

OFFICE OF FINANCE PROGRAMS  
MARYLAND INDUSTRIAL DEVELOPMENT  
FINANCING AUTHORITY

(MIDFA)

ANNUAL FINANCIAL STATUS REPORT  
FISCAL YEAR 2009  
ECONOMIC DEVELOPMENT  
ARTICLE

SECTION 5-419

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Maryland Department of Business and Economic Development

As of June 30, 2009

MARYLAND INDUSTRIAL DEVELOPMENT FINACING 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 increasing outreach efforts to community banks.

The Fund does not provide direct loans, but insures Bonds, loans and certain other types of transactions from financial institutions. 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-member board comprised of two ex-officio and seven private business members from throughout the state appointed by the Governor with the advice and consent of the Senate. 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 of the program are funded through 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 “qualified distressed” (One Maryland) jurisdiction.

**CONVENTIONAL LOAN PROGRAM**

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 Industrial Revenue Bonds may be issued to finance fixed assets. Tax Exempt Bonds may finance manufacturing, 501(c) (3) non-profit corporations, and certain solid waste recovery projects. The Fund charges a 1/8 of 1% annual issuance fee. To facilitate the issuance of such bonds, the Fund may 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 eight hundred eighteen (823) loans and bonds, totaling \$2,147,166,475. Currently, fifty-eight (58) transactions remain active, with principal balances totaling \$427,130,528 insured for \$22,137,088.

At June 30, 2009, the Fund balance, net of reserves, of \$31,382,807 was leveraged .96:1 against the \$30,137,088 total insurance exposure consisting of \$22,137,088 outstanding plus the \$8,000,000 of approved commitments. As a practical matter given the economic downturn, and the tightened credit standards in the capital markets, leverage beyond 1.5:1 could diminish the value of this credit enhancement in stimulating private sector participation.

The following is a summary of the current balances and exposure by program capability, excluding pending transactions.

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**DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT**

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<i>(Thousands)</i>	<b>Current Insurance Exposure</b>	<b>Principal Balance</b>	<b>Number of Active Accounts</b>	<b>Average Insurance Exposure</b>
Bonds – insured	\$ 8,514	\$ 47,289	6	\$1,419
Bonds - uninsured	N/A	199,482	21	N/A
Energy Bonds	N/A	131,830	4	N/A
Conventional Loans	12,992	47,169	23	565
Day Care	632	1,360	4	158
Linked Deposits	<u>N/A</u>	<u>0</u>	<u>0</u>	<u>N/A</u>
	<b>\$22,138</b>	<b>\$427,130</b>	<b>58</b>	<b>\$2,142</b>

**Program Performance for the Year Ending June 30, 2009**

During fiscal year 2009, MIDFA approved nine (9) transactions totaling \$40,184,000 insured for \$8,890,000. Five (5) transactions, including three (3) approvals from the prior year, settled totaling \$43,973,000 insured for \$3,465,000. Still pending settlement are five (5) transactions from 2009 for a total of \$36,834,000 insured for \$8,000,000. Approvals in 2009 were down in both the number of transactions and dollar amount due to the extraordinary credit tightening in the recession. In 2008 the program approved eleven (11) transactions totaling \$171,991,619. As a result of the weakening economy, Special Assets increased from six (6) to nine (9) accounts with reserves increasing from \$4,757,332 to \$9,692,944. This sharp rise is due primarily to increasing the reserve on the Adventure Sports Loan to \$2,500,000 and the addition of two (2) MEDCO/ Human Genome Sciences Bonds with \$4,232,319 of exposure. This increased reserve equates to only 10% of the principal outstandings of insured transactions but represents 44% of the overall insurance exposure. Despite the economic decline resulting in increased reserves, the program paid no claims this year

As a credit guaranty, MIDFA's activity is typically counter cyclical to the economy, being in greater demand during tight credit periods. Unfortunately, during 2009 the economy deteriorated so rapidly that new credit essentially ceased rather than gradually tightening and program demand all but dried up. In spite of the recession, the continued low interest rates enabled eleven (11) credit-seasoned transactions totaling \$47,000,000 to payoff or refinance out of the program. This seasoning of risk and "graduating" to un-enhanced private sector lending is a principal objective of the program and restores capacity to meet future demand. The resulting increased insurance capacity comes at the opportune time to assist a 2010 credit recovery. Additionally, MIDFA has been a principal stimulus to bank lending in biotechnology to support the Bio 2020 initiative.

**Projected Program Performance for Fiscal Year 2010**

In 2009 the Authority approved the \$2,500,000 purchase of the Adventure Sports insured bank loan, which will occur in early 2010. This Note purchase, rather than a collateral liquidation and MIDFA Claim, is a necessary part of an overall debt restructuring to protect the rest of the \$16 million public investment in the overall project. The Note is being converted to a cash flow repayment and is expected to be repaid eventually.

Early in FY 2010, the recession appears to be continuing but not deepening, and there are beginning signs of credit supply and demand. Presently there are nine (9) transactions under discussion of \$16,150,000 of insurance to leverage \$82,870,000 of new bank lending.

# Approved Report

**7/1/2008 Through 6/30/2009**

<i>Client Name</i>	<i>Loan Amount</i>	<i>Guarantor Percentage</i>	<i>Loan Guarantee</i>	<i>County</i>	<i>Total</i>	<i>New Jobs</i>	<i>Retained Jobs</i>	
<i>MIDFA Issued Tax Exempt Bonds</i>								
10/23/2008 National Joint Apprenticeship	8670102	\$6,800,000.00 59.0%	\$4,012,000.00	Queen Anne's	\$11,022,000.00	N/A	20	20
6/25/2009 Associated Catholic Charities	9660101	\$7,500,000.00 0.0%	\$0.00	Baltimore City	\$7,500,000.00	N/A	0	0
<b>Totals:</b>	<b>2 Loans</b>	<b>\$14,300,000.00</b>	<b>\$4,012,000.00</b>		<b>\$18,522,000.00</b>	<b>0</b>	<b>20</b>	<b>20</b>
<i>MIDFA Conventional Insurance</i>								
7/7/2008 National Golden Tissue, Inc.	8410101	\$400,000.00 50.0%	\$200,000.00	Washington	\$600,000.00	N/A	110	0
12/4/2008 Paragon BioServices, Inc.	8790101	\$2,950,000.00 23.0%	\$678,500.00	Baltimore City	\$7,950,000.00	N/A	75	24
4/23/2009 123 South Liberty Street Funding,	9510101	\$7,315,000.00 17.0%	\$1,243,550.00	Allegany	\$8,414,000.00	N/A	0	0
5/8/2009 Olney Theatre Corporation	9320101	\$6,506,000.00 3.8%	\$247,228.00	Montgomery	\$6,506,000.00	N/A	0	32
6/25/2009 Recreational Industries, Inc.	1500201	\$8,713,000.00 29.0%	\$2,526,770.00	Garrett	\$10,713,000.00	N/A	0	0
<b>Totals:</b>	<b>5 Loans</b>	<b>\$25,884,000.00</b>	<b>\$4,896,048.00</b>		<b>\$34,183,000.00</b>	<b>0</b>	<b>185</b>	<b>56</b>
<b>Grand Totals:</b>	<b>7 Loans</b>	<b>\$40,184,000.00</b>	<b>\$8,908,048.00</b>	<b>\$52,705,000.00</b>	<b>0</b>	<b>205</b>	<b>76</b>	

# Settled Report

7/1/2008 Through 6/30/2009

<i>Client Name</i>	<i>Loan Amount</i>	<i>Guarantor Percentage</i>	<i>Loan Guarantee</i>	<i>County</i>	<i>Total</i>	<i>New Jobs</i>	<i>Retained Jobs</i>	
<i>MIDFA Issued Tax Exempt Bonds</i>								
7/9/2008 Synagro-Baltimore,	1710201	\$26,485,000.00	0.0%	\$0.00	Multiple	\$35,800,000.00	N/A	0 0
<b>Totals:</b>	<b>1 Loan</b>	<b>\$26,485,000.00</b>		<b>\$0.00</b>		<b>\$35,800,000.00</b>	<b>0</b>	<b>0 0</b>
<i>MIDFA Conventional Insurance</i>								
7/25/2008 Bakery De France, Inc.	7890101	\$13,935,000.00	18.0%	\$2,508,300.00	Frederick	\$31,500,000.00	N/A	0 0
8/6/2008 ImagiNations Early Learning Ctr,	1450201	\$203,000.00	37.0%	\$75,110.00	St. Mary's	\$203,000.00	N/A	15 0
3/10/2009 National Golden Tissue, Inc.	8410101	\$400,000.00	50.0%	\$200,000.00	Washington	\$600,000.00	N/A	110 0
5/15/2009 Paragon BioServices, Inc.	8790101	\$2,950,000.00	23.0%	\$678,500.00	Baltimore City	\$7,950,000.00	N/A	75 24
<b>Totals:</b>	<b>4 Loans</b>	<b>\$17,488,000.00</b>		<b>\$3,461,910.00</b>		<b>\$40,253,000.00</b>	<b>0</b>	<b>200 24</b>
<b>Grand Totals:</b>	<b>5 Loans</b>	<b>\$43,973,000.00</b>		<b>\$3,461,910.00</b>		<b>\$76,053,000.00</b>	<b>0</b>	<b>200 24</b>