

**AMENDED 2013 Linked Deposit Report to Maryland General Assembly
May 15, 2014**

This amended report revises the original report dated March 7, 2014.

Introduction

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 two Linked Deposit Programs. This report addresses fiscal year 2013.

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 Programs are relatively new programs aimed at helping small and minority-owned businesses access more affordable capital. The programs are a promising tool for making business financing more affordable to Maryland's certified Minority Business Enterprises and Small Businesses, but the programs is underutilized.

Chapter 396 of 2006 (HB 1431) established a Linked Deposit Program in the Department of Housing and Community Development to provide low-interest loans to Minority Business Enterprises. Chapters 585 and 586 of 2012 (SB 792 / HB 571) established the Linked Deposit Program for Small Businesses in DHCD to support small business lending. For each program, the Treasurer may use up to \$50 million to make deposits with enrolled Linked Deposit banks.

Linked Deposit 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 State Treasurer's Office and the Governor's Office of Minority Affairs. In addition, the Department of Housing and Community Development also coordinates with the Maryland Departments of Transportation and Business and Economic Development to implement the program.

Enrolled financial institutions in return for making loans to certified Minority Business Enterprises and Small Businesses at reduced interest rates, 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 Linked Deposit banks.

In the fall of 2012, the Maryland Department of Housing and Community Development convened a Linked Deposit Workgroup of public and private industry stakeholders at the request of the Senate Finance Committee, to study the barriers affecting the use of the Minority Business Enterprise and Small Business Linked Deposit Programs and to advise on ways to improve usage of the Linked Deposit program. In particular larger financial institutions are proving harder to enroll in the program.

In summary, the Workgroup found that barriers to lender participation included:

- Burdensome reporting requirements;
- Net cost of enrolled loans to lenders in a low interest rate environment;
- Complex process for enrolling as a lender via Treasury's Expression of Interest rounds; and,
- Treasury's collateral requirements for enrolled lenders.

SB 1072 was introduced during the 2013 Session of the Maryland General Assembly in order to address the cost of loans and collateral issues. The legislation was enacted and became effective on July 1, 2013. However, the current historically low interest rate environment may continue to challenge the ability of lenders to make any reduction in interest rates and still be able to justify participation in the programs from a business perspective.

Marketing Activities

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

- Participation in the Statewide tour of Minority Business Enterprise 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 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.

The State Treasurer's Office reports that, as of May, 2013, it has successfully implemented a streamlined application process for becoming an approved State depository, which facilitates banking institutions participation in the Linked Deposit programs. The new application is currently posted on their website. During the period the State Treasurer's Office was developing the new process, meetings were held with community banks and the Maryland Bankers Association to solicit suggestions and comments, with the goal of making the process simpler and more conducive to expanded participation. The Maryland Bankers Association also sent out notices to its members about the new process and encouraged banks to apply to be a designated depository which would allow them to be eligible to receive state deposits and participate in the two Linked Deposit programs. As a result of these efforts, sixteen banks now have been approved as State depositories and are eligible to participate in the programs.

The additional recommendations of the Workgroup that are related to the State Treasurer's Office are completed as well. The collateral requirement (CDARS) was fixed via Chapter 345 of 2013 (SB 1072) and the remaining two recommendations: 1) the reporting requirements; and 2) change of language in the borrower rate reduction and Treasury's return on deposit requirements are incorporated in the new documents a bank signs once it decides to participate in the Linked Deposit programs. Treasury changed the reporting requirement to twice a year and accepted the recommended language of the banks on the rate reduction.

Unfortunately, since making these changes, there have been no new requests for Linked Deposit participation.

Program Activity

Activity in the program has been limited by the number and location of participating financial institutions. Participating lenders currently are: Columbia Bank, First National Bank (formerly Bank Annapolis) and Industrial Bank.

Fiscal Year 2013 Linked Deposit Program Activity: No closed loans

Between July 1, 2012 and June 30, 2013, the Programs received 5 eligible applications. “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 programs. It does not signify that the applicant is eligible or approved to actually receive a loan.

Conclusion:

The Department of Housing and Community Development believes the programs have some opportunity to be an efficient and cost effective means to enable access to affordable capital for Maryland’s certified Minority Business Enterprises and Small Businesses. The progress of the programs is significantly challenged by the current overall low interest rate environment and more stringent lending standards. This tightening of credit impacts Minority Business Enterprises more significantly than other business borrowers.

In addition, the findings of the workgroup study led to the passage of House Bill 1452 and SB 1072 in the 2013 Session of the Maryland General Assembly. The Department of Housing and Community Development and its agency partners continue to maintain an open dialogue with the Maryland Bankers Association and lenders and other stakeholders to expand lender participation and Linked Deposit programs’ activity.