

Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

House Bill 498

(Delegate Conway, *et al.*)

Environmental Matters

Budget and Taxation

**Environment - Maryland Water Quality Financing Administration Loans -
Lenders**

This bill expands the definition of “lender” under the Linked Deposit Program in the Maryland Department of the Environment (MDE) to allow institutions of the Farm Credit System to participate in the program. The bill also modifies the definition of “linked deposit” to include investments.

Fiscal Summary

State Effect: The bill’s changes could be handled with existing budgeted resources.

Local Effect: None.

Small Business Effect: Meaningful.

Analysis

Current Law: Upon approval of a linked deposit loan by the lender, the Maryland Water Quality Financing Administration (MWQFA) and the lender must enter into an agreement under which the amount and term of, and schedule for payment of principle and interest on, the linked deposit shall be determined. On receiving a linked deposit from MWQFA, the lender must execute a loan commitment to the borrower. A linked deposit loan is not a debt of the State or a pledge of the credit of the State.

Lender means a financial institution that:

- is eligible to make commercial loans;
- is a public depository of State funds;
- agrees to receive linked deposits under the program; and
- is insured by the Federal Deposit Insurance Corporation.

Linked deposit means a deposit that is placed by MWQFA with a lender and earns income below the prevailing market rate for equivalent deposits made with the lender at the time of the deposit.

Background: MWQFA has operated the Linked Deposit Program since 1998. The program was designed to provide a source of low-interest financing to encourage private landowners and water system owners to implement capital improvements to reduce the runoff of nutrients into the Chesapeake Bay and its tributaries, and to provide safe drinking water. The term “linked” refers to the relationship between the low-interest investment agreement provided to a participating lender by MWQFA and the low-interest loan that is passed on to the borrower. MDE advises that since its inception, the program has resulted in 46 loans totaling \$950,000. One staff member manages the program. The applicant is responsible for contacting and selecting a participating lender. A participating lender is accountable for processing, underwriting, and servicing the loan. The lender also evaluates the credit worthiness of an applicant according to the lender’s own underwriting criteria. Each lender is permitted to charge origination, servicing, and other such fees normally associated with loans issued by the lender. Accordingly, the lender assumes all risk of default, and neither the State nor MDE is liable to reimburse a participating lender for any losses or expenses associated with loans under the program.

Small Business Effect: According to the Maryland Department of Agriculture, in 2000 there were approximately 12,400 farms in the State. Most farms are small businesses, and a large portion of farm loans are handled by the Farm Credit System. By expanding the Linked Deposit Program to institutions of the Farm Credit System, the bill would provide many farmers with expanded opportunities for obtaining low-interest loans for financing best management practices. As nutrient management plans developed pursuant to the Water Quality Improvement Act (WQIA) of 1998 are implemented, the ability to obtain low-interest financing should aid farmers in complying with WQIA.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of the Environment (Maryland Water Quality Financing Administration), Maryland Department of Agriculture, Forum for Rural Maryland, Department of Legislative Services

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