



Linked Deposit Program

ANNUAL REPORT TO THE GOVERNOR AND THE LEGISLATURE

Program Year 2021

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 5,880 loans, resulting in \$2 billion in bank lending and leveraging \$4.14 billion in new capital investment by businesses across New York State.

The COVID- 19 Pandemic's Impact on Program Activity

LDP activity has continued to decrease due to prolonged economic factors resulting from the COVID-19 pandemic and recovery. Interest rates are still very low, which impacts program activity since the interest reduction borrowers realize is limited to the lender's 4-year CD rate, which was as low as .03 percent in 2021. Lenders indicate this is one of the main reasons for the decrease in activity for it results in less financial assistance to borrowers overall. It is anticipated that interest rates will start and continue to increase in 2022 and as a result the Linked Deposit Program's activity is expected to increase as well.

2021 and 2020 Program Activity Comparison

In 2021, LDP received and processed 17 applications and approved 15 loans for deposit, totaling more than \$8.9 million which will generate \$16.38 million in private sector capital investment.

- In comparison, 2020 activity included 58 applications received, 44 approved and \$16.16 million in total for approved LDP loans.
- Comparing 2021 activity to 2020, applications received decreased by 71 percent, applications approved decreased by 66 percent and the total dollar amount approved decreased by 45 percent.
- When comparing 2019 pre-COVID activity to 2021, the decreases are significant: applications received and approved decreased by 91 percent and the total dollar amount approved decreased by 88 percent.

An overview of 2021 program activity, including borrower and project information, employment and other relevant program data is provided below and in the remaining pages of this report.

I. 2021 Program Performance Details:

1. Types of Firms Receiving Linked Loans

Agricultural Firms	1
Manufacturing Firms	5
Service Businesses	<u>9</u>
Total:	15

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	7
Expansion	4
Real Estate Purchases	2
Renewed Deposits	<u>1</u>
Total Number of Approved Projects:	15

3. Geographic Distribution of Participating Firms

	<u>Approved Projects</u>	<u>Linked Deposit Assistance</u>
Capital Region	3	\$876,000
Central New York	1	\$100,000
Finger Lakes	2	\$2,218,719
Long Island	0	\$0
Mid-Hudson	0	\$0
Mohawk Valley	6	\$2,062,500
New York City	1	\$1,600,000
North Country	1	\$1,500,000
Southern Tier	1	\$545,255
Western New York	<u>0</u>	<u>\$0</u>
Total Approved Projects 2021:	15	\$8,902,474

4. Loan Amounts

Number of Loans	Loan Amounts	Totaling
5 Loans	Between \$100,000 and \$199,999	\$ 708,500
7 Loans	Between \$200,000 and \$999,999	\$3,093,974
2 Loans	Between \$1,000,000 and \$1,999,999	\$3,100,000
1 Loans	for \$2,000,000	<u>\$2,000,000</u>
Total:	15 Loans	\$8,902,474

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

NYS total jobs at time of application (15 approved projects)	331
NYS jobs to be created (projections made by applicant)	74
NYS jobs to be retained (projections made by applicant)	79

6. The Different Types of Linked Deposit Lenders

Commercial Banks	51
Savings Banks	9
Savings and Loan Association	1
Farm Credit Institution	1
New York Business Development Corporation	<u>1</u>
Total Participating Lenders:	63

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 \$116.06 million, of which eight (8) have reached their lifetime maximum, which currently is \$2 million per borrower. In 2021, one (1) women owned business received LDP's reduced interest rate on their loan totaling \$1,600,000.

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 2021, 100 percent (15 of 15) of the loans approved benefited small businesses and they received 100 percent of the total \$8.9 million committed by LDP.

9. Businesses Eligible for the 3 Percent Interest Rate Reduction

Of the 15 loans approved during 2021, two (2) were eligible for the up to 3 percent interest rate reduction. This includes one (1) loan for a project located in a highly distressed census tract and one (1) loan to an agricultural business. Both were approved for the up to 3 percent reduction for a total loan amount of \$3.1 million; however, the 3 percent reduction was not realized for it is limited to the lender's 4-year CD rate.

Some businesses and loans may qualify in more than one category for the up to 3 percent reduction; 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. Maximum Lifetime Allowance

In 2021, two (2) additional companies maxed out their assistance and there are currently 102 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.

11. Certificate of Deposit Average Interest Rate

The average 4-year CD rate for 2021 was .34 percent, compared to the 2020 average of .83, which is a decrease of .49. Even though the program allows a 3 percent reduction, borrowers can only realize a reduction based on the lender's 4-year CD rate, which can lessen the subsidy borrowers can obtain.

12. Average Deposit Amount

The average deposit for 2021 was \$430,566, which was lower than the 2020 average of \$491,005 and a decrease of 12 percent.

13. Amount of Money on Deposit for Linked Loans

LDP amount on deposit as of 12/31/21: \$122,703,518 (322 deposits)
Total deposits authorized 2/11/94 – 12/31/21: \$2,009,975,204 (5,886 deposits)

14. Funding

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

As of December 31, 2021, \$122.70 million is being utilized on deposit, with two deposits pending for \$1.02 million and \$6.35 million approved and scheduled for deposit as loans close during 2022, leaving approximately \$386.18 million available to fund new projects.

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

Office of the State Comptroller	\$ 62,956.76
Department of Taxation and Finance	<u>\$ 123,994.62</u>
Total Cost of LDP for 2021:	\$ 186,951.38

*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. Legislative Change Allowing Credit Unions to Participate in Linked Deposit

In October 2021, Governor Kathy Hochul signed legislation authorizing credit unions to participate in Linked Deposit. It is anticipated that with credit union participation, assistance to self-employed individuals and socially and economically disadvantaged businesses will increase. Outreach to and enrolling credit unions in the Program will be a major focus during 2022.

2. 2021 Promotional and Outreach Activity

Promoting LDP at events and trade shows slightly increased in 2021 but was still restricted compared to pre-COVID levels of activity. The program was also promoted through numerous emails that reached over 600 unique MWBE firms and contacts.

3. 2022 Program Activity

The LDP will continue to be promoted to New York State businesses and minority and women owned firms as the state and country continue to recover from the pandemic and the impact it has and will continue to have on the economy.

4. How to Request Linked Deposit Assistance

Businesses may contact the LDP 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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