



Linked Deposit Program

ANNUAL REPORT TO THE GOVERNOR AND THE LEGISLATURE - 2015

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 its 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 up to 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 LDP. Since the program's inception in 1994, LDP has lowered the interest rate for over 5,200 loans resulting in \$1.74 billion in bank lending, leveraging \$3.7 billion in new capital investment by businesses in New York State. During 2014, LDP processed 178 applications and approved 163 loans for deposits totaling more than \$78.8 million which will generate \$132.3 million in private sector capital investment. From 2013 to 2014, applications received increased by 13 percent and LDP's total dollar output increased by 35 percent.

While program activity increased in 2014, program activity in general has declined since 2009 as a result of the recession and the low interest rate environment. The average four year certificate of deposit rate for 2010 was 1 percent, for 2011 and 2012 it was approximately .50 percent. During 2013, rates started to move upward: the average rate for 2013 was .82 percent and for 2014 the average rate increased to 1.1 percent. Borrowers can only realize a reduction based on the lender's four year certificate of deposit rate, even though the program allows for up to a 3 percent reduction. As rates increase, program activity will also increase and will provide borrowers with the full interest rate subsidy.

The Cuomo administration and the legislature have effected changes to the program to maximize activity and further assist New York State 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, the law 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 these 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 these legislative changes, borrowers were able to utilize LDP for significantly greater amounts during 2014. In 2014, 5 borrowers were able to apply for four year renewals and receive extended assistance on their loans, totaling \$2.45 million. Also, 20 borrowers were able to utilize the increased lifetime maximum and reached their total lifetime assistance of \$2 million in 2014, generating an additional \$16.3 million in LDP output. There were 21 agricultural and technology and innovation businesses approved for the 3 percent subsidy on Linked Deposit loans, for a total of \$14.9 million in 2014.

In 2013, ESD implemented policy changes to further induce program activity and increase the benefit to expanding firms. In September 2013, ESD raised the loan limits: the maximum loan amount allowed and the total concurrent amount outstanding at one time is now \$2 million. This is also the lifetime maximum allowed under LDP legislation.

As a result of the 2013 policy changes, 17 borrowers were able to receive assistance on deposits of more than \$1 million, increasing output from \$17 million to \$27.94 million and 5 borrowers were able to benefit from the increase of the outstanding amount at one time, increasing their assistance by \$5.88 million. The legislative and policy changes impacted 86 of the 163 approved loans, and \$61.8 million of the total approved amount of \$78.8 million.

During 2014, ESD continued its outreach and marketing efforts, focusing on increasing overall participation and performance. Efforts included promoting the 2013 policy changes, re-educating and training loan officers, updating marketing materials and identifying potential new lenders for the program. ESD regional office staff continue to promote LDP at all events and client meetings, and consider LDP a valuable economic development tool. In 2015, ESD will continue its outreach efforts in conjunction with the Regional Councils, particularly in the underserved regions.

Underserved regions increased slightly from last year, with Long Island, Mid-Hudson, New York, North Country and the Southern Tier regions realizing fewer than 10 applications. However, the Capital Region, Central New York, Finger Lakes, New York, and the North Country regions all had increased participation in 2014, and all but one region realized an increase in total LDP assistance.

I. 2014 Program Performance Details:

1. Types of Firms Receiving Linked Loans

Manufacturing Firms	89
Manufacturing Firms / Agricultural	19
Service Businesses	<u>55</u>
	163

2. Geographic Distribution of Participating Firms

	<u>Approved Projects</u>	<u>Linked Deposit Assistance</u>
Capital Region	16	\$ 9.94M
Central New York	24	\$ 7.85M
Finger Lakes	56	\$23.65M
Long Island	2	\$ 1.94M
Mid-Hudson	2	\$ 1.23M
Mohawk Valley	12	\$ 4.38M
New York City	7	\$ 9.10M
North Country	6	\$ 3.09M
Southern Tier	6	\$ 4.32M
Western New York	<u>32</u>	<u>\$13.34M</u>
Total approved projects 2014:	163	\$78.84M

3. Usage of Linked Loans

Equipment Purchase	83
Expansion	31
Real Estate Purchase	28
Buyouts	12
Renewed Deposits	5
Equipment Upgrades	3
Working Capital	<u>1</u>
Total number of approved projects:	163

4. Amount of Money on Deposit for Linked Loans

LDP amount on deposit as of 12/31/14:	\$212,455,530 (686 deposits)
Total deposits authorized 2/11/94 – 12/31/14:	\$1,738,656,554 (5,246 deposits)

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

Office of the State Comptroller (OSC)	\$209,337.22
Department of Taxation and Finance	<u>\$ 19,069.41</u>
Total cost of LDP for 2014:	\$228,406.63

*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	11
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 (163 approved projects)	4,578
NYS jobs to be created (projections made by applicant)	549
NYS jobs to be retained (projections made by applicant)	366

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

- ESD continues to offer training to participating lenders where participation declined, focusing on increasing utilization in the five underserved regions.
- ESD updated the program brochure, which was distributed to participating lenders.
- ESD continued to promote the four legislative changes described earlier.
- ESD implemented and marketed the policy changes made in 2013.
- ESD continued to identify potential lenders, adding Northfield Bank and working with another which was almost complete at year end.
- 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 promotional bulletins and emails were sent to all bank contacts.

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 December 31, 2014, \$212.5 million is being utilized on deposit, with 7 deposits pending for \$2.88 million and \$45.04 million approved and scheduled for deposit as loans close during 2015, leaving approximately \$255.87 million available to fund new projects.

- **TARGETED BUSINESS PARTICIPATION**

Of the 163 projects approved during 2014, 37 projects (23%) benefited businesses that are located in targeted areas or are considered disadvantaged, including: 15 in highly distressed census tracts; 14 certified businesses in Empire Zones; 2 MWBE-certified; and 12 woman-owned enterprises. Also, 2 technology and innovation companies qualified for the 3 percent subsidy, for a total of \$333,700 in LDP output and 19 agricultural businesses were approved for the 3 percent subsidy for a total of \$14.6 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 2014, 99 percent (161 of 163) of the loans approved will benefit small businesses and they will have received 96 percent (\$75.4 million) of the total \$78.8 million committed by LDP.

- **DEPOSIT AMOUNT**

The average deposit for 2014 was \$402,111, 22 percent higher than the 2013 average of \$330,595. The increase of the average deposit may be attributable to the 2013 policy change that increased the maximum loan amount allowed to \$2 million.

**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 Street, Suite 300
Rochester, NY 14604
(585) 399-7050

Long Island

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

Mid-Hudson

33 Airport Center Drive, Suite 201
New Windsor, NY 12553
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Mohawk Valley

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

New York City

633 Third Avenue, 36th 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., 2nd Floor
Watertown, NY 13601
(315) 785-7907

Southern Tier

State Office Building
44 Hawley Street, Room 1508
Binghamton, NY 13901
(607) 721-8605

and

Elmira Savings Bank
333 East Water Street, 4th Floor
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Western New York

95 Perry Street – Suite 500
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