



2016
LINKED DEPOSIT REPORT
TO THE
MARYLAND GENERAL ASSEMBLY

August, 2017



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 two Linked Deposit Programs. This report addresses fiscal year 2016.

Launched in 2009, Maryland's Linked Deposit Programs are aimed at helping eligible small and minority-owned businesses have access to 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; however, the program has not reached many businesses because there are not enough financial institutions participating as lenders.

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.

In return for making loans to certified Minority Business Enterprises and Small Businesses at reduced interest rates, enrolled institutions receive a "deposit" from the Maryland 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 had been less likely 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;

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- Complex process for enrolling as a lender via the Maryland Treasury's Expression of Interest rounds; and,
- Maryland 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 has continued 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 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.

The State Treasurer's Office successfully implemented a streamlined application process for becoming an approved State depository in May, 2013, which facilitates banking institutions participation in the Linked Deposit programs. The Maryland Bankers Association (MBA) 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, fifteen banks have been approved as State depositories and are eligible to participate in the programs.

The additional recommendations of the Workgroup were 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 were 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.

Program Activity

While there are currently fifteen (15) enrolled financial institutions, the low interest rate environment continues to hinder their interest in utilizing the Linked Deposit programs. To date, there are no banks participating as lenders. DHCD was advised in July 2016, that Columbia Bank was no longer accepting applications under the Linked Deposit Program.

Fiscal Year 2016 Linked Deposit Program Activity: No closed loans

Between July 1, 2015 and June 30, 2016, the Programs received 13 eligible applications. “Eligible” is defined as an applicant that is currently a certified minority business in good standing with the Maryland Department of Transportation or a small business in good standing with the Maryland Department of Assessments & Taxation 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:

DHCD believes the programs have some opportunity to enable access to affordable capital for Maryland’s certified MBEs and Small Businesses. 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 and small businesses more significantly than other business borrowers. DHCD will continue to promote the program to lenders and eligible businesses.

DHCD is committed to certified minority businesses and small businesses and continues to engage in activities that support both. Certified Development Financial Institutions (CDFI’s) are financial institutions that provide credit and financial services to underserved markets and populations. DHCD continues to work directly with these institutions to promote microenterprise lending throughout the State. CDFIs are certified by the U.S. Department of the Treasury and have the primary mission of community development, to serve economically distressed communities by providing credit, capital and financial services that are often unavailable from mainstream financial institutions.