



Linked Deposit Program

ANNUAL REPORT TO THE GOVERNOR AND THE LEGISLATURE - 2017

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 economy 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 helping to ensure 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 supported 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 2 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 3 percent reduction.

Highlights

- Since the program's inception in 1994, LDP has lowered the interest rate for over 5,400 loans, resulting in \$1.82 billion in bank lending and leveraging \$3.82 billion in new capital investment by businesses across New York State.
- During 2016, LDP processed 98 applications and approved 89 loans for deposits totaling more than \$40.85 million which will generate \$51.01 million in private sector capital investment.
- As a result of their LDP assistance in 2016, borrowers anticipate creating 253 jobs and retaining 268 over the next four years.
- Currently there are 73 lenders participating in LDP.

Legislative Changes

Since 2011, the administration of Governor Andrew Cuomo and the Legislature has made beneficial changes to the program including:

- 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.
- The law was amended to extend the higher interest rate benefit of three percent to agricultural businesses.
- The law was also changed to allow technology and innovation companies to receive the 3 percent interest rate subsidy.

The present interest rate environment does not immediately allow businesses to realize the 3 percent interest rate reduction; however, firms will be able to receive the higher reduction 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 2016:

- Twelve borrowers were able to apply for four year renewals and receive extended assistance on their loans, totaling \$5.24 million.
- Seven borrowers were able to utilize the increased lifetime maximum and reached their total lifetime assistance of \$2 million, generating an additional \$7 million in LDP output.
- Six agricultural and technology and innovation businesses were approved for the 3 percent subsidy on Linked Deposit loans, for a total of \$3.14 million.

Policy Changes

In September 2013, ESD raised the loan limits to further induce program activity and increase the benefit to expanding firms. 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. As a result of that policy change, seven borrowers increased their assistance by \$5.82 million this past year.

Outreach

During 2016, ESD continued its outreach and marketing efforts, including promoting the 2013 policy changes, re-educating and training loan officers, updating marketing materials and identifying and meeting with 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 2017, ESD will continue its outreach efforts in conjunction with the Regional Councils, particularly in underserved regions.

Program Activity

Due to the low interest rate environment that has continued since the 2009 recession, program activity has declined. From 2015 to 2016, applications received decreased by 28 percent and the total dollar amount approved decreased by 34 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 averaged .7445 percent for 2016. In 2014 and 2015 the average four year CD rate was 1.1 percent. The decrease in CD rates lessened the subsidy the borrower could obtain and lead to less program activity overall. As rates increase and the interest rate reduction increases, we expect program activity to also increase.

Regional Activity

Across the state, the five regions that had the largest number of approved applications were the Finger Lakes (27), Western New York (16), Capital Region (13), Central New York (12), and Mohawk Valley (10).

The Capital Region, Long Island, Mid-Hudson, Mohawk Valley, New York City and Southern Tier regions saw an increase in the number of approved applications from 2015, while the Central New York, Finger Lakes, North Country and Western New York regions experienced less activity and approved applications decreased. The Long Island, Mid-Hudson, New York, North Country and Southern Tier regions each had fewer than 10 applications approved.

The most active region was the Finger Lakes region; the total approved amount was \$10.68 million for 27 applications, 26 percent of the total approved statewide. Western New York was the next most active region, with \$10.37 million approved for 16 applications and 25 percent of the total approved statewide.

The following pages provide additional information regarding program activity and funding disbursement.

I. 2016 Program Performance Details:

1. Types of Firms Receiving Linked Loans

Manufacturing Firms	49
Agricultural Firms	5
Retail	2
Service Businesses	<u>33</u>
Total	89

2. Geographic Distribution of Participating Firms

	<u>Approved Projects</u>	<u>Linked Deposit Assistance</u>
Capital Region	13	\$ 3.51M
Central New York	12	\$ 3.23M
Finger Lakes	27	\$10.68M
Long Island	2	\$ 4.00M
Mid-Hudson	2	\$ 0.98M
Mohawk Valley	10	\$ 2.64M
New York City	1	\$ 1.00M
North Country	2	\$ 2.62M
Southern Tier	4	\$ 1.83M
Western New York	<u>16</u>	<u>\$10.37M</u>
Total approved projects 2016:	89	\$40.85M

3. Usage of Linked Loans

Buyouts	6
Equipment Purchase	40
Expansion	18
Real Estate Purchase	12
Renewed Deposits	12
Working Capital	<u>1</u>
Total number of approved projects:	89

4. Amount of Money on Deposit for Linked Loans

LDP amount on deposit as of 12/31/16:	\$191,352,261 (485 deposits)
Total deposits authorized 2/11/94 – 12/31/16:	\$1,824,816,499 (5,439 deposits)

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

Office of the State Comptroller (OSC)	\$869,325
Department of Taxation and Finance	<u>\$1,100,578</u>
Total cost of LDP for 2016	\$1,969,903

*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 (89 approved projects)	2,073
NYS jobs to be created (projections made by applicant)	253
NYS jobs to be retained (projections made by applicant)	268

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

- ESD continues to offer training and webinars 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 the National Bank of Coxsackie 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 is authorized for this program. Of that amount, \$516 million has been committed to the program from OSC and public authorities.

As of December 31, 2016, \$191.35 million is being utilized on deposit, with eight deposits pending for \$1.85 million and \$20.88 million approved and scheduled for deposit as loans close during 2017, leaving approximately \$302.17 million available to fund new projects.

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

Of the 89 projects approved during 2016, 23 projects benefited businesses that were eligible for up to the 3 percent reduction. Of those businesses 12 are located in highly distressed census tracts, three are Empire Zone certified businesses, one is an MWBE certified business, one qualified as a technology and innovation company for two loans, and five were agricultural businesses; all were approved for the 3 percent decrease for a total of \$8.71 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 2016, 98 percent (87 of 89) of the loans approved benefited small businesses and they received 98 percent (\$40.08 million) of the total \$40.85 million committed by LDP.

- **DEPOSIT AMOUNT**

The average deposit for 2016 was \$478,610, 9 percent lower than the 2015 average of \$525,749.

- **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.



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