

LINKED DEPOSIT LOAN PROGRAMS: A  
PERSPECTIVE FROM NINE STATES

By

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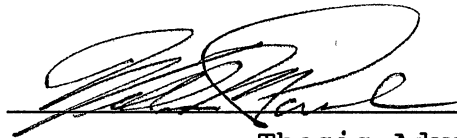
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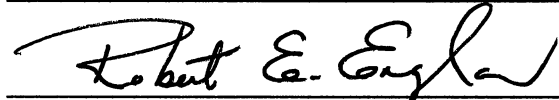


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Dean of the Graduate College

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## CHAPTER I

### INTRODUCTION AND METHODOLOGY

In recent years, the financial assets held by state and local governments have exploded in value to exceed \$1 trillion.<sup>1</sup> Given this large amount of public money, various states have implemented economic development programs designed to utilize state funds to assist targeted economic groups experiencing difficulty raising sufficient operating capital. One type of program implemented in different forms by various states is referred to as linked deposits.

The concept of linked deposits is a relatively simple one. State treasurers continually invest state funds to earn interest until the funds are required to pay the state's bills. Most of the time the treasurer deposits these funds in state depositories such as commercial banks and savings and loans. These financial institutions then use the funds and pay interest to the state.

In the case of a linked deposit, however, the state treasurer is allowed to deposit funds with approved lenders and forego a portion of this interest if the lender will agree to loan the money to specific targeted economic groups at a reduced rate of interest. Thus, the deposits are

"linked" to a specific use. The lenders can apply for linked deposits for loans to borrowers that meet specifications created by a legislature or guidelines established by a state treasurer.

The reasoning behind linked deposits is rather simple as well. Linked deposit monies stimulate private lending to agriculture and small businesses while at the same time increasing the state's tax base.<sup>2</sup> This increase in the tax base would theoretically mean that the state could recoup in the long run any revenue lost due to lower returns on investments. For example, it is estimated that from three to four dollars in revenue are returned to Ohio state coffers for every dollar given up in investment interest by the Ohio linked deposit program.<sup>3</sup>

In addition, linked deposits have the potential to provide an economic boost to ailing industries and economic groups like small farmers and businessmen. For example, Ohio's linked deposit program reportedly created over 11,000 new jobs 18 months after it was implemented.<sup>4</sup> By linking state deposits to bank lending, it is believed that many potential farmers are encouraged to enter farming and entrepreneurs to start small businesses. This has contributed to the ultimate goal of most linked deposit programs: economic growth and agricultural diversification.

Assisting farmers and small businesses are not the only uses for linked deposit programs, however. There are a multiplicity of uses for linked deposit programs ranging



from "alternative agricultural products" in Oklahoma to drought relief in Indiana to student loans in West Virginia as well as the construction of low income housing in Illinois (see Appendix B, p. 33). The relative ease with which a state can conduct a linked deposit program makes it a useful tool for getting badly needed cash to people who need it quickly, flood victims for example.

Besides the relative ease in establishing linked deposit programs, states view linked deposits favorably because very little risk is incurred by the state. Banks are required to collateralize or otherwise secure state deposits. The state purchases Certificates of Deposit to be used for a targeted loan. The bank is ultimately responsible for exercising good judgment in making loans. Finally, the state still earns some interest on state deposits, regardless of the success or failure of any particular loan.

There are potential benefits for lenders as well. First, the reduced rate paid by the borrower may allow the lender to maintain a loan to an "at-risk" producer which would otherwise not be made. The lender may also find the risks of continuing to do business with such a borrower more acceptable. Similarly, a lower cash drain on an expanding or new alternative product loan may improve the feasibility and lower the risk to the lender.

Lenders should earn approximately the same net return as on most of their other loans. Maintaining customers and

economic activity in the community are important additional benefits as well.<sup>5</sup> In addition, banks may be more willing to work with new businesses and enter new markets than before. Banks traditionally have viewed new businesses with greater skepticism because new businesses are financially less stable. Linked deposits can help establish stability more quickly.<sup>6</sup>

Yet for all the legitimate uses for linked deposit programs, there are problems as well. One such problem is referred to as substitution. Substitution occurs when persons borrowing in a linked deposit program could have easily have secured loans at a regular bank, but chose to substitute a linked deposit loan instead and "cash in" on cheaper linked deposit rates.<sup>7</sup>

Another problem is government interference in the marketplace. If the government is going to single out economic groups to be eligible for linked deposits, does this not give them an unfair advantage over those businesses that do not qualify for the cheaper loans? Given two struggling businesses in the same market, to whom should the money be lent? Linked deposit loans to businesses within a certain community could lead to indirect government support of unfair competitive practices.

A further problem confronting linked deposit programs is one of politics. Linked deposit programs often become embroiled in partisan political battles. One prime example is Kansas where the "Kansas Funds for Kansas Farmers and

Kansas Small Business" program fell victim to electoral politics. The Republican controlled Kansas legislature refused to continue the program once it was learned that the Democratic State Treasurer responsible for its implementation was running for governor.

In addition to electoral politics, linked deposit programs in some places have suffered from political corruption as well. The Federal Bureau of Investigation is investigating the Oklahoma State Treasurer's office in conjunction with irregularities in the Oklahoma linked deposit programs.<sup>8</sup> The West Virginia Treasurer of State was forced to resign due, among other things, to irregularities in West Virginia's linked deposit program.

Finally, a problem relating to political corruption is the problem of evaluating and monitoring the effectiveness of the various programs. Of the programs reviewed for this study, six of the nine treasurers are required to submit annual reports concerning linked deposit programs to their respective state legislatures. These reports generally consist of a list of lending institutions from which the loans were made, names of persons who received loans, and an estimate as to the number of jobs created or retained as a result of the loans based on information provided by the borrower.

In the study that follows, linked deposit programs from nine states are examined in an effort to compare and analyze the various characteristics of the different programs. Of

particular interest will be the goals of the various programs, the amount of funding each program has received, the monitoring and evaluation techniques used by the different state agencies, and the political and economic ramifications involved when using public funds for economic development schemes.

The data used in this study was gathered from information requested from nine state treasurer's offices and telephone interviews conducted with program administrators. The information requested included program guidelines, program applications, related newspaper articles, enabling legislation and mandated reports on the status of programs.

## CHAPTER II

### THE LEGALITIES, GOALS AND FUNDING FOR LINKED DEPOSIT PROGRAMS

#### Legal Basis for Linked Deposit Programs

Linked deposit programs can be classified broadly into two categories: those created by statute and those created at the discretion of the particular treasurer. Of the nine states examined, all programs were created by the state legislature except those in Illinois and Pennsylvania.

Legislative mandates for most of the states studied generally include detailed qualifications for eligible lending institutions, directing that lending institutions give priority to borrowers on the basis of the economic needs of the area, and establishing criteria for eligible borrowers. In addition, much of the legislation creating linked deposit programs also set the interest subsidy, the interest rate the state will receive on its deposits. The most common rate is 3% below current market rates.

Finally, most pieces of linked deposit legislation establish reporting mechanisms by which the treasurer reports annually to the legislature the status of linked deposit programs. These reports generally include a comprehensive list of lending institutions, borrowers, and

amounts loaned to each borrower as well as the number of jobs created or retained as a result of the loan.

The Illinois and Pennsylvania linked deposit programs were created without benefit of legislative mandate. The state treasurers of these states have very broad discretion in determining programming functions. The result, according to advocates within the Illinois State Treasurer's office, is a much more creative program, allowing the treasurer to use linked deposits for a greater variety of economic development programs. For example, the town of Ohio, Illinois utilized a linked deposit loan to expand an industrial park in order to attract new industry to the area.<sup>9</sup>

Other projects funded in Illinois by linked deposit loans include a slaughterhouse and meat packing plant, an automotive spring manufacturing plant, a statewide home mortgage program for first-time home buyers, and financing for the construction of public housing.<sup>10</sup>

#### Program Goals and Funding

A more narrow classification of linked deposit programs can be achieved by categorizing the various programs according to program goals. The goals differ from state to state. Table I indicates the nine states involved in this study and expresses the variation in program goals as well as the variation in program funding from state to state (See Appendix A, p. 25).

Virtually every state in the study used linked deposit loans for agricultural diversification. Other goals indicated in Table I include loans for small business development. One state, West Virginia, used linked deposits for a student loan program.

The nine programs indicated in Table I vary in the amount of state funds invested in linked deposit loans. The amount of program funding ranges from Kansas, which provided \$22.6 million dollars for agriculture and small business loans, to Illinois, which invested as much as \$500 million dollars for economic development and agriculture loans. Linked deposit funds for economic development and small business for the nine states totaled over \$621 million, while funds for agriculture totaled over \$322 million dollars.

Generally the goals of the various linked deposit programs are economic growth and agricultural diversification. More specifically, the goals include numerous innovative applications of the linked deposit concept.

An example of an innovative use for linked deposits is the "Oklahoma Agricultural Linked Deposit Program", which includes as a target group farmers "engaged in producing, processing or marketing alternative agricultural products within the State of Oklahoma".<sup>11</sup>

By law, alternative agricultural products are determined by the Oklahoma State Board of Agriculture in

conjunction with the Oklahoma State University Cooperative Extension Service. A report is submitted to the Board of Agriculture by the Director of the Cooperative Extension Service detailing what specific agricultural products can be labelled "alternative". In addition, hearings may be held by the Board of Agriculture to gain input from the agricultural community to determine if a product not included in the report will qualify as an alternative agricultural product.<sup>12</sup>

Essentially alternative agricultural products are nontraditional products which are intended to broaden the state's overall agricultural base. Examples of nontraditional agricultural products are aquaculture, greenhouse and nursery stock, Christmas tree farms, popcorn crops, alligators, angora goats and ostriches. The idea is to expand agribusiness to include products other than traditional crops like corn, wheat, soybeans, peanuts, and cotton.<sup>13</sup>

Another example of an innovative use of linked deposits is West Virginia's "Treasurer's Educational Development Deposit Incentive - Better Educational Assistance Reserve program, ("TEDDI-BEAR")."

West Virginia, like many other states, was experiencing what is known as "brain drain", the loss of potential college students to other states. In addition, many West Virginia students were finding it difficult to secure adequate funding for a college education. Therefore, this



program was established to provide low interest loans for West Virginia college students to facilitate higher education availability.<sup>14</sup>

Eligibility for the program is relatively simple. Any resident student enrolled or accepted for enrollment at any eligible West Virginia institution of higher education is eligible provided he or she meet the following requirements:

- A. He or she must be making satisfactory progress, if previously a student.
- B. He or she must be certified by an approved educational institution as meeting the eligibility criteria for funds.
- C. He or she must prove creditworthiness to an eligible lender.<sup>15</sup>

Since the goal of the program was to increase the availability of higher education opportunities in West Virginia, 100% of the applicants in 1989 were accepted for linked deposit loans to attend 26 public and private two and four year colleges and universities in the state.<sup>16</sup>

### Summary

Linked deposit loan programs, whether established by legislative mandate or treasurer's discretion, provide capital for a variety of enterprises. Innovative uses of the linked deposit concept include promoting "alternative" agricultural endeavors, low cost student loans, construction of public housing, and mortgage programs for first-time home buyers. Funding for linked deposit programs in this study totals over \$943 million dollars. Program guidelines

include qualifications for participation by applicants and financial institutions; monitoring and evaluation procedures; and the interest subsidy.

## CHAPTER III

### PRINCIPLE CHARACTERISTICS OF LINKED DEPOSIT LOANS PROGRAMS

#### Program Components

Reid and Hall describe five general components in a linked deposit program: 1) program funding, 2) eligibility requirements, 3) reinvestment criteria, 4) interest subsidies, and 5) monitoring.<sup>17</sup>

Program funds are limited by law in most states. Some states place a percentage limit on the amount of a state's total investable portfolio which can be used for linked deposits. Illinois, Oklahoma, and Ohio use this kind of limitation. Other states statutorily establish monetary limitations on the programs. For example, Wyoming has limited the total that the treasurer can invest for linked deposits to \$150 million.<sup>18</sup>

Eligibility requirements are used in targeting the loans to certain groups. To be eligible program participants must show that they qualify for the loans according to program requirements. Farmers generally must show that a certain amount of their income is derived from agriculture. In addition, some states require that debt-to-asset ratios be met in order to qualify for

agricultural loans.

Small business generally must demonstrate that the business is headquartered within the state, that the business employs fewer than "x" number of employees (to qualify as a "small" business), jobs will be created or preserved if the loan is made, and the business must guarantee that the borrowed funds will be used in accordance with established program guidelines.

Application procedures for linked deposits vary from state to state, depending largely on how involved the state wants to be in the actual process of selecting borrowers. In most cases linked deposits are made in response to requests from lending institutions to make particular loans. In other states, treasurers will deposit state funds in advance for the institution to use at its discretion according to normal loan procedures.

Reinvestment criteria are related to eligibility requirements in that lending institutions are allowed to loan only to applicants that meet the minimum requirements of the program. This also means that the state treasurer can monitor the financial institution to insure the suitability of institutions to receive future deposits. Often a mitigating factor when determining future state deposits in an institution is lending to groups that the state has decided deserve aid, such as small business and farmers.

Interest subsidy requirements spell out the interest rate the state will receive on its deposits. Most states set the interest subsidy by statute while others allow the state treasurer to negotiate the interest subsidy with individual financial institutions. Table II indicates the interest subsidies for the nine states involved in this study (See Appendix A, p. 27). As Table II indicates, states use different mechanisms for calculating the interest subsidy for linked deposits.

Under the Illinois linked deposit program the interest subsidy is negotiated on an individual basis with applicants. In most states the amount of interest subsidy is from 3 to 4 percent below market rates for business and agriculture loans.

Some states tie the interest subsidy to U.S. Treasury Note rates. In the case of the "Oklahoma Agricultural Linked Deposit Program", the State Treasurer may place certificates of deposit with an eligible lending institution at up to three percent (3%) below the comparable Treasury Note rate, as determined by the State Treasurer. The lender must reduce his loan rate to the borrower by at least three percent (3%) or may add up to 5.5 percent upon the State Treasurer's reduced deposit rate, whichever is less.<sup>19</sup>

Table II also indicates the cost of the program to the state in terms of interest lost due to the interest subsidy. Interest loss varies from state to state, depending largely on current market interest rates for Certificates of Deposit

and Treasury Bills, amount of interest subsidy and program funding.

Monitoring link deposit programs presents an interesting problem for those who administer the programs. Specifically, difficulty can be encountered with respect to evaluating whether the program actually accomplishes what proponents claim.

Monitoring for most of the states studied includes an annual report to the state legislature detailing to whom loans were made and from which lending institution the loans were made as well as some sort of estimate as to the number of jobs created or preserved as a result of the loan.

The legislative reports generally include a detailed accounting of state funds used for the program, participating financial institutions, lists of loan recipients and amount of the loan, and an outline of the activities, results and findings based on an evaluation of the program.

Table III indicates the different types of monitoring techniques used by the nine states in this study (See Appendix A, p. 29). In addition to annual legislative reports, many states monitor lending institutions through spot checks and audits of loan records. The Ohio "Winthrow Plan of Small Business and Agricultural Linked Deposits" program combines annual legislative reports with an extensive bank and business evaluation system which includes follow-up questionnaires, plus bank and business visits to

assess the effectiveness of the program in achieving program goals.<sup>20</sup>

While there is a great deal of difference between the monitoring and evaluation techniques used by the various states, all of the states require participating financial institutions to submit reports to the state treasurer. These reports vary in detail but generally consist of lists of loan recipients, the amount of the loan, and an estimate of the number of jobs created or retained as a result of the loan.\*

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\*An interesting problem concerning linked deposit programs is the attempt by states to assess the economic impact of linked deposit loans. Calculating numbers of jobs created as a result of linked deposit loans are at best rough estimates. Theoretically, a farmer or businessman in danger of losing his business would be able to avoid laying off employees if he received a loan. Yet it remains to be seen whether the creation of jobs is directly related to receiving a linked deposit loan.

## CHAPTER IV

### SUMMARY AND CONCLUSIONS

Linked deposit loan programs from nine states have been examined in an effort to come to a better understanding of the linked deposit concept. Based on information provided by the various state treasurer's offices and telephone interviews conducted with program administrators, certain conclusions concerning linked deposit programs can be drawn.

Linked deposit programs are attractive for a number of reasons. Linked deposit programs can be used to stimulate agricultural and economic diversification by providing low interest loans for alternative agricultural products and establishing new industries providing needed jobs in economically depressed areas.

Linked deposit loans are versatile; providing loans to people who have demonstrated a legitimate need for the reduced interest rate, like distressed farmers and disaster victims.

Linked deposit loan programs are politically attractive to many elected officials because no state money is at risk and no appropriations are necessary to fund the program. With no expenditure of tax dollars, linked deposit programs provide a politically "safe" solution to the problem of a



lack of venture capital for small business and agricultural investment.

Yet linked deposit loans are also politically attractive because they can be used by elected officials to curry favor with financial institutions and loan recipients. State deposits could be made on a political rather than a competitive interest rate basis to ensure that loans are made to enterprises favored by legislators. This can damage the integrity of linked deposit programs.

Overall, linked deposit loans, especially for small business, would seem to present the problem of government favoring one business enterprise over another. Given two equally feasible enterprises, one of which is accepted for a loan and the other denied, government contributes to unfair business competition.

Finally, monitoring linked deposit programs presents a problem in that the measurement tools used by the states studied are often rudimentary. Of the programs identified in this study, Ohio's "Winthrow Plan of Small Business and Agricultural Linked Deposits" program seems to have the best monitoring and evaluation practices, based on questionnaire sent to banks and businesses to assess program effectiveness. In addition, spot checks and audits of bank records help ensure the propriety of loan practices.

Linked deposit loan programs are an idea whose time has come. As more states discover new applications for the

linked deposit concept, more exhaustive research in the area should be conducted.

## END NOTES

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## APPENDIXES

**APPENDIX A**

**TABLES**

**TABLE I\***  
**PROGRAM GOALS AND PROGRAM FUNDING**  
**BY GOALS, BY STATE**

Program Goals:	Program Funding By Goals:	
<b>State:</b>		
<b>Alabama</b>		
Loans for agriculture and small business	agriculture small business Total:	\$10 million \$50 million \$60 million
<b>Illinois</b>		
Loans for economic development and agriculture	25% of the total state portfolio (can be as high as \$500 million)	
<b>Indiana</b>		
Agricultural loans	Total:	\$62 million
<b>Kansas</b>		
Loans for agriculture and small business	Total:	\$22.6 million
<b>Ohio</b>		
Loans for agriculture and small business	12% of the total state portfolio, may not exceed: agriculture: \$100 million small business: \$100 million Total: \$200 million	
<b>Oklahoma</b>		
Loans for alternative agriculture products and small business	Total:	\$150 million
<b>Pennsylvania</b>		
Loans for small business	Total:	\$200 million
<b>West Virginia</b>		
Economic development and student loans	Econ. Dev.: Student loans: Total:	\$271 million \$3 million \$274 million

TABLE I (Continued)

Program Goals:	Program Funding By Goals:
<b>State:</b>	
<b>Wyoming</b>	
Loans for small business and agriculture	Total: \$150 million

Sources: "Linked Deposit Programs for Small Business and Agriculture". Public Information, State Treasurers' offices



**TABLE II\***  
**AMOUNT OF INTEREST SUBSIDY AND PROGRAM  
 FUNDING BY STATE**

Amount of Interest Subsidy: <sup>1</sup>	Amount of Program Funding:
<b>State:</b>	
<b>Alabama</b> 3% less than market rate. Estimated State interest loss: \$36 million.	\$60 million
<b>Illinois</b> Negotiated on an individual basis. Estimated State interest loss: unavailable	Up to 25% of total state portfolio
<b>Indiana</b> Bank can charge up to 2.5% above rate of interest state receives on a C.D. Estimated State interest loss: \$46.5 million.	\$62 million
<b>Kansas</b> Banks can charge up to 3% above the 4% offered on state deposits. Estimated State interest loss: unavailable	\$22.6 million
<b>Ohio</b> Loans are made at up to 3% below market rate for business loans and up to a 4% reduction for agriculture. Estimated State interest loss: \$68.4 million	Up to 15% of total investable funds
<b>Oklahoma</b> 3% less than Treasury Note rates. Estimated State interest total loss: \$15 million.	Up to 15% of total investable funds

TABLE II (Continued)

Amount of Interest Subsidy:	Amount of Program Funding:
<b>State:</b>	
<b>Pennsylvania</b>	
Loan rate is determined by usual credit considerations. Discount on bank loans to borrowers will be equal to the reduction in interest on the state's C.D.s. Estimated State interest loss: \$140 million.	\$200 million
<b>West Virginia</b>	
3% less than current rate for two year U.S. Treasury bills. Banks must reduce rate to borrowers by an equal amount. Estimated State interest loss: \$191.8 million.	\$274 million
<b>Wyoming</b>	
3% less than market rate. Banks must reduce rate to borrowers by an equal amount. Estimated State interest loss: \$105 million	\$150 million

Sources: "Linked Deposit Programs for Small Business and Agriculture". Public Information, State Treasurers' offices. Author's calculations

<sup>1</sup> Estimated State interest loss is determined by calculating interest rates, interest subsidy and rate of return on state investments (Example Alabama's interest loss can be calculated on a market rate of 10% less 3% interest subsidy on a \$60 million dollar investment fund costing Alabama \$36 million in lost interest.)

**TABLE III\***  
**MONITORING PRACTICES FOR LINKED DEPOSITS**  
**BY STATE**

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**Monitoring Practices by State:**

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**State:**

<b>Alabama</b>	The State Treasurer must prepare an annual report to the Alabama Legislature no later than the 10th legislative day of each regular session, outlining the activities, results (in terms of benefits) and findings based on the monitoring of the plan.
<b>Illinois</b>	The State Treasurer maintains updated records by institutions of Certificates of Deposits placed specifically for the Treasurer's Farm Program. In addition, institutions must submit a quarterly report of all outstanding program loans by the 15th of the following month. Participating institutions submitted reports before January 25, 1990 detailing all loans funded, the date paid, and the balance of loans even if the C.D. has reached maturity.
<b>Indiana</b>	The State Treasurer maintains a public record of institutions participating in the program. No report is required by law to be filed with the legislature.
<b>Kansas</b>	Participating banks and financial institutions report to the Treasury. The legislature conducts a post-audit.
<b>Ohio</b>	The State Treasurer must report by the first day of February on all program activities for the previous calendar year to the legislature and the governor. In addition, follow-up questionnaires are sent to banks and businesses to assess the effectiveness of the institutions in reaching program goals.
<b>Oklahoma</b>	The State Treasurer makes spot checks on bank records as well as submits annual reports to the legislature and governor.

TABLE III (Continued)

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**Monitoring Practices by State:**

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**State:**

<b>Pennsylvania</b>	The State Treasurer is not required to report on the progress of the program to either the legislature or governor. The Treasurer has wide discretion as relates to the program.
<b>West Virginia</b>	Field audits are conducted of 5-10% of all bank loans. The state also audits business papers for compliance with the TEDDI program and submits a quarterly report to the governor and legislature detailing every loan executed.
<b>Wyoming</b>	The State Treasurer reports annually to the legislature by financial institution the name of the borrower, amount, purpose of the loan and number of jobs affected by the loan.

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\*Sources "Linked Deposit Programs for Small Business and Agriculture" Public Information, State Treasurers' offices.

**APPENDIX B**

**LINKED DEPOSIT PROGRAM CHARACTERISTICS  
BY STATE: ALABAMA, ILLINOIS, INDIANA,  
KANSAS, OHIO, OKLAHOMA, PENNSYLVANIA,  
WEST VIRGINIA AND WYOMING**

STATE: Alabama

NUMBER OF PROGRAMS: 2

PROGRAM 1: Loans for agriculture

PROGRAM 2: Loans for small business

PROGRAM TITLE: Wallace Plan for Linked Deposits

PROGRAM FUNDING: \$60 million: \$10 million for agriculture and \$50 million for small business

CRITERIA FOR PARTICIPATION BY LENDING INSTITUTIONS: Any bank or savings and loan association that is a state depository and wishes to participate.

CRITERIA FOR REINVESTMENT: Reinvestment varies. Agricultural uses include feed, seed and fertilizer; equipment and energy costs; crop insurance and legal and accounting fees. Business uses include land, buildings, equipment; repairs, renovations; rent, utilities, taxes, wages and inventory. The lending institution makes the credit decision, completes the forms, and sends them to the Treasurers office.

INTEREST SUBSIDY: The State Treasurer will deposit funds in a local bank and accept 3% less than the market interest rate on that deposit. The bank will agree to make a loan to eligible borrowers at an interest rate of 3% less than the normal rate of interest for that borrower.

MONITORING AND EVALUATION: The State Treasurer must prepare an annual report to the Alabama Legislature no later than the 10th legislative day of each regular session, outlining the activities, results (in terms of benefits) and findings based on the monitoring of the plan.

STATE: Illinois

NUMBER OF PROGRAMS: 2

PROGRAM 1: Economic/community development

PROGRAM 2: Agricultural

PROGRAM TITLE: "Illinois State Treasurer's Linked Deposit Program"

PROGRAM FUNDING: Funds available for linked deposits cannot exceed 25% of the total state portfolio. This 25% can be as much as \$500 million dollars.

CRITERIA FOR PARTICIPATION BY LENDING INSTITUTIONS:

Deposits must be awarded according to the bank's past loan performance in several loan categories. The Treasurer discounts deposits for agricultural loans approximately 1/8 to 1/4 percent and requires the banks to charge farmers no more than 3.0% above the deposit rate. A "jobs ratio" (deposit amount/jobs created or retained) is used in awarding economic development linked deposits.

CRITERIA FOR REINVESTMENT: Agricultural uses include seed, fertilizer, chemicals, crop insurance, energy, labor, livestock, debt refinancing and used equipment. Economic development loans may be used for short term capital, plant equipment, construction or rehabilitation of low and moderate income housing.

INTEREST SUBSIDY: The interest subsidy is negotiated on an individual basis with the bank. For example, in 1988 the Treasurer made \$50 million available for drought relief with the understanding that state deposits would receive 6.5% interest with loans to farmers at no more than 9.5%

MONITORING AND EVALUATION: The State Treasurer maintains a public record of institutions participating in the program. No report is required by law to be filed with the legislature.

STATE: Indiana

NUMBER OF PROGRAMS: 1

PROGRAM 1: Agricultural assistance

PROGRAM TITLE: "Treasurer's Farm Program"

PROGRAM FUNDING: Indiana has provided \$62 million for the program, \$50 million for Indiana banks and \$12 million for the Production Credit Association centers throughout the state.

CRITERIA FOR PARTICIPATION BY LENDING INSTITUTIONS: Banks and financial institutions receiving funds must be previously approved state depositories and have statutory authority to receive the deposit. In addition, state deposits may not exceed 50% of the institutions net worth.

CRITERIA FOR REINVESTMENT: Funds must be expended for the purchase of feed, seed, fertilizer, chemicals, crop insurance, feeder stock, energy, labor, veterinarian fees, and rent for farm land. The program is targeted toward young, lower net worth farmers. Applications must be submitted along with 1040 and Schedule F tax forms to the Treasurer's office for approval on the financial institution's own forms.

INTEREST SUBSIDY: Institutions may charge an interest rate to borrowers of not more than 2.5% over the interest rate paid by the institution on a Certificate of Deposit purchased by the state. 5.0% is the rate to be received by the state for the purpose of the Treasurer's Farm Program at this time.

MONITORING AND EVALUATION: The Treasurer maintains updated records by institutions of Certificates of Deposits placed specifically for the Treasurer's Farm Program. In addition, institutions must submit a quarterly report of all outstanding program loans by the 15th of the following month. Participating institutions submitted reports before January 25, 1990 detailing all loans funded, the date paid, and the balance of loans even if the C.D. has reached maturity.



STATE: Kansas\*

NUMBER OF PROGRAMS: 2

PROGRAM 1: Agricultural  
PROGRAM 2: Small Business

PROGRAM TITLE: "Kansas Funds for Kansas Farmers and Kansas Small Business"

PROGRAM FUNDING: The Kansas State Treasurer has made available \$22.6 million from idle highway funds. These funds vary in amount from year to year. A hedge of 1/2 of available funds is invested in U.S. Government securities.

CRITERIA FOR PARTICIPATION BY LENDING INSTITUTIONS: Any chartered bank in Kansas is eligible to receive funds under the program.

CRITERIA FOR REINVESTMENT: Farmers participating in the program must derive at least 70% of his or her income from farming or ranching. Small businesses must be operating in Kansas and employ less than 100 employees in Kansas at the time of application. In addition, the creation or retention of jobs must be in a ratio of at least 1 job for every \$20,000 loaned.

INTEREST SUBSIDY: The most recent interest rate on state deposits is 4%. Banks are allowed to charge no more than 3% more for handling, profit and risk to participants.

MONITORING AND EVALUATION: Participating banks report to the Treasury. The legislature conducts a post-audit.

\* The Kansas Funds for Kansas Farmers and Kansas Small Business program no longer exists, having fallen victim to legislative action

STATE: Ohio

NUMBER OF PROGRAMS: 1

PROGRAM 1: Small business and agriculture

PROGRAM TITLE: "Winthrow Plan of Small Business and Agricultural Linked Deposits"

PROGRAM FUNDING: The Treasurer may invest up to 12% of the state's total investment portfolio, of which \$100 million will be used for agriculture. Under state law, deposit totals may not exceed \$100 million for agricultural loans and \$100 million for small business.

CRITERIA FOR PARTICIPATION BY LENDING INSTITUTIONS: Any bank in the state of Ohio is eligible for deposits under the Winthrow Plan, so long as public funds do not exceed 30% of a the banks assets. In addition, Ohio Production Credit Associations are eligible for state deposits under the agricultural program. Lenders must give priority to applicant based on area economic needs and the jobs created or retained.

CRITERIA FOR REINVESTMENT: Small businesses must pledge to use borrowed money to create or retain jobs. Agricultural borrowers must meet requirements that include giving priority to full-time farmers, operating for profit and meeting a formula for debt-equity ratios.

INTEREST SUBSIDY: Under the small business program, deposits are made at up to 3% below market interest rate. Loans are made at 3% below market rates for small businesses and up to a 4% reduction in market rates for agricultural loans.

MONITORING AND EVALUATION: The treasurer must report by the first day of February on all program activities for the previous calendar year to the legislature and the governor. In addition, follow-up questionnaires are sent to banks and businesses to asses the effectiveness of the institutions in reaching program goals.

STATE: Oklahoma

NUMBER OF PROGRAMS: 2

PROGRAM 1: Loans for agriculture

PROGRAM 2: Loans for small businesses

PROGRAM TITLE: "Oklahoma Agricultural Linked Deposit Program" and the "Oklahoma Small Business Linked Deposit Program"

PROGRAM FUNDING: The State Treasurer may invest up to 15% of total investable funds. Total funding for linked deposit programs is approximately \$150 million dollars.

CRITERIA FOR PARTICIPATION BY LENDING INSTITUTIONS: Lending institutions must be eligible to make commercial loans; must be a depository of state funds and must agree to participate in the linked deposit programs.

CRITERIA FOR REINVESTMENT: The "agri-link" program is divided into two areas eligible for linked deposits: 1) farmers desiring to engage in "alternative agricultural products", or crops "new to the area" and 2) "distressed farmers", or family farms in danger of being lost due to financial difficulties. The business link is intended for any small business with 200 or fewer employees and less than \$4 million in annual gross receipts and any industrial park which meets minimum Oklahoma Department of Commerce guidelines necessary for an industrial park.

INTEREST SUBSIDY: The Treasurer may place CD's with the eligible lending institution at up to 3% below the comparable Treasury Note rate, as determined and calculated by the State Treasurer. The lender must reduce the loan rate to the borrower by at least 3% or may add up to 5.5% upon the State Treasurer's reduced deposit rate, whichever is less.

MONITORING AND EVALUATION: The State Treasurer makes spot checks on bank records as well as submits annual reports to the Legislature and the Governor.

STATE: Pennsylvania

NUMBER OF PROGRAMS: 1

PROGRAM 1: Small business

PROGRAM TITLE: "The Pennsylvania Treasury Department's Linked Deposit Program"

PROGRAM FUNDING: The Pennsylvania Treasury has made \$200 million dollars available.

CRITERIA FOR PARTICIPATION BY LENDING INSTITUTIONS: Any bank or saving and loan that is an approved state depository may participate in the program.

CRITERIA FOR REINVESTMENT: Banks request linked deposits from the state which in turn evaluates the application and if approved, purchases CD's from the bank. Businesses that qualify for the program must be organized for profit, employ fewer than 150 people and must submit documentation that jobs will be created or retained if they receive a linked deposit loan.

INTEREST SUBSIDY: The discount on the bank's loan to the borrowers will be equal to the reduction in interest on the state's C.D.'s.

MONITORING AND EVALUATION: The Treasurer is not required to report on the progress of the program to either the legislature or the governor. The Treasurer has wide discretion as relates to the program.

STATE: West Virginia

NUMBER OF PROGRAMS: 2

PROGRAM 1: Economic Development

PROGRAM 2: Student Loans

PROGRAM TITLE: The "Treasurer's Economic Development Deposit Incentive Program, (TEDDI)" and the "Treasurer's Economic Development Deposit Incentive Program, Better Education Assistance Reserve, (TEDDI-BEAR)"

PROGRAM FUNDING: TEDDI, \$271 million; TEDDI-BEAR, \$3 million.

CRITERIA FOR PARTICIPATION BY LENDING INSTITUTIONS: Lenders must be West Virginia financial institutions in order to receive TEDDI deposits.

CRITERIA FOR PARTICIPATION: To participate in TEDDI, a company must employ 200 or fewer employees, or must have gross receipts of less than \$4 million annually. The company must retain or create jobs with the money borrowed, the funds cannot be used to refinance old debt. In addition, the company must be headquartered in West Virginia and in good standing with all other agencies of the state government.

In order to qualify for TEDDI-BEAR, a student must 1) be a West Virginia resident for at least one year immediately preceding the date of application for the loan; 2) be in good standing and making satisfactory academic progress; 3) certify that the funds will be used to defray educational expenses; 4) prove creditworthiness to an eligible lender.

INTEREST SUBSIDY: The state accepts an interest rate of 3% less than the most current rate for the two year U.S. Treasury bills on its deposits. The bank must pass this discount on to its customers.

MONITORING AND EVALUATION: Field audits of 5%-10% of all bank loans. The state also audits business papers for compliance with the TEDDI program and submits a quarterly report to the Governor and Legislature detailing every loan executed.

STATE: Wyoming

NUMBER OF PROGRAMS: 1

PROGRAM 1: Loans for small business and agriculture.

PROGRAM TITLE: The Wyoming Link Deposits Act

PROGRAM FUNDING: \$150 million

CRITERIA FOR PARTICIPATION BY LENDING INSTITUTIONS: Wyoming financial institutions and Wyoming Production Credit Association offices are eligible to participate.

CRITERIA FOR REINVESTMENT: Participant must have a business or agricultural enterprise located and operated in the state of Wyoming or must be planning to start a business or agricultural enterprise within the state of Wyoming and must use the loan for that business or agricultural enterprise. Said enterprises must either create or preserve jobs that would otherwise be lost if the loan at the reduced rate was not made.

INTEREST SUBSIDY: The amount of the interest rate reduction to the borrower and the interest rate on the state deposit shall be the same number of percentage points and shall be three percent (3%).

MONITORING AND EVALUATION: The state Treasurer reports annually to the Legislature by financial institution the name of the borrower, amount, purpose of the loan and number of jobs affected by the loan.

VITA

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Master of Arts

Thesis: LINKED DEPOSIT LOAN PROGRAMS: A PERSPECTIVE FROM NINE STATES

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