

2009 Report of the Missouri Linked Deposits Program Review Committee



CLINT ZWEIFEL
MISSOURI STATE TREASURER



Executive Summary

- Total linked deposits as of Sep. 30, 2009 were \$198.3 million. This represents a decrease of \$40 million from the amount of linked deposits as of Sep. 30, 2008.
 - There are a number of reasons for the decline in participation this year, but we believe these can be categorized as either economic or programmatic. The primary economic reason for lack of participation is the recession that began in December 2007, which has led to both a dramatic tightening in lending standards by financial institutions and a reduction in consumer demand that has dampened the need for many businesses to expand.
 - The most recent NFIB survey of Small Business Economic Trends (November 2009) indicated that for businesses who want to borrow, a net 14 percent found loans harder to get than three months ago. Readings of this measure since the spring have been the lowest since the 1980-82 recession.
 - The Federal Reserve Board's quarterly survey of senior loan officers indicated that in the second half of 2008, more than 75% of lending institutions reported tightening their lending standards for commercial and industrial (C&I) loans.
 - The percentage of lending institutions reporting stronger demand for C&I loans bottomed at -60% in the first half of 2009.
 - The NFIB's Optimism Index has been below 90, a number not seen since 1980-82, for six quarters. In contrast, there was only one quarter in the 1980-82 period below 90.
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Executive Summary (Cont'd.)

- A secondary financial hurdle for the Missouri Linked Deposit Program is that the ultra-low interest rate market made it economically infeasible for many financial institutions to participate. A fuller discussion of these issues follow on a separate slide.
 - There were many statutory barriers potential users of the Missouri Linked Deposit Program:
 - Established farmers could have no more than 60% equity in their farm.
 - Small businesses with more than 25 employees were barred.
 - Limits on the amount of funds available to applicants under job enhancement barred many medium and larger companies from participating.
 - Responding to these issues, State Treasurer Clint Zweifel introduced *INVEST IN MISSOURI* in 2009, a program to enhance and expand the Missouri Linked Deposit Program. House Bill 883 passed the House and Senate unanimously and was signed by Governor Nixon. The law took effect Aug. 28, 2009. A separate slide summarizes the changes to the Missouri Linked Deposit Program enacted by *INVEST IN MISSOURI*.
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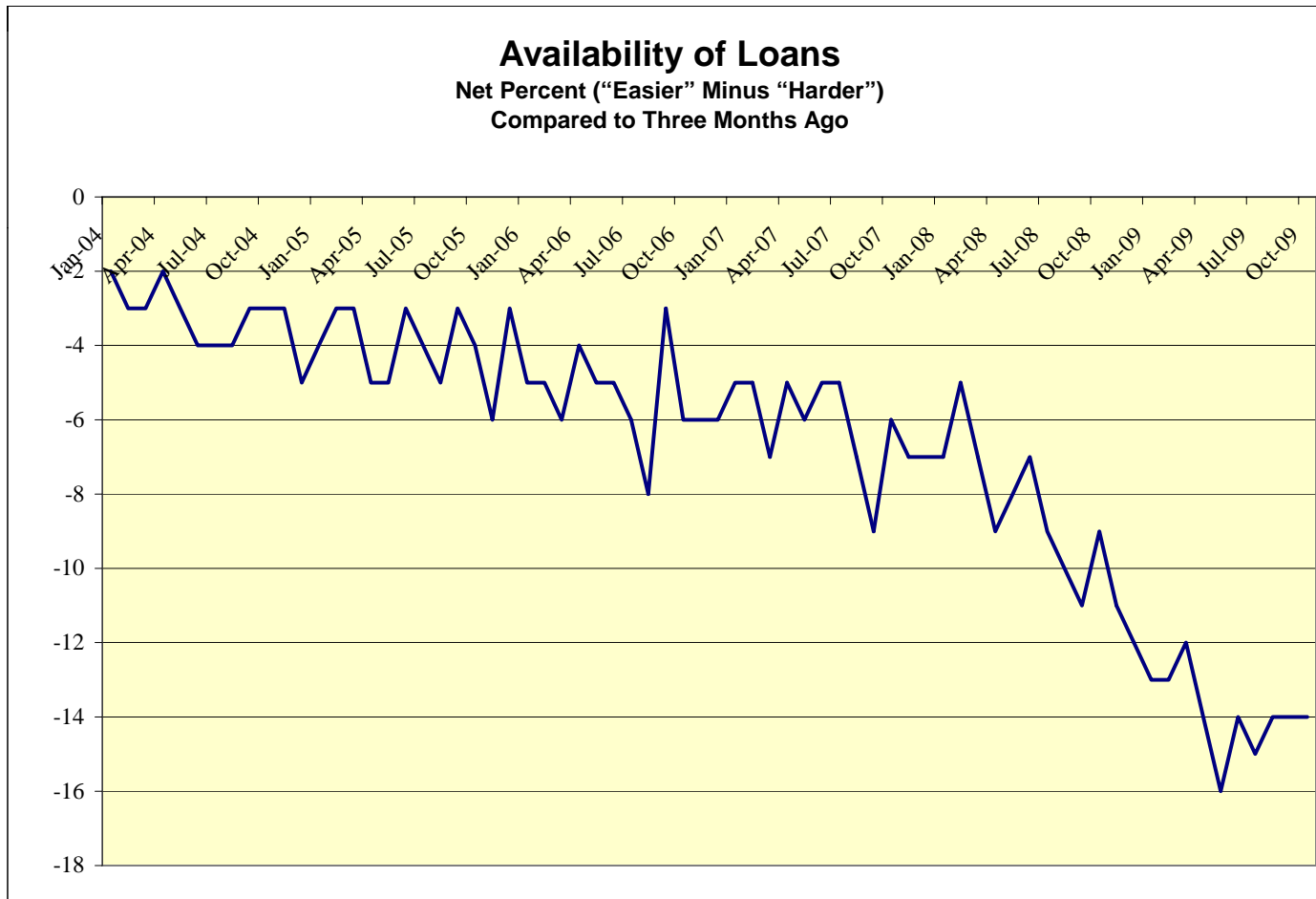
Executive Summary (Cont'd.)

- Agricultural programs continue to be the largest single category of linked deposits with \$126 million. The Small Business Program had \$64.8 million in deposits. There is minimal participation under the job enhancement and multi-family housing portions.
 - Regionally, the Missouri Linked Deposit Program has seen strong interest in the Central, Northeast, Southeast and Southwest regions. Within the St. Louis and Kansas City metropolitan areas, there has been little interest among the larger banks that serve these areas.
 - Nearly 90 financial institutions currently use the Missouri Linked Deposit Program. The largest users of the Missouri Linked Deposit Program are FCS of Missouri and Progressive Farm Credit Services, which are each entities of the Federal Farm Credit Bank system.
 - Minority and female participation in the small business category of the Missouri Linked Deposit Program stands at 11% (on a dollar basis). In the historically male-dominated agricultural sector, participation is at 7%. In the small business category, minority-female participants account for one in six dollars loaned.
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Issues Related to the Missouri Linked Deposit Program in 2008-2009

National Economic/Financial Issues - Availability of Loans (Source: NFIB)

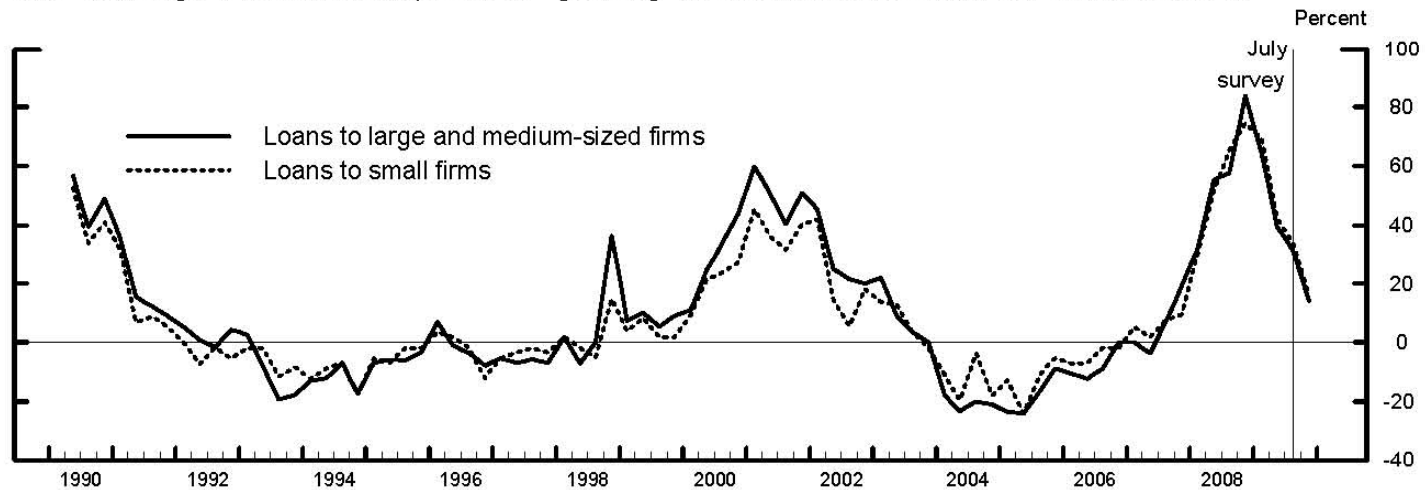




Issues Related to the Missouri Linked Deposit Program in 2008-2009

National Economic/Financial Issues - Tightened lending standards of many institutions
(Source: Federal Reserve Board)

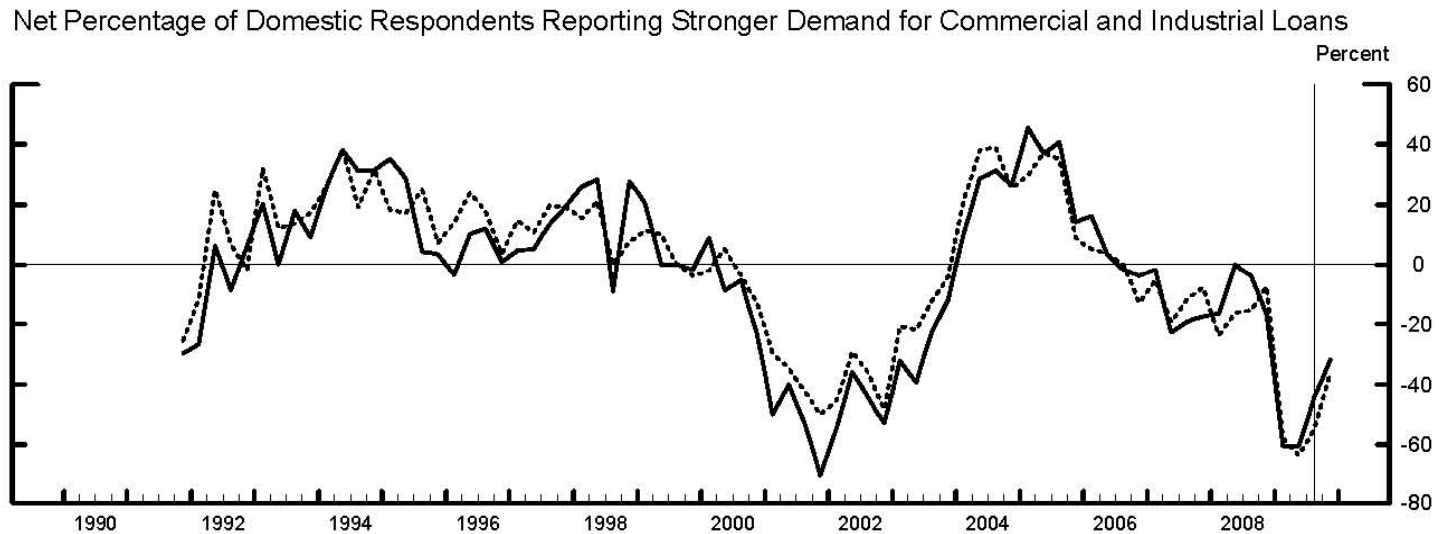
Net Percentage of Domestic Respondents Tightening Standards for Commercial and Industrial Loans





Issues Related to the Missouri Linked Deposit Program in 2008-2009

National Economic/Financial Issues - Demand for Commercial & Industrial Loans
(Source: Federal Reserve Board)





Issues Related to the Missouri Linked Deposit Program in 2008-2009

- Economic/Financial Issues Specific to Missouri Linked Deposit Program
 - In December 2008, the Fed lowered overnight interest rates to a range of 0.00%-0.25%. Yet, then-current state law set a floor rate for linked deposits (that is, the rate paid by financial institutions to the State) of 1.00%. Given a choice of paying the Missouri Linked Deposit Program rate of 1.00% or receiving cheaper funding elsewhere, many institutions chose to stop participating.
 - With the dramatic easing in monetary policy and the subsequent decline in the prime rate, financial institutions could offer loan rates of 4.00% to 5.00% to their applicants. The formulas in state regulations for setting the Missouri Linked Deposit Program loan rate, combined with the 1% floor rate, would squeeze many banks' net interest margins below their target rate.

 - Programmatic Issues
 - Farm Operations Program – only program which restricted applicants by their equity. Many established farmers were unable to use the program
 - Small Business – restricted to businesses with less than 25 employees
 - Job Enhancement – capped at \$50,000 per new job created. This barred many companies with significant capital needs from using this program.
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Issues Related to the Missouri Linked Deposit Program in 2008-2009 (Cont'd.)

- Other Issues
 - Lack of Awareness, especially in major urban areas of St. Louis and Kansas City.
 - Lack of participation by mega-banks in the state (UMB, Commerce Bank, US Bank and Bank of America).
 - Cumbersome application process at times.
 - Resistance of some applicants to e-verify requirement.
 - Ethanol/Biodiesel Industry
 - Paying down of Facility Borrower and Guaranteed Agri-business linked deposits
 - Very few new ethanol plants or other eligible alternative energy plants coming on line
 - Result is a drop in the amount of total linked deposits for these programs
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Changes Implemented by *INVEST IN MISSOURI* (HB 883)

- Missouri Linked Deposit Program enhancements
 - Eliminated 60% equity limit for linked deposits qualifying under farm operations requirements.
 - Increased eligible number of employees allowed under small business from 25 to 99.
 - Provided for funding of capital expenses for job enhancement loan applicants in addition to current limit of \$50,000 per new job created or retained.
 - New Eligibility under the Missouri Linked Deposit Program
 - Missouri Linked Deposit Program for Local Governments
 - Missouri Linked Deposit Program of Alternative Energy Consumers
 - Economic/Financial Changes
 - Eliminated 1% floor rate for deposits tied to Missouri Linked Deposit Program loans.
 - Regulations are being modified by Treasurer Zweifel to streamline the setting of the Missouri Linked Deposit Program loan rate.
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Other Changes Implemented by Treasurer Zweifel

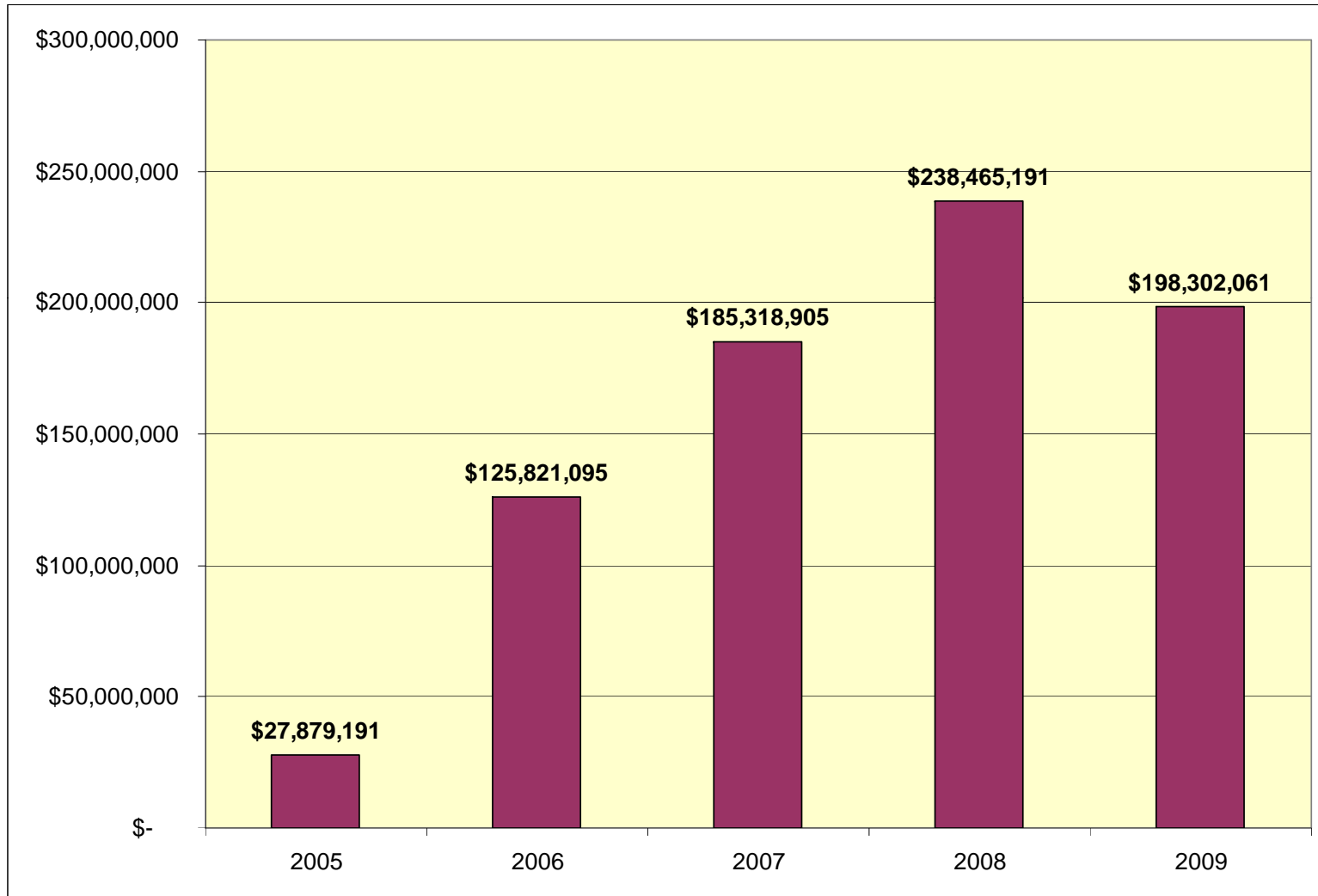
- Administrative
 - Streamlining of application review process to 1-2 weeks.
 - New online application system in 2010.
 - Possible pilot “certified user” program for institutions.
- Economic
 - Regulations are being modified by Treasurer Zweifel to streamline the setting of the Missouri Linked Deposit Program loan rate.
 - Increased use/promotion of 5-year Missouri Linked Deposit Program terms versus 1-year terms that renew each year.
- Marketing
 - Treasurer Zweifel completed rebranding:
 - Treasurer Zweifel created a Missouri Linked Deposit Program Relationship Manager position to promote and market use of the loans.
 - Increased focus on Kansas City and St. Louis metro areas

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LINKED*DEPOSIT
Loans to Develop Our Future



Summary of Linked Deposits by Year

(as of September 30 of each year)



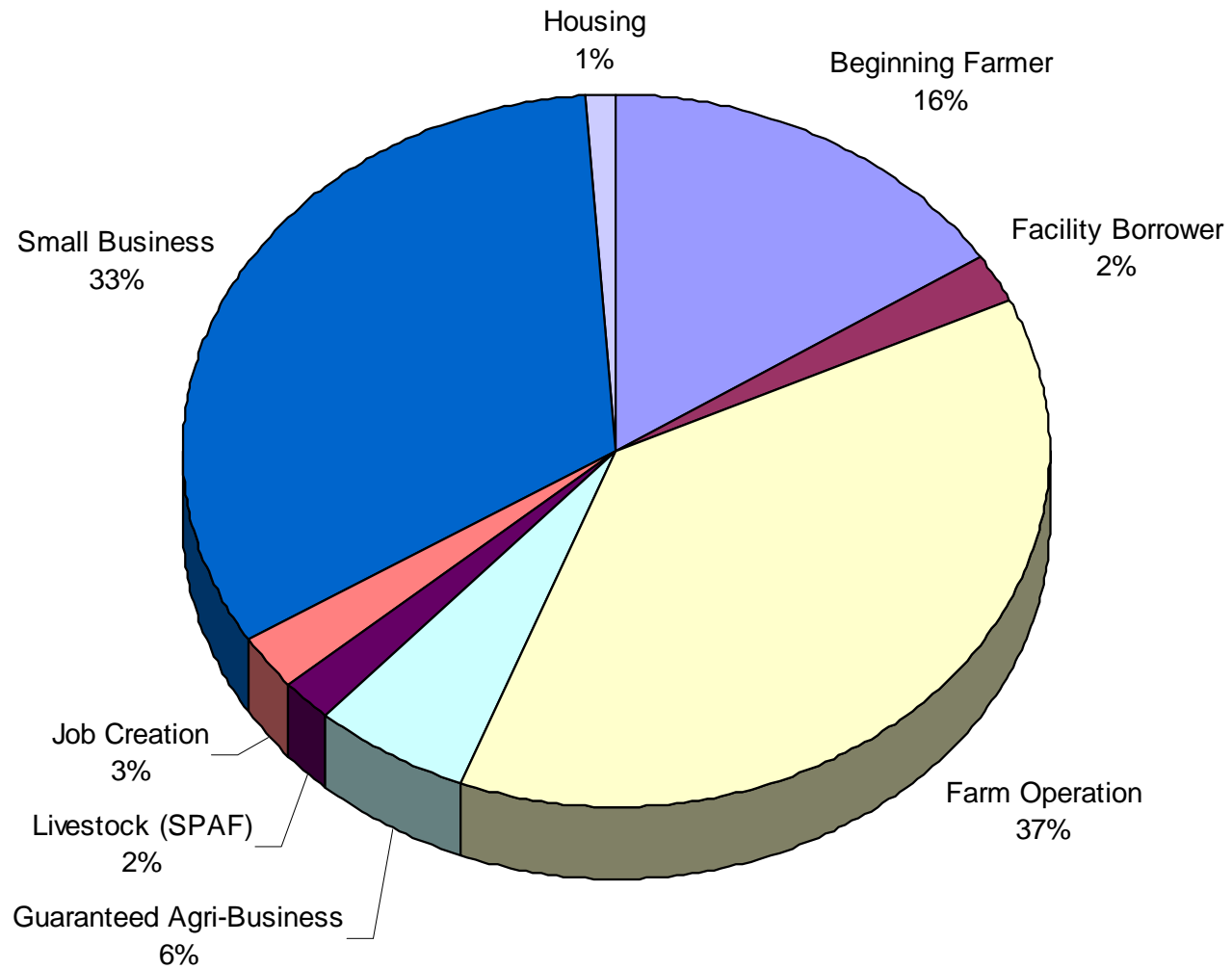


Summary of Linked Deposits by Program

Program	No. of Applicants	Amount eff. 9/30/2009	Amount eff. 9/30/2008	Change	% Chg.
Agriculture					
Beginning Farmer	83	\$ 31,477,488	\$ 31,361,093	\$ 116,395	0%
Facility Borrower	2	4,514,000	5,175,000	(661,000)	na
Farm Operation	253	74,618,155	101,894,160	(27,276,005)	-27%
Guaranteed Agri-Business	59	11,426,641	14,919,524	(3,492,883)	-23%
Livestock (SPAF)	19	4,127,575	4,946,892	(819,317)	-17%
Subtotal	416	\$ 126,163,859	\$ 158,296,669	\$ (32,132,810)	-20%
Housing	8	\$ 2,150,798	\$ 1,540,402	\$ 610,396	40%
Job Creation	5	\$ 5,150,000	\$ 2,850,000	\$ 2,300,000	81%
Small Business	361	\$ 64,837,404	\$ 75,778,120	\$ (10,940,716)	-14%
TOTAL	790	\$ 198,302,061	\$ 238,465,191	\$ (40,163,130)	-17%



Summary of Linked Deposits by Program





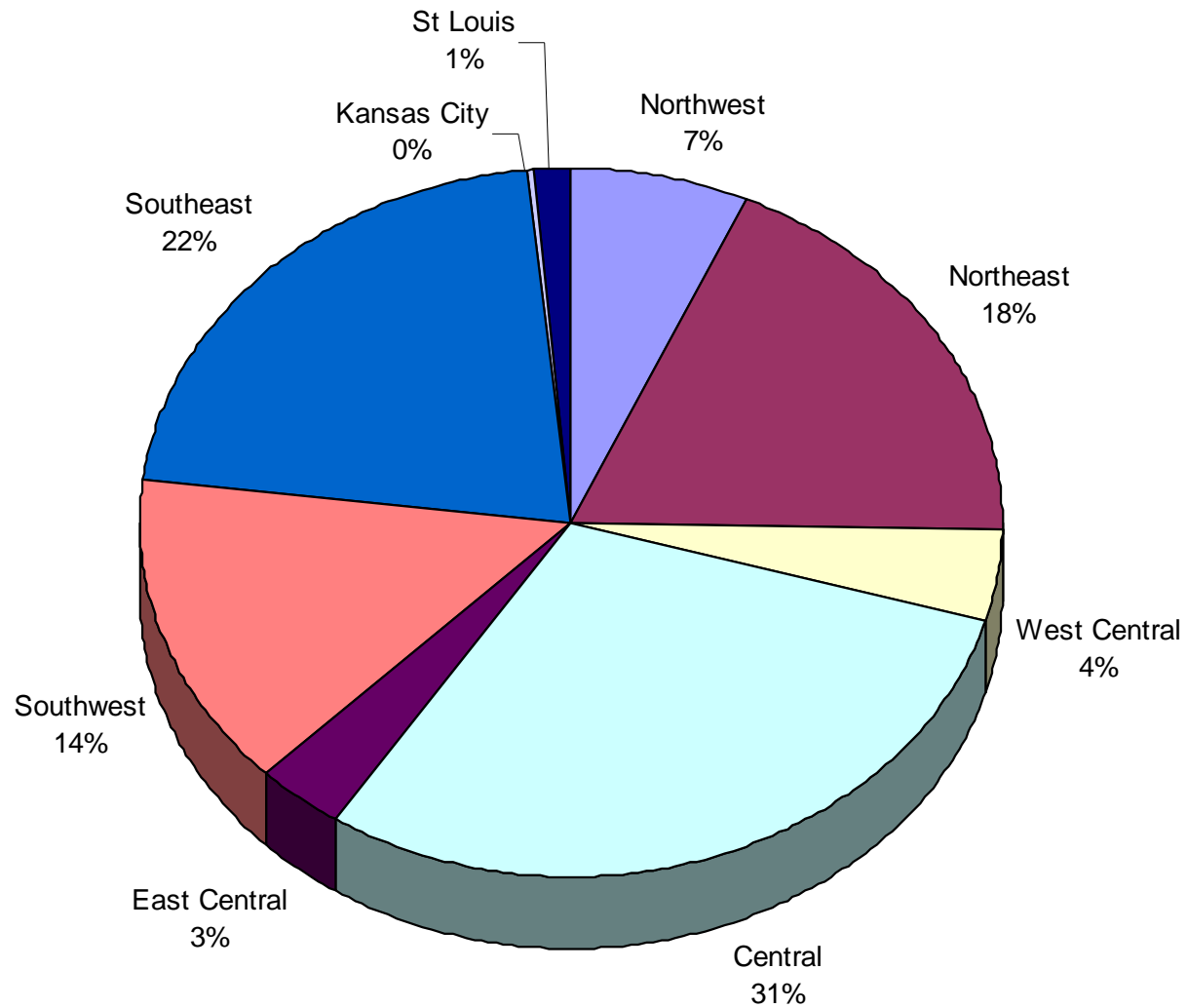
Summary of Linked Deposits by Region

	<u>Region</u>	<u>Agriculture</u>	<u>Housing</u>	<u>Job Creation</u>	<u>Small Business</u>	<u>Total</u>	
1	Northwest	\$ 11,887,560		\$ 200,000	\$ 1,372,344	\$ 13,459,904	7%
2	Northeast	24,022,690		2,400,000	10,140,229	36,562,919	18%
3	West Central	7,571,168			960,000	8,531,168	4%
4	Central	34,029,157		750,000	23,942,482	58,721,639	30%
5	East Central	1,524,000			4,896,851	6,420,851	3%
6	Southwest	20,590,963			8,039,412	28,630,375	14%
7	Southeast	26,365,321	2,150,798	1,800,000	12,582,230	42,898,349	22%
8	Kansas City	146,000			236,877	382,877	0%
9	St Louis	27,000			2,666,979	2,693,979	1%
TOTAL		\$ 126,163,859	\$ 2,150,798	\$ 5,150,000	\$ 64,837,404	\$ 198,302,061	100%



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Summary of Linked Deposits by Region





Summary of Linked Deposits by Applicant Type Minority/Female Applicants

<u>Program</u>	<u>Minority-Female</u>	<u>%</u>	<u>Other</u>	<u>%</u>	<u>Total</u>
Agriculture					
Beginning Farmer	\$ 3,161,093	10%	\$ 28,316,395	90%	\$ 31,477,488
Facility Borrower		0%	4,514,000	100%	4,514,000
Farm Operation	5,374,159	7%	69,243,996	93%	74,618,155
Guaranteed Agri-Business	413,875	4%	11,012,766	96%	11,426,641
Livestock (SPAF)	404,205	10%	3,723,370	90%	4,127,575
Subtotal	\$ 9,353,332	7%	\$ 116,810,527	93%	\$ 126,163,859
Housing					
		0%	\$ 2,150,798	100%	\$ 2,150,798
Job Creation	\$ 750,000	15%	\$ 4,400,000	85%	\$ 5,150,000
Small Business	\$ 10,983,984	17%	\$ 53,853,420	83%	\$ 64,837,404
TOTAL	\$ 21,087,316	11%	\$ 177,214,745	89%	\$ 198,302,061



Missouri Linked Deposit Program Participating Financial Institutions

Name	Amount
FCS Financial	\$ 47,011,000
Progressive Farm Credit Services	\$ 18,841,000
Commerce Bank N A	\$ 10,997,439
Bank of Kirksville	\$ 10,301,031
Legends Bank	\$ 9,278,600
Mid America Bank	\$ 7,693,298
Regions Bank	\$ 5,653,047
Citizens National Bank of Springfield	\$ 5,652,905
Southern Missouri Bank and Trust	\$ 5,509,865
Maries County Bank	\$ 4,923,351
Central Bank	\$ 4,793,691
Bank of St Elizabeth	\$ 4,678,149
Regional Missouri Bank	\$ 4,616,711
Bank Of Monticello	\$ 4,363,275
Independent Farmers Bank	\$ 3,919,013
F & M Bank and Trust Co.	\$ 3,157,000
Cabool State Bank	\$ 2,895,168
Belgrade State Bank	\$ 2,893,078
Tri County Trust Company	\$ 2,594,874
O'Bannon Banking Company	\$ 2,381,665
Montgomery Bank	\$ 2,065,107
Hawthorn Bank	\$ 1,947,000
Bank of Advance	\$ 1,689,217
Alliance Bank	\$ 1,627,615
Glasgow Savings Bank	\$ 1,505,610
Legacy Bank and Trust	\$ 1,461,521
Alton Bank	\$ 1,275,000
Citizens Bank Of Edina	\$ 1,215,229
First State Bank Of Purdy	\$ 1,059,847
The Callaway Bank	\$ 1,047,072
First National Bank	\$ 1,010,000

Name	Amount
Citizens Bank	\$ 1,008,000
Bank Of Bloomsdale	\$ 935,000
F & C Bank	\$ 903,000
Heritage Community Bank	\$ 863,095
Midland States Bank	\$ 774,712
St Clair County State Bank	\$ 715,368
Citizens-Farmers Bank of Cole Camp	\$ 695,000
First Missouri National Bank	\$ 692,000
First State Community Bank	\$ 680,000
Metropolitan National Bank	\$ 676,478
Mainstreet Bank	\$ 640,000
Liberty Bank	\$ 633,000
Security Bank of the Ozarks	\$ 600,000
Home Exchange Bank	\$ 570,000
United State Bank	\$ 563,000
HNB National Bank	\$ 445,651
Bank of Missouri	\$ 445,500
Focus Bank	\$ 438,534
Paris National Bank	\$ 430,506
Community First Bank	\$ 430,000
Putnam County State Bank	\$ 420,370
Jonesburg State Bank	\$ 417,206
First Community Bank	\$ 391,218
Great Southern Bank, FSB	\$ 350,000
Goppert Financial Bank	\$ 322,000
Lindell Bank & Trust Company	\$ 300,000
Peoples Bank	\$ 296,586
Bank Of Grandin	\$ 290,000
Merchants And Farmers Bank	\$ 288,000
UMB Bank, Kansas City	\$ 283,682
Nodaway Valley Bank	\$ 274,000



Missouri Linked Deposit Program Participating Financial Institutions (Continued)

Name	Amount
Bank of Bolivar	\$ 250,000
First Midwest Bank Of Poplar Bluff	\$ 247,000
Town & Country Bank	\$ 245,000
Adams Dairy Bank	\$ 236,877
Central Bank Of Lake Of The Ozarks	\$ 231,000
Old Missouri Bank	\$ 230,000
Garden City Bank	\$ 222,000
Bank Of Urbana	\$ 207,057
Peoples Community State Bank	\$ 200,000
County Bank	\$ 171,000
Carroll County Trust Company	\$ 156,950
Empire Bank	\$ 143,288
First National Bank Of Audrain Co.	\$ 140,000
City Bank And Trust Company	\$ 125,075
Mid Missouri Bank	\$ 114,870
Bank Of New Cambria	\$ 99,000
Community Bank Of Russellville	\$ 95,000
Phelps County Bank	\$ 92,691
Southwest Missouri Bank	\$ 72,000
Heritage Bank of the Ozarks	\$ 69,600
Farmers State Bank	\$ 53,501
Citizens Bank Of Eldon	\$ 39,955
Pulaski Bank	\$ 21,000
Jefferson Bank Of Missouri	\$ 9,913
Grand Total	\$ 198,302,061
