were able to apply for four year renewals and receive extended assistance on their Linked Deposit loans, totaling \$2.01 million; twelve borrowers were able to utilize the increased lifetime maximum, and reached their total lifetime assistance of \$2 million, generating an additional \$11.4 million in LDP output; fourteen agricultural businesses were eligible for the 3 percent subsidy on sixteen Linked Deposit loans, for a total of \$4.4 million; five technology and innovation companies were eligible for the 3 percent subsidy on \$1.02 million in Linked Deposit loans.
- ESD continued to identify potential lenders; unfortunately, current economic conditions made it difficult to secure any new participants. The number of LDP participating lenders is now at 71, due to Alliance Bank, N.A. being acquired by NBT Bank, National Association.
- ESD notified LDP companies with existing loans of the option to renew their Linked Deposit for a second four-year period, and as a result 5 loans were approved for \$2.01 million.
- LDP staff coordinated with Regional Councils and other stakeholders to refer potential customers to the program.
- Presentations were made by ESD staff at numerous business events to market the program directly to businesses.
- Numerous bulletins and emails were sent to all bank contacts, promoting Linked Deposit.
- Surveys were sent to all loan officers, to solicit their ideas and suggestions for increasing program activity. Responses were received from 23 loan officers, and ESD implemented the changes to the extent possible.
- ESD promoted the 2013 policy changes to members of the Independent Bankers Association of NYS, through an article on their website.

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 12/31/13, \$201.62 million is being utilized on deposit, with 9 deposits pending for \$4.7M and \$30.4 million approved and scheduled for deposit as loans close during 2014, leaving approximately \$279.5 million available to fund new projects.

- **TARGETED BUSINESS PARTICIPATION**

Of the 142 projects approved during 2013, 30 projects (21%) benefited businesses that are located in targeted areas or are considered disadvantaged, including: 13 in highly distressed census tracts; 12 in Federal Empowerment Zones or Enterprise or Renewal

Communities; 4 certified businesses in Empire Zones; 3 MWBE-certified; and 7 woman-owned enterprises. Also, five technology and innovation companies (4%) qualified for the 3 percent subsidy on five loans, for a total of \$1.02 million in LDP output and fourteen agricultural businesses (10%) were approved for the 3 percent subsidy on sixteen Linked Deposit loans, for a total of \$4.4 million.

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 2013, 94% (134 of 142) of the loans approved will benefit small businesses and they will have received 91% (\$53.1 million) of the total \$58.2 million committed by LDP.

- **DEPOSIT AMOUNT**

The average deposit for 2013 was \$330,595, 18% lower than the 2012 average of \$405,000, and 16% higher than the average deposit of \$284,000 in 2008, which was before the recession impacted LDP volume.

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