2013 LINKED DEPOSIT REPORT TO THE MARYLAND GENERAL ASSEMBLY

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DHCD
Maryland Department of Housing and Community Development

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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 Linked Deposit Program. 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 Program is a relatively new program aimed at helping small minority-owned businesses access more affordable capital. The program is a promising tool for making business financing more affordable to Maryland's certified Minority Business Enterprises (MBEs) and Small Businesses, but the program is underutilized.

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.

Enrolled financial institutions in return for making loans to certified MBEs 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 LD banks.

In the fall of 2012, the Maryland Department of Housing and Community Development (DHCD) 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 MBE Linked Deposit Program and to advise on ways to improve usage of the LD 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;
- Treasury's collateral requirements for enrolled lenders.

House Bill 1452 and SB 1072 were introduced and enacted during 2013 Session of the Maryland General Assembly in order to address the cost of loans and collateral issues. Treasury has not yet issued a streamlined Expression of Interest (EOI), therefore it is not yet known if the legislated and policy changes will result in expanded lender interest. 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 program from a business perspective.

Chapter 396 of 2006 (HB 1431) established a Linked Deposit Program in DHCD to provide low-interest loans to MBE's. 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 $50.0 million to make deposits with enrolled LD banks.

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

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 Program 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 program. It does not signify that the applicant is eligible or approved to actually receive a loan.

Conclusion:

DHCD believes the program can be an effective and cost effective means to encourage affordable access to capital for Maryland's certified MBEs and Small Businesses. However, the progress of the program is significantly challenged by the current overall low interest rate environment and more stringent lending standards. This tightening of credit impacts MBEs 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 but certain enhancements such as modification of Treasury's Expression of Interest (EOI) for lenders have not been implemented.

DHCD and our 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 program activity.