DIVISION OF FINANCE PROGRAMS

MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY

(MIDFA)

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MARYLAND INDUSTRIAL DEVELOPMENT FINANCING AUTHORITY (MIDFA)

History and Program Description

The Maryland Industrial Development Financing Authority (MIDFA) was established by the General Assembly in 1965 to promote significant economic development by providing financing support to manufacturing, industrial and technology businesses located in or moving to Maryland. MIDFA stimulates private sector financing of economic development by issuing Bonds and providing credit enhancements that increase access to capital for small and mid-sized companies. The Program has increased its commitment to growth and development of small business by focusing on local community banks.

The Fund does not provide direct loans, but insures Bonds and transactions including loans from financial institutions and leases. The Program promotes private sector financing by providing insurance to transactions resulting in reduced credit risks, and enabling better terms. As an insurance product, the Fund is allowed a 5:1 leverage of its capital base. Decisions rest with the 9-person board approved by the Governor, comprised of 2 ex-officio and 7 private business members from throughout the state. In addition to credit risk assessment, the statute dictates that consideration be given to the impact that the expansion, retention, and attraction of strategic commercial enterprises has on a balanced economy, employment, and quality of life. The operating expenses are funded through general funds appropriated by the Legislature, the interest earned on the fund balances, Bond issuance fees and through annual premiums of ½ of 1% of all insured transactions, unless waived in jurisdictions with unemployment exceeding 1% of the national average.

CONVENTIONAL LOAN PROGARM

The Conventional Loan Program primarily insures transactions made by conventional and asset-based financial institutions for working capital, fixed assets, letters of credit, leasing, and other related activities up to 80% of the obligation (90% for Trade) to a maximum of $2.5 million.

TAXABLE AND TAX-EXEMPT BONDS

Taxable and Tax-exempt Bonds may be issued and/or insured with private sector financial institutions, counties, municipalities, industrial development authorities and other public bodies for fixed assets and working capital. The Fund charges a 1/8 of 1% annual issuance fee and can insure up to 100% of the obligation to a maximum coverage of $7.5 million.

Program Performance Since Inception

To date, the Program has participated in seven hundred eighty-three (783) loans/bonds, totaling $1,939,017,235. Currently, seventy-two (72) transactions remain active, with principal balances totaling $514,356,137 insured for $48,767,957.

The current Fund balance of $37,189,902 is leveraged 1.49: 1 against existing insurance exposure plus un-funded commitments totaling $55,363,957. Based on the statutory 5:1 maximum leverage, the Fund would have capacity of up to $130,585,553 of additional insurance. The following is a summary of the current balances and exposure by program capability, excluding pending transactions.

(Thousands)	**Current**	**Principal Balance**	**Number of Active**	**Average Insurance**

	Insurance Exposure		Accounts	Exposure
Bonds – insured	$31,561	$92,833	18	$1,753
Bonds - uninsured	N/A	207,700	21	N/A
Energy Bonds	N/A	155,318	6	N/A
Conventional Loans	15,162	54,006	17	892
Day Care	2,045	4,499	10	204
Linked Deposits	N/A	0	0	N/A

<u>Program Performance for the Year Ending June 30, 2004</u>

During fiscal year 2004, MIDFA approved nine (9) transactions totaling $51,183,974 insured for $7,907,000. Five (5) transactions closed totaling $47,123,974, of which four (4) were insured for $5,219,000 and five (5) remain pending settlement totaling $15,450,000 insured for $6,596,000.

Economic factors experienced in 2003 carried over into 2004 to again reduce the portfolio. Since much of the recent years activity has been from technology companies heavily dependent on equity financing the continued soft venture capital market kept anticipated projects from moving forward reducing demand. Additionally, the long period of record low interest rates enabled twenty four (24) credit seasoned transactions to refinance without the need for credit enhancements thus returning $16 Million of insurance capacity to the program. This seasoning of risk and “graduating” to un-enhanced private sector lending is a principal objective of the program. A further positive note is that there were no default claims paid and the Special Assets portfolio has continued reducing to now only 5 accounts totaling $12,428,419 representing 8% of the insured loans reserved for $4,996,774 which is less than 10% of the total insurance exposure.

The portfolio runoff has essentially benefited the program by increasing capacity to meet future demand as the economy heats up. While venture capital continues to affect younger technology companies there are growth signs among more mature bank worthy companies that should result in more program demand. Additionally, increased attention is being focused on assisting small businesses and MIDFA has announced special assistance in conjunction with the Department of Agriculture to poultry industry financing.

<u>Projected Program Performance for Fiscal Year 2005</u>

Based on the forecasted stable economy we are maintaining our previous 2005 forecast of twelve (12) insured transactions totaling balances of $52,000,000 and insurance obligations of $20,000,000. Uninsured Bond activity remains estimated at $30,000,000 for a total program activity of $82,000,000.

<u>Projected Program Performance for Fiscal Year 2006</u>

Anticipating the ramp-up in small business and poultry lending in 2006 we project eighteen (18) transactions totaling $65,000,000 and insurance obligations of $30,000,000. It should be noted that small business and poultry transactions will be individually smaller with disproportionably higher insurance requirements. Uninsured Bond forecasts remain at $30,000,000 for a total program activity of $95,000,000.