



## Linked Deposit Program

# ANNUAL REPORT TO THE GOVERNOR AND THE LEGISLATURE

Program Year 2020

### **Executive Summary**

The Linked Deposit Program (LDP) assists New York State manufacturers and small businesses to undertake investments that improve their performance and competitiveness, leading to a stronger economy for New York State. LDP is an important component in lowering the cost of capital for small businesses, and is one of several Empire State Development (ESD) initiatives that are helping to ensure New York State's businesses continue to thrive and grow.

### **Overview**

The LDP "linked loan" provides businesses with affordable capital based on interest rates that are supported by state deposits. Eligible businesses can obtain LDP 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 2 percent interest rate reduction, while others like agricultural firms, technology and innovation businesses, certified minority women owned enterprises (MWBE) and those businesses located in highly distressed areas may qualify for up to a 3 percent reduction.

Since the program's inception in 1994, LDP has lowered the interest rate for over 5,800 loans, resulting in \$2 billion in bank lending and leveraging \$4.16 billion in new capital investment by businesses across New York State.

### **The Covid – 19 Pandemic's Impact on Program Activity**

Linked Deposit Program activity has decreased substantially because of the economic fallout caused by the Pandemic and the subsequent attempts to lessen its severity on New York State small businesses.

As the federal government lowered the federal funds rate in an effort to offset the looming financial crisis, most interest rates both for certificates of deposits (CDs) and loans, also decreased. The interest rate reduction the borrower realizes is limited to the lender's 4-year CD rate, and they were as low as .05 percent in 2020. LDP lenders throughout the state have indicated that this is one of the main reasons for the decrease in program activity for it results in less financial assistance to borrowers overall.

Additionally, the future economic landscape is difficult to predict; many businesses reconsidered their plans for capital investments, which comprise most LDP loans. Many LDP projects were delayed, postponed indefinitely or cancelled altogether resulting in several withdrawn applications.

Also, the lending and business environments at this time are more focused on short-term business continuation rather than long-term growth and expansion. There are several new federal, state and local low interest loan programs that are assisting small businesses to bridge the cashflow deficits they are experiencing. The Linked Deposit loans require at least a four-year term and are not typically utilized to support working capital.

**2020 and 2019 Program Activity Comparison**

- In 2020, LDP received and processed 58 applications and approved 44 loans for deposit, totaling more than \$16.16 million which will generate \$27.39 million in private sector capital investment.
- In comparison, 2019 activity included 183 received applications, 168 approved and \$74.19 million in total for approved LDP loans.
- Applications received decreased by 68 percent, applications approved decreased by 74 percent and the total dollar amount approved decreased by 78 percent.

An overview of 2020 program activity, including borrower and project information, employment and other relevant program data is provided below and on the following pages of this report.

**I. 2020 Program Performance Details:**

**1. Types of Firms Receiving Linked Loans**

Agricultural Firms	1
Manufacturing Firms	17
Service Businesses	<u>26</u>
<b>Total:</b>	<b>44</b>

Linked Deposit assistance supports these businesses in their various industries so that they can improve and expand their operations which is critical to their success.

**2. Linked Deposit Loan Utilization**

Buyouts	1
Equipment Purchases	30
Equipment Upgrades	1
Expansion	9
Real Estate Purchases	1
Renewed Deposits	<u>2</u>
<b>Total Number of Approved Projects:</b>	<b>44</b>

### 3. Geographic Distribution of Participating Firms

	<u>Approved Projects</u>	<u>Linked Deposit Assistance</u>
Capital Region	5	\$ 2.87M
Central New York	7	\$ 1.56M
Finger Lakes	17	\$ 4.69M
Long Island	0	\$ 0.00M
Mid-Hudson	1	\$ .315M
Mohawk Valley	3	\$ .698M
New York City	0	\$ 0.00M
North Country	1	\$ .360M
Southern Tier	2	\$ .415M
Western New York	<u>8</u>	<u>\$ 5.25M</u>
<b>Total Approved Projects 2020:</b>	<b>44</b>	<b>\$ 16.16M</b>

### 4. Loan Amounts

Number of Loans	Loan Amounts	Totaling
12 Loans	Between \$10,000 and \$99,999	\$ 618,422
10 Loans	Between \$100,000 and \$199,999	\$ 1,376,845
18 Loans	Between \$200,000 and \$999,999	\$ 7,733,055
2 Loans	Between \$1,000,000 and \$1,999,999	\$ 2,430,000
2 Loans	for \$2,000,000	<u>\$ 4,000,000</u>
<b>Total:</b>	<b>44 Loans</b>	<b>\$16,158,322</b>

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

NYS total jobs at time of application (44 approved projects)	809
NYS jobs to be created (projections made by applicant)	120
NYS jobs to be retained (projections made by applicant)	160

### 6. The Different Types of Linked Deposit Lenders

Commercial Banks	56
Savings Banks	9
Savings and Loan Association	1
Farm Credit Institution	1
New York Business Development Corporation	<u>1</u>
<b>Total Participating Lenders:</b>	<b>68</b>

### 7. Minority and Women Owned Enterprises (MWBE) LDP Activity

To date LDP has provided assistance on three hundred and forty-seven (347) loans to minority and/or woman owned firms for a total of \$116.46 million, of which nine (9) have reached their lifetime maximum, which currently is \$2 million per borrower.

In 2020, two (2) women owned businesses received LDP's reduced interest rate on loans totaling \$501,765.

## **8. 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 2020, 100 percent (44 of 44) of the loans approved benefited small businesses and they received 100 percent of the total \$16.16 million committed by LDP.

## **9. Businesses Eligible for the 3 Percent Interest Rate Reduction**

Of the 44 loans approved during 2020, six (6) were eligible for the up to 3 percent interest rate reduction. This includes five (5) loans for projects located in highly distressed census tracts and one (1) loan to an agricultural business. All were approved for the up to 3 percent reduction for a total loan amount of \$1.04 million; however, the 3 percent reduction was not realized for it is limited to the lender's four-year CD rate.

Some businesses and loans may qualify in more than one category and some businesses may also receive assistance on more than one loan. The remaining eligible companies and projects qualified for the up to 2 percent interest rate reduction.

## **10. Certificate of Deposit Average Interest Rate**

The average four-year CD rate for 2020 was 0.83 percent, compared to the 2019 average of 1.31, which is a decrease of 37 percent. 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 CD rate, which at times lessens the subsidy borrowers can obtain.

## **11. Average Deposit Amount**

The average deposit for 2020 was \$491,005, higher than the 2019 average of \$413,244.

## **12. Amount of Money on Deposit for Linked Loans**

LDP amount on deposit as of 12/31/20:	\$159,853,738 (415 deposits)
Total deposits authorized 2/11/94 – 12/31/20:	\$2,003,947,280 (5,872 deposits)

## **13. Funding**

Funding for this program is authorized at \$560 million. Of that amount, \$516 million has been committed to the program from OSC and public authorities.

As of December 31, 2020, \$159.85 million is being utilized on deposit, with two deposits pending for \$428,100 and \$11.06 million approved and scheduled for deposit as loans close during 2021, leaving approximately \$344.91 million available to fund new projects.

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

Office of the State Comptroller (OSC)	\$ 807,936.81
Department of Taxation and Finance	\$ 241,079.57
<b>Total Cost of LDP for 2020:</b>	<b>\$1,049,016.38</b>

\*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.

**I. Additional Information:**

**1. 2020 Promotional and Outreach Activity**

Even though the promotion of LDP was restricted due to the pause of in person small business events and MWBE trade shows, the program was promoted at the 2020 MWBE Virtual Forum and was marketed through numerous emails that reached 1,399 unique MWBE firms and contacts.

**2. 2021 Program Activity**

The Linked Deposit Program will continue to be promoted to New York State businesses and minority and women owned firms as the state and country recovers from Covid – 19 and the devastating impact it has and will continue to have on the economy.

- Effort to Increase the Lifetime and Loan Amount Maximums

Empire State Development will advance a proposal to seek a legislative change to increase the lifetime maximum to \$5 million and to remove the current \$2 million loan limit as well.

In 2020, four (4) additional companies maxed out their assistance and there are currently 101 borrowers in total that have reached their lifetime maximum. Most added employees, demonstrating the effectiveness of the program and how it supports the growth of the economy. An increase to the lifetime maximum would allow these businesses to utilize the program again and further invest in their operations.

- Community Development Financial Institution (CDFI) LDP Participation

CDFIs have a proven track record for providing financing and technical assistance to businesses located in low-income areas and to small and MWBE firms. ESD will advance a Departmental Bill to allow CDFIs to participate in LDP, to borrow funds from banks at a reduced rate, then lend those monies to MWBE firms and small businesses also at a reduced rate. Allowing CDFIs to participate in LDP would help lower the cost of borrowing and deliver greatly needed assistance to our MWBE and small business community.

### 3. How to Request Linked Deposit Assistance

Businesses may contact the Linked Deposit Program office at 518-292-5261 for information or any one of the 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>.



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Development**

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