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Ms. Sarah Albert  
Library Associate  
Maryland General Assembly  
Office of Policy Analysis  
Library and Information Services  
Legislative Services Building  
90 State Circle, BSMT  
Annapolis, MD 21401

Dear Ms. Albert:

The Department of Housing and Community Development is pleased to submit for your review this report entitled "Linked Deposit Program – FY 2009 and 2010 Report." It is being submitted pursuant to the State Finance & Procurement Article § 6-211 (c) (4). The Linked Deposit Program was only active for six months during FY 2009 and due further revising during the 2010 Legislative Session, this report is submitted to address the reporting requirements for both FY 2009 and FY 2010.

Overall the report provides an update to the Governor, the Treasurer, and the Maryland General Assembly on the performance of the Linked Deposit Program which initiated its first loan in March 2009. Administered in partnership with the Department of Treasury, 14 loans have been initiated through the program during FY 2009 and FY 2010. As this report will show, the Program is a promising tool for making business development more affordable to Maryland's certified Minority Business Enterprises (MBEs).

Thank you for your interest in this very important matter. If I may be of any further assistance on this or any other matter, please do not hesitate to contact me at 410-514-7001 or by email at [skinner@mdhousing.org](mailto:skinner@mdhousing.org).

Sincerely,

Raymond A. Skinner  
Secretary

Attachment

RAS/dm



## **2009 and 2010 Linked Deposit Report to the Maryland General Assembly**

### **Introduction**

Maintaining and increasing access to affordable capital for small business development, especially for disadvantaged businesses, is especially important during these challenging economic times. Launched in 2009, Maryland's Linked Deposit Program is a relatively new program aimed at helping small minority-owned businesses access more affordable capital. As this report will show, the program is a promising tool for making business development more affordable to Maryland's certified Minority Business Enterprises (MBEs).

Linked Deposit (LD) is a statewide initiative that is staffed by the Department of Housing and Community Development and is promoted and managed in close coordination with the Department of Treasury and the Governor's Office of Minority Affairs. In addition, DHCD also coordinates with the Maryland Departments of Transportation and Business and Economic Development to implement the program. The authorizing legislation for LD, House Bill 1431 Chapter 396, was passed during the 2006 session of the Maryland General Assembly in response to a report from the Task Force on Lending Equity within Financial Institutions Providing State Depository Services chaired by Senator Verna Jones and Delegate Michael Vaughn of the Maryland General Assembly.

In brief, in return for making loans to certified MBEs at reduced interest rates, enrolled financial institutions receive a "deposit" of cash from Treasury in which the interest rate expected by the State is reduced commensurately. Maryland financial institutions apply to the Treasury to become eligible for making Linked Deposit loans and holding Treasury deposits. The Maryland legislature has authorized the use of up to \$50 million in State funds for deposit with enrolled LD banks.

Each year, pursuant to State Finance & Procurement Article § 6-211 (c) (4), the Department of Housing and Community Development must report annually to the Governor, Treasurer, and in accordance with § 2-1246 of the State Government Article, the General Assembly, on the overall performance of the Linked Deposit Program.

Because the program was still being developed in FY 2009 and was further refined during the 2010 legislative session, this report provides performance activity for FY 2009 and FY 2010 to address the reporting requirements for each fiscal year.

## **Legislative Enhancements**

During the 2010 Session of the Maryland General Assembly (SB 208), modifications were passed to allow State Treasury funds to be deposited in any federally insured interest bearing account (not just Certificates of Deposit). These deposits are made for the life of the loan for the same amount as the principal balance due on the loan in exchange for the lender providing a 2% loan rate reduction to eligible MBE applicants. This revision, which goes into effect October 1, 2010, allows banks greater flexibility to use a depository product that will allow a return on the State's investment while still passing on the 2% rate reduction to the borrower.

## **Marketing Activities**

Marketing and outreach for the Linked Deposit Program has been very proactive in the last year, including:

- participation in the Statewide tour of MBE University sponsored by the Governor's Office of Minority Affairs;
- participation in County level minority outreach events sponsored by the Maryland Department of Housing and Community Development;
- participation in and sponsorship of the Annual Asian American Business Conference;
- participation in and sponsorship of the Annual Hispanic Business Conference; working in concert with the Governor's Office of Community Initiatives – Ethnic Commission;
- participation in the Women Entrepreneurs of Baltimore (WEB) events;
- participation in the Mayor's Office of Minority and Women-Owned Business Development events; and
- co-marketing efforts of the Maryland Department of Transportation, the Maryland Department of Business and Economic Development, and the State Treasury Office.

## **Program Activity**

Since March of 2009, participating lenders have enrolled 14 LD loans totaling \$4,070,660 for MBEs located in Washington, Frederick, Carroll, Prince George's, Howard and Anne Arundel counties in Maryland. Relatedly, the Treasury Department has made 14 deposits totaling \$4,070,660 with participating banks with an average loan interest rate of 4.18%. Overall, LD has enabled the creation of 53 new jobs and sustained 135 jobs. Businesses that have benefitted from the loans include:

- construction companies
- community rehabilitation program
- insurance agency
- mental health and substance abuse facility
- power equipment and supply company

- architectural and engineering firm
- chiropractic center

Activity in the program has been limited by the number and location of participating financial institutions. Participating lenders currently are: Columbia Bank, Bank Annapolis and Sandy Spring Bank. Treasury will release a new Expression of Interest (EOI) to all Maryland banks in October. This is the means whereby Treasury issues a request for lenders to participate in the program for the coming fiscal year.

### Fiscal Year 2009 Linked Deposit Program Activity

Participating Lender	Loan Amount	Jobs Created	Jobs Sustained
<b>FY 2009</b>			
Columbia Bank	\$555,498	8	13
Columbia Bank	\$319,030	0	0
Columbia Bank	\$125,472	0	0
Columbia Bank	\$102,931	0	3
Columbia Bank	\$78,729	0	0
Columbia Bank	\$250,000	0	0
Columbia Bank	\$592,000	6	50
	<b>\$2,023,660</b>	<b>14</b>	<b>66</b>

### Fiscal Year 2010 Program Activity

<b>FY 2010</b>			
Columbia Bank	\$48,000	3	4
Columbia Bank	\$1,000,000	10	40
Columbia Bank	\$231,000	0	0
Columbia Bank	\$220,000	3	10
Columbia Bank	\$250,000	3	8
Bank Annapolis	\$238,000	15	7
Bank Annapolis	\$60,000	5	0
	<b>\$2,047,000</b>	<b>39</b>	<b>69</b>

*\*Program launched January 2009*

*\*\*As of June 30, 2010, the Program has received 94 eligible applications*

*\*\*\*Please Note: "Eligible" is defined as an applicant that is currently a certified minority business in good standing with the Maryland Department of Transportation and thereby qualifies to apply to the program. It does not signify that the applicant is eligible or approved to receive a loan.*

## **Conclusion**

DHCD believes the program is an effective and cost effective means to encourage affordable access to capital for Maryland's certified MBEs. However, the progress of the program is challenged by the overall tightening of credit access for small businesses due to current economic uncertainties. This tightening of credit impacts MBEs harder than other businesses.

In addition, larger financial institutions are proving harder to enroll in the program. They maintain that the "return" on lower interest bearing linked deposit accounts does not adequately compensate them for the increased reporting requirements and other requirements associated with being an enrolled lender.

We and our agency partners continue to maintain active and open discussions with stakeholders such as Maryland agencies and the Maryland Bankers Association and lenders in order to consider means for expanding lender participation.