



Building Your Pipeline

July 1, 2015

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Pathway Lending

Mission: Providing underserved small businesses with lending solutions and educational services that result in job creation and economic development.

- \$75 Million in assets as of 12/31/2014
- 501(c)3 nonprofit, economic development organization
- Certified as a Community Development Financial Institution by the US Treasury
- Strategy is to work with public and private organizations to fill market gaps and meet the needs of underserved small businesses in both lending and entrepreneurship education
- Endorsed by the Tennessee Bankers Association
- 36 Financial Institution Investors and 15 Public and other Private Stakeholders

Results: 765 Loans totaling \$117.7 million to 444 businesses impacting over 7,450 jobs

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What does it mean to grow your Portfolio?

- Fundamental Question is that to grow \$ or # of loans
- For us it was to do both
- Why did we want to do both
 - First and foremost we needed to increase interest income and we had un-deployed loan capital that was costing us and not generating any income
 - Second we felt we were not helping enough companies and that was because not enough people new we existed – got to get the word out!

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How did Pathway Lending Grow its Portfolio?

- There is no "Silver Bullet" for growing your portfolio!
- Our problem was like many other CDFIs we did not get to see enough loan applications and why was that?
 - If we know we have a denial rate of 30 – 60% depending on loan type how many applications do we need to meet our goal?
- What did we do?
- In 2009 and 2010 we analyzed the current process and realized our sales people (loan officers) spent only a small percentage of time in marketing and client acquisition.
- We implemented Salesforce.com to get really good data on our process times and approval and denial rates – without good data you cannot make decisions. This also allows us to measure our performance at every step of the client experience.
- First things we did was change who handles what aspect of the relationship from client acquisition to underwriting to closing to portfolio management.

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Process Change

Old System

Loan officer finds client
 Loan officer gathers data
 Loan officer underwrites loan
 Loan officer prepares credit write-up
 Loan officer presents credit
 Loan officer issues commitment letter
 Loan officer gets closing information
 Loan officer closes loan
 Loan officer monitors loan
 Loan officer collects payments
 Loan officer gives TA

New System

- Loan Officer finds client and does initial screen of opportunity
- Loan officer likes deal it is handed to a credit analyst
- Loan officer makes handoff to credit analyst in call with customer and credit analyst
- Loan officer starts looking for next deal

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New Loan Process System

- Hand client off through process with experts handling at each stage
 - Underwriting – focused team of three
 - Go directly to client for answers to questions and information beyond initial loan application package
 - Term Sheet prepared by Underwriter (somewhat standard)
 - Closing – two individuals handle closing
 - Portfolio Management
- Dedicated resources for Technical Assistance
 - Work plan created for clients on the front end

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New Loan Products

- Where were we losing customers and what products did we need to meet customer demands and attract new customers

New Products

- Energy Efficiency Lending (2010)
- Larger loans for business acquisition (2011)
- Accounts Receivable (2012)
- Low-Income Multi-Family financing (2013)

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What has changed

Where were we losing customers and what products did we need to meet customer demands and attract new customers

New Products

- Energy Efficiency Lending (2010)
107 loans totaling \$17MM to 94 businesses
- Larger loans for business acquisition (2011)
5 loans totaling \$9MM
- Accounts Receivable (2012)
9 loans totaling \$8MM
- Low-Income Multi-Family financing (2013)
4 loans totaling \$12MM

New Partnerships

- TN – SBDC (2014)

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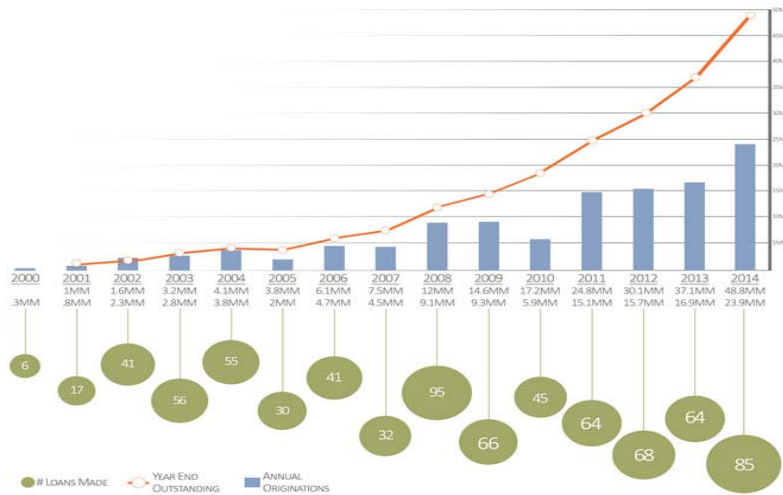
Results

- We have grown our lending both \$ and #
- We have diversified our portfolio mix
- We have been able to grow with customers longer with Accounts Receivables finance
- We have a primary role for each individual in the lending process and they focus their time on that role
- We have more referral sources now because our sales and client acquisition team members actually have time to do their job
- We have changed our approval process to reduce the time it takes to approve a loan

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Results



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Business Lending Focus

- **Small Scale Businesses**
 - Less than ten employees;
 - Revenues up to \$1.5 million;
 - and need to borrow \$50,000 to \$250,000
- **Scalable Small Businesses**
 - 20 to 50 employees
 - Revenues \$1.5MM to \$6MM
 - Need to borrow \$150,000 - \$2.5MM
 - Have the ability to double employment and revenue over a 3 to 5 year period
- **Why are they coming to Pathway Lending?**
 - Inconsistent earnings
 - Lack of collateral
 - Considered start-up companies by most lenders
- **\$47.1MM in business loan capital (91% Committed)**
- **RESULTS: 656 loans to 348 businesses totaling \$95.2 million**

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Energy Efficiency Lending

- 2010 Created the \$48MM Tennessee Energy Efficiency Loan Program
 - State of TN - \$14MM Loan Capital
 - TVA - \$14MM Loan Capital
 - Pathway Lending - \$5MM
- Designed to provide low-cost (2%) financing to TN businesses to implement Energy Efficiency
- **Results: 107 loans totaling \$17.2 million to 94 businesses**

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Tennessee Low-Income Multi-Family Housing Loan Consortium

- 2013 Pathway Lending partnered Tennessee Bankers Association to create the consortium
- Providing member banks of the TBA an opportunity to provide permanent financing to multi-family low-income housing projects coming out of the construction phase
- Expect to do \$15 - \$20MM per year in Tennessee
- **Results:**
 - 12 members of the consortium currently and growing
 - 2014 – 2 transactions totaling \$5.3MM
 - 5 more transactions in process

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Education

- Small Business – Technical Assistance
 - “lifecycle” approach, making services available from application to graduation
 - Development Services include Advisory and Assistance
 - Advisory – coaching services focused on strategic growth
 - Assistance - is action oriented focused on improving operating systems
 - **Women’s Business Center**
 - Provides educational services for business development and growth

Results:

- In 2014, Pathway Lending provided 1993 hours of 1-1 TA to clients/applicants and 680 hours of group education
- Historically, Pathway Lending has provided 26,675 hours of TA to entrepreneurs and business owners across Tennessee.
- Energy Efficiency
 - Provide one-on-one assistance to businesses desiring to implement EE projects including project identification and energy savings validations
 - Provide periodic group training sessions for business owners to educate on “why to” and “how to” implement EE measures

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Partnership Opportunities

- **Tennessee Small Business Jobs Opportunity Fund**
 - 10% per year F & E tax credit repays principal over 10 years (repayment risk removed)
 - 2.5% annual interest rate (over \$3MM rate is 3%)
 - CRA Investment Test Credit for all of Tennessee
- **The Women’s Business Center**
 - Sponsorship of WBC (monetary or in-kind services)
 - Participate in workshops
 - Host events
- **Affordable Multifamily Lending Consortium**
 - PL sources, underwrites, and distributes credits to banks to participate
 - \$1,000 a year to participate

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