



Linked Deposit Program

ANNUAL REPORT TO THE GOVERNOR AND THE LEGISLATURE - 2016

Executive Summary

The Linked Deposit Program (LDP) 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 Empire State Development (ESD) initiatives that are critical to ensuring New York remains open for business. The banking and business communities' continued utilization of LDP, during this low interest rate environment, highlights the program's value to businesses throughout New York State.

Overview

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 lower than the prevailing rate on such loans, thereby making borrowing less expensive. Most eligible businesses qualify for up to a two percent interest rate reduction, while others like agricultural firms, technology and innovation businesses, MWBE and Empire Zone certified businesses and those businesses located in highly distressed areas qualify for up to a three percent reduction.

Highlights

- Since the program's inception in 1994, LDP has lowered the interest rate for over 5,300 loans resulting in \$1.79 billion in bank lending and leveraging \$3.77 billion in new capital investment by businesses in New York State.
- During 2015, LDP processed 141 applications and approved 124 loans for deposits totaling more than \$61.49 million which will generate \$96.85 million in private sector capital investment.
- As a result of their LDP assistance in 2015, borrowers anticipate creating 431 jobs and retaining 556 over the next four years.
- Currently there are 73 lenders participating in the LDP.

Legislative Changes

The Cuomo administration and the legislature have made beneficial changes to the program in recent years. 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 certificate of deposit (CD) rates increase.

As a result of these legislative changes, borrowers were able to utilize LDP for significantly greater amounts during 2015. In 2015, nine borrowers were able to apply for four year renewals and receive extended assistance on their loans, totaling \$2.53 million. Additionally, 19 borrowers were able to utilize the increased lifetime maximum and reached their total lifetime assistance of \$2 million in 2015, generating an additional \$14.57 million in LDP output. Finally, 19 agricultural and technology and innovation businesses were approved for the 3 percent subsidy on Linked Deposit loans, for a total of \$13.26 million in 2015.

Policy Changes

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 is now \$2 million and borrowers can now have any number of loans active at the same time up to a total of \$2 million. This is also the lifetime maximum allowed under LDP legislation.

In 2015, as a result of the 2013 policy changes, 17 borrowers were able to receive assistance on loans of more than \$1 million, increasing their assistance by \$8.89 million and 16 borrowers were able to benefit from the increase of loans active at the same time, increasing their assistance by \$5.99 million.

Program Activity and Outreach

From 2014 to 2015, applications received decreased by 21 percent and the total dollar amount approved decreased by 22 percent. This can be directly attributed to the low interest rate environment that stemmed from the 2009 recession. Even though the program allows for up to a 3 percent reduction, borrowers can only realize a reduction based on the lender's four year certificate of deposit rate, which averaged .82 percent in 2013 and 1.1 percent in 2014 and 2015. As rates increase, program activity will also increase and provide borrowers with the full interest rate subsidy.

Across the state regional activity differed, with the Finger Lakes, Western New York, and Central New York Regions being the most active, with 45, 31, and 24 applications approved respectively and the Capital Region, Long Island, Mid-Hudson, Mohawk Valley, New York, North Country and the Southern Tier regions each having fewer than 10 applications approved. Indeed, when considering the total amount of approved loans for the Central New York, Finger Lakes, Long Island, North Country and Western New York regions, total dollar amounts approved increased in 2015 compared to the previous year. The amount approved in the Finger Lakes Region totaled \$25.69 million, the highest amount of any region in the state, and 42 percent of the total amount approved statewide.

During 2015, ESD continued its outreach and marketing efforts, including promoting the 2013 policy changes, re-educating and training loan officers, updating marketing materials and identifying potential new lenders for the program. ESD regional and central office staff continue to promote LDP at all events and client meetings, and consider LDP a valuable economic development tool. In 2016, ESD will continue its outreach efforts in conjunction with the Regional Councils, particularly in the underserved regions. The following pages provide additional information regarding program fund disbursement.

I. 2015 Program Performance Details:

1. Types of Firms Receiving Linked Loans

Manufacturing Firms	56
Manufacturing Firms / Agricultural	16
Professional	1
Service Businesses	<u>51</u>
	124

2. Geographic Distribution of Participating Firms

	<u>Approved Projects</u>	<u>Linked Deposit Assistance</u>
Capital Region	7	\$ 1.7M
Central New York	24	\$ 9.0M
Finger Lakes	45	\$25.7M
Long Island	1	\$ 2.0M
Mid-Hudson	0	\$ 0M
Mohawk Valley	7	\$ 2.9M
New York City	0	\$ 0M
North Country	7	\$ 4.5M
Southern Tier	2	\$ 0.2M
Western New York	<u>31</u>	<u>\$15.5M</u>
Total approved projects 2015:	124	\$61.5M

3. Usage of Linked Loans

Buyouts	8
Equipment Purchase	65
Expansion	28
Real Estate Purchase	13
Renewed Deposits	9
Working Capital	<u>1</u>
Total number of approved projects:	124

4. Amount of Money on Deposit for Linked Loans

LDP amount on deposit as of 12/31/15:	\$212,388,456 (577 deposits)
Total deposits authorized 2/11/94 – 12/31/15:	\$1,786,681,630 (5,356 deposits)

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

Office of the State Comptroller (OSC)	\$242,523
Department of Taxation and Finance	<u>\$ 26,237</u>
Total cost of LDP for 2015	\$268,760

*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	60
Savings Banks	10
Savings and Loan Associations	1
Farm Credit Institutions	1
New York Business Development Corporation	<u>1</u>
Total participating lenders	73

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

NYS total jobs at time of application (124 approved projects)	2,663
NYS jobs to be created (projections made by applicant)	431
NYS jobs to be retained (projections made by applicant)	566

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 seven underserved regions.
- 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 PathFinder Bank and Seneca Savings and working with other banks to enroll in the program.
- 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 public authorities.

As of December 31, 2015, \$212.39 million is being utilized on deposit, with 9

deposits pending for \$4.42 million and \$22.46 million approved and scheduled for deposit as loans close during 2016, leaving approximately \$276.99 million available to fund new projects.

- **BUSINESSES ELIGIBLE FOR THE 3 PERCENT SUBSIDY**

Of the 124 projects approved during 2015, 23 projects benefited businesses that are eligible for up to a 3 percent subsidy. Of those businesses, some are located in distressed areas or are considered disadvantaged, including: 14 in highly distressed census tracts, 4 Empire Zone certified businesses, 3 MWBE-certified, and 2 woman owned enterprises for a total of \$14.18 million in LDP output. Also, 3 technology and innovation companies qualified for the 3 percent subsidy, for a total of \$901,030 in LDP output and 16 agricultural businesses were approved for the 3 percent subsidy for a total of \$12.34 million.

NOTE: Some businesses qualified in more than one category.

- **SMALL BUSINESS PARTICIPATION**

Since the program's inception the majority of businesses assisted by LDP are small businesses, which are defined as companies with 100 or fewer employees. During 2015, 98 percent (122 of 124) of the loans approved benefited small businesses and they received 99 percent (\$60.89 million) of the total \$61.49 million committed by LDP.

- **DEPOSIT AMOUNT**

The average deposit for 2015 was \$525,749, 31 percent higher than the 2014 average of \$402,111. The increase was likely attributed to the 2013 policy change that increased the maximum loan allowed to \$2 million.

- **HOW TO REQUEST LINKED DEPOSIT ASSISTANCE**

Businesses may contact any one of the Linked Deposit participating lenders to inquire if their business is eligible, and if their project qualifies for an interest rate subsidy. Lenders make the credit decision and submit the application on behalf of the borrower. The list of participating lenders, the LDP application and other relevant program information can be found on the ESD website at <http://esd.ny.gov/BusinessPrograms/LinkedDeposit.html> or contact the Linked Deposit office at 518-292-5261 for further assistance.



**Empire State
Development**

LINKED DEPOSIT PROGRAM
Albany, NY 12245
(518) 292-5261
Linkeddeposit@esd.ny.gov
www.nyfirst.ny.gov or www.esd.ny.gov