

# Pathway Lending



2019  
ANNUAL  
REPORT





## A MESSAGE FROM CLINT

2019 was a year to remember. We celebrated our 20th anniversary with our extended Pathway family. We expanded our education programs statewide via our Women's Business Center due to technology investments we made in the past few years. We also significantly grew our presence in the Memphis market because of our partnership with Epicenter that established the \$15 million Memphis Small business Opportunity Fund in 2018.

Most importantly, our team delivered solid results in support of our mission to grow, preserve, and develop small businesses, affordable housing and sustainable communities, including:

- \$36MM in loan originations, totaling \$116.9MM in loans outstanding
- 21,265 hours of technical assistance to 2,050 unique clients
- 80% of lending activity directed to our priority markets

We couldn't know then that 2020 would be a year we'll never forget. While COVID has made 2019 feel like the distant past, hindsight reveals our results last year set us up with the staff, infrastructure, programs and partners we needed to respond in weeks with new loan, advisory and educational offerings to help our clients recover and restart.

And we can continue this work as long as it's needed thanks to your support.

— Clint Gwin, President & CEO



The Pathway to opportunity starts here.

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## FOUNDATIONS & PUBLIC STAKEHOLDERS

- Alabama Department of Economic & Community Affairs
- Appalachian Regional Commission
- Bank of America Charitable Foundation
- Community Development Financial Institutions Fund (US Department of Treasury)
- Foundation of the Carolinas (Bank of America)
- Joe C. Davis Foundation
- Kresge Foundation
- Metropolitan Development & Housing Agency (Nashville, TN)
- Metropolitan Government of Nashville & Davidson County
- Regions Foundation
- Tennessee Bankers Association
- Tennessee Department of Economic & Community Development
- Tennessee Department of Environment & Conservation
- Tennessee Department of Revenue
- Tennessee Housing Development Agency
- Tennessee Small and Minority Owned Business Program
- Tennessee Valley Authority
- University of Tennessee
- US Department of Agriculture
- US Small Business Administration

## PRIVATE STAKEHOLDERS

- Appalachian Community Capital
- Andres Johnson Bank
- Bank of America
- BBVA/Compass
- CapStar
- CB&S Bank
- Centennial Bank
- Citizens Bank (Carthage)
- Citizens Bank (Elizabethton)
- Commercial Bank and Trust
- Decatur County Bank
- F&M Bank (Clarksville)
- First Community Bank of East TN
- First Horizon
- FirstBank
- Fourth Capital
- Franklin Synergy Bank
- Home Trust Bank
- Insbank
- Legends Bank
- Macon Bank and Trust Company
- McKenzie Banking Company
- Paragon Bank
- Peoples Bank of Alabama
- Pinnacle Financial Partners
- PNC Bank
- Regions Bank
- Reliant Bank
- Renasant Bank
- Security Bank & Trust Company
- Simmons Bank
- Synovus Bank
- Tennessee State Bank
- TriStar Bank
- Truist Bank
- Truxton Trust
- US Bank
- Wells Fargo
- Wilson Bank & Trust



# Imagine Nation

A Memphis family business breathes new life into the old adage “the family that plays together stays together,” as three generations launch a new concept marrying speech therapy with daycare.

Inside the doors of Imagine Nation children find a dreamscape with a massive play structure and areas for all sorts of imaginative play.

Any given night, you’ll find owners Ashley and Al Verser and their children – Addison, 1, and Al Junior, 3 – padding around in sock feet and interacting with guests.

The space also houses Ashley’s speech therapy practice, Power of Words. She makes the

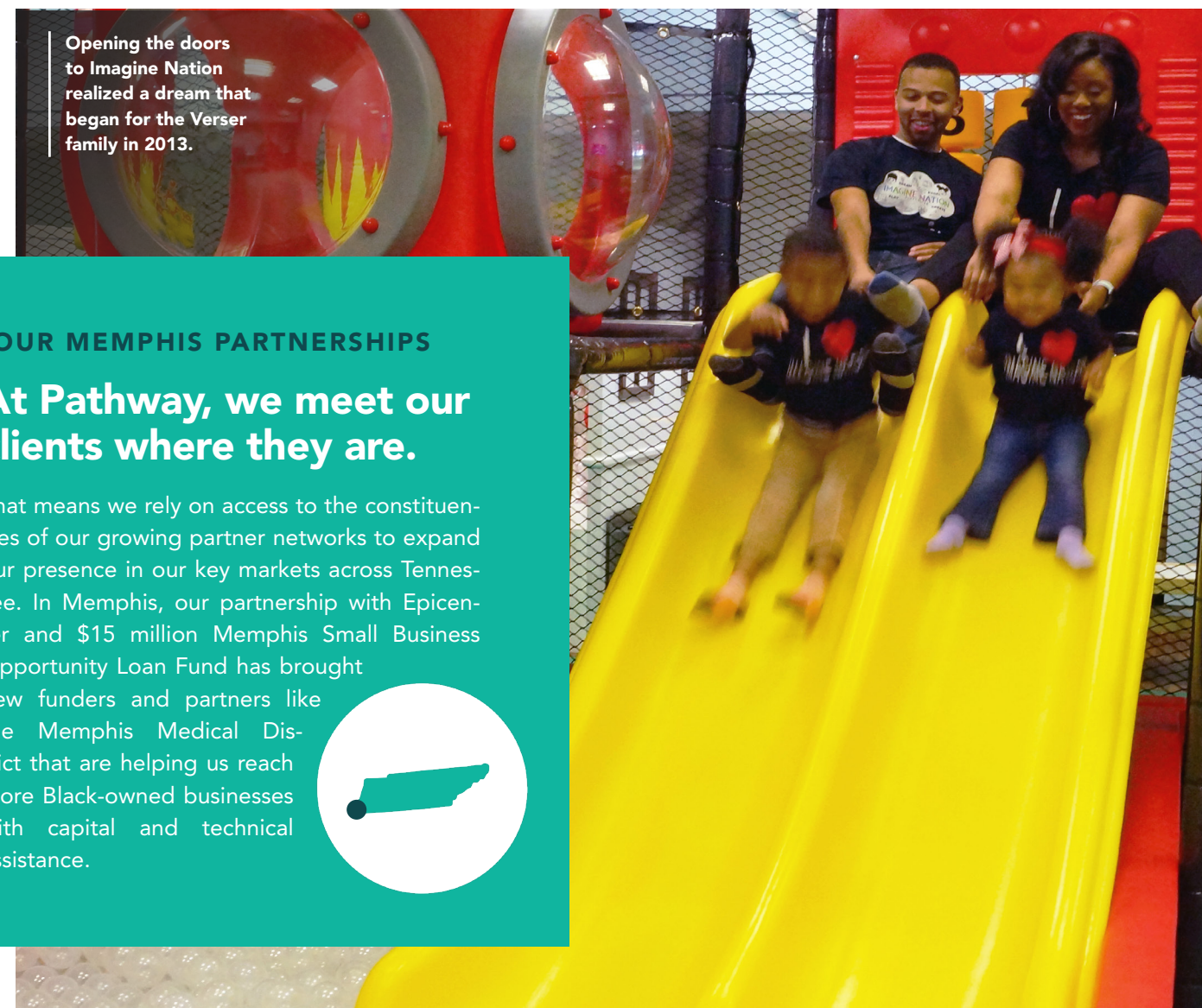
play space an integral part of her practice, rewarding clients with play time after sessions.

“We’re here in a mall where anyone can stop in if they have questions or concerns. We love being that community resource,” explains Ashley, a speech pathologist who practiced 11 years in Shelby County schools.

The Versers secured the space with funding from Pathway Lending and worked with Pathway’s Business Advisory Services team to develop financial projections.

They envision a franchise business across the state they can share with future Verser generations.

✦ To read more about Imagine Nation click here to visit our website.



Opening the doors to Imagine Nation realized a dream that began for the Verser family in 2013.

## OUR MEMPHIS PARTNERSHIPS

### At Pathway, we meet our clients where they are.

That means we rely on access to the constituencies of our growing partner networks to expand our presence in our key markets across Tennessee. In Memphis, our partnership with Epicenter and \$15 million Memphis Small Business Opportunity Loan Fund has brought new funders and partners like the Memphis Medical District that are helping us reach more Black-owned businesses with capital and technical assistance.



# Small Business, Big Opportunity

We actively seek opportunities to finance small business owners and entrepreneurs who have historically encountered difficulty accessing capital and loans. Through our loan funds we’ve directed millions of dollars to community businesses in predominantly low-or-moderate income neighborhoods, or whose owners are women, veterans or minorities.

“We originally chose Pathway for its local presence and coaching. We didn’t realize we were choosing a true partner in our success...”

Michelle Quimby  
Nashville Olive Oil Co.

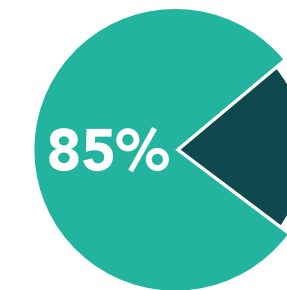


Michelle and Jeff Quimby opened Nashville Olive Oil Co. in 2017 — with help from a SCORE mentor and a loan from Pathway — and grew to a second location in 2019 with additional financing and coaching from Pathway. Their love of cooking with flavored oils and vinegars becomes evident as they pour generous samples, suggest combinations, and explain they can trace each of their high-quality products to its origin. It’s not just a shop but an experience.

✦ Learn more online.

**\$36.3**  
**MILLION**

amount of loans made in 2019



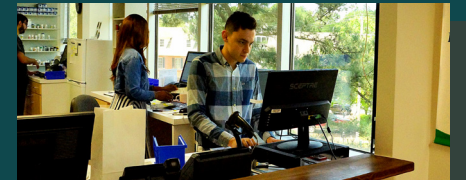
loan dollars in target markets



**155**



number of loans made in 2019



Dr. Pedro Velasquez-Mieyer made Memphis home 20 years ago when he moved his family from Venezuela to seek treatment for his son’s leukemia. Today he oversees Dar Salud, the award-winning clinic he founded to give back to the city that cured his son. The clinic’s pioneering model to coordinated, holistic care for diabetes and metabolic disorders minimizes barriers to treatment posed by patients’ life circumstances. With 15 years of data showing its model works, a loan from Pathway is helping Dar Salud expand its initiatives community-wide.

✦ Learn more online.

“It’s not easy to get traditional bank funding when you work with people of limited means. Pathway is giving us the chance to bring those outcomes to the wider community.”

Dr. Pedro Valasquez-Mieyer  
Dar Salud



## Bristol Skateway

Bristol Skateway's 2019 opening fulfilled a dream the Bristol community shared with the roller rink industry veterans behind the rink's return. Owners Gary Eas-munt and Debbie Williams credit the rink's early success to their hands-on approach that plays to nostalgia. Fueled by the commu-nity's affection for the rink, the owners undertook a complete restoration of the massive facility and secured funding from Pathway Lending after other lenders declined.



## COUNTIES SERVED

# 51

Pathway has loans out-standing with businesses in over half of Tennessee's 95 counties and continues to broaden its reach.

## Our Rural Reach

In partnership with the State of Tennessee and Tennessee Bankers Association member banks, Pathway Lending established the Tennessee Rural Opportunity Fund (TNROF) in 2007 to create a perpetual revolving loan fund for small, disadvantaged, and startup businesses located throughout rural and distressed areas of Tennessee.

TNROF provides loans to small businesses unable to access traditional credit due to lack of collateral, poor credit scores, inconsistent earnings, or being identified as a startup business.

With an initial investment of \$10 million contributed by two dozen partner banks, the fund returned three dollars in economic impacts to the state for every dollar loaned in its first ten years, according to an economic impact study by the Nashville Chamber of Commerce.

TNROF has loaned \$39 million to 117 companies that have created 334 new jobs and retained more than 500 jobs in rural Tennessee.

Pathway's 5-year strategic plan calls for expanding our target market activity, including doubling resources to rural communities. As part of Pathway's efforts to achieve these goals, we have expanded staff and programs, including the statewide expansion of our Women's Business Center and the addition of two Business Advisors outside urban markets and a lender dedicated to rural markets.



## Highland Rim Aviation

Retired US Army 160th Special Operations and Reconnaissance helicopter pilot Thomas Jones is not ready to land his wings just yet. With a loan from Pathway Lending and business planning assistance from Pathway's Veterans Business Outreach Center, he opened the hangar doors to his flight school less than a year ago. The school has soared past its initial projections, and among other programs and services, it trains transitioning service members to make the shift from rotor to fixed wing pilots so they can pursue careers in the airline industry.

## RURAL LOANS SINCE 2007

# \$39 MM

55% supported firms in low-to-moderate income communities and 15% to minority-owned firms





**Our multifamily  
affordable housing,  
commercial real estate,  
and energy efficiency loans  
generated big impacts:**

**\$18.47 MM**

**AFFORDABLE MULTIFAMILY  
LOANS OUTSTANDING**

**130,000 SQ.FT.**

**REAL ESTATE DEVELOPED OR  
REHABILITATED IN 2019**

**\$11.4 MM**

**SAVED ON KILOWATT  
HOURS IN 2019**



### **EMERGING AFFORDABLE HOUSING DEVELOPERS CDFI FUND AWARDS \$714,000 GRANT TO PATHWAY LENDING**

The U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund) awarded Pathway a \$714,000 grant to support our continuing efforts to create and preserve affordable housing in Tennessee. A portion of the award supports development of education programs for emerging housing developers – women and minority developers in particular – using our proven peer cohort model. Designed to help entrepreneurs build financially sustainable businesses and improve capital readiness, our cohorts graduated 100 participants in 2018 and helped participants access \$1.2MM in capital and launch 14 new businesses. The award also supports efforts to build a stronger rural Tennessee by extending the reach of our loans to rural counties with chronically high levels of poverty.



### **PRESERVING AFFORDABLE HOUSING WITH ENERGY EFFICIENCY**

Pathway sees a promising avenue to preserve existing affordable housing in Tennessee cities like Nashville, where it falls well short of demand, with our Energy Efficiency Loan program. Affordable rents pose the biggest challenge to preservation, especially for affordable multi-family owners of aging tax credit properties who often defer maintenance until they can secure funds by refinancing when tax credits expire at 15 years. With loans that require no capital up front at below-market rates, the program allows these owners to make energy efficiency upgrades they may otherwise forego and apply the energy savings to preservation projects.



### **INVESTING BIG IN SMALL BUSINESS BY SHARING RISK**

In partnership with Tennessee Business Development Corporation (TBDC), Pathway added U.S. Small Business Administration's 504 loan program to its catalog in 2019. A powerful economic development tool, 504 loans promote business growth and job creation with long-term, fixed-rate financing that helps small businesses acquire equipment or real estate to expand or modernize their businesses. SBA 504 loans require small businesses to contribute as little as 10 percent and TBDC shares the financing risk with private banks. The program offers banks a risk-friendly way to grow market share among small business borrowers, lowers barriers for small business borrowers to invest in their businesses, and boosts SBA 504 program adoption and its benefits throughout the state.

**Investing in places  
is as critical to  
prosperity as  
investing in people**

When it comes to helping communities prosper, investing in people who start businesses calls for investing in places where they can grow their businesses, too. From our start as a microlender in 1999, we have steadily expanded our loan catalog, which spans small business and commercial lending today. We have continued to grow our commercial lending products, adding U.S. Small Business Administration 504 loans to our catalog in 2019, and to find innovative ways to combine products to advance solutions for the challenges communities face such as preserving affordable housing.



# Access to capital requires financial + educational resources – that’s why Pathway provides both.

For 20 years, Pathway’s educational and financial resources have helped entrepreneurs of all stages and industries grow, succeed and access capital.

Pathway places equal emphasis on lending and education. Both are critical to advancing our clients’ creditworthiness and capital readiness and their ability to create more jobs and wealth in their communities. Following this strategy, we opened the Pathway Women’s Business Center in 2014 – and expanded WBC programs statewide in 2019 – launched the Veterans Business Outreach Center at Pathway 2018, and have steadily grown our Business Advisory Services Team.

We have provided more than 80,000 hours of technical assistance through classroom training, 1-on-1 counseling,

and peer-based cohorts to economically underserved businesses across our footprint. Our peer cohorts – designed to help entrepreneurs build sustainable and resilient businesses poised for growth – graduated 755 participants in 2019, and our education programs helped participants access \$1.85MM in capital and launch 49 new businesses.

The collaborative nature of our programs allows clients to benefit from access to a broader set of resources with over 63 percent of our loan clients participating in our education programs. These efforts, which leverage PL’s staff, infrastructure, and statewide partner network, have attracted more clients who are increasingly diverse and early-stage businesses.

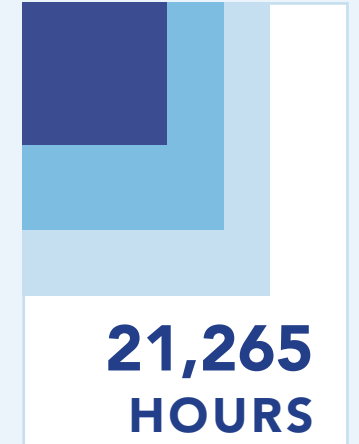


“I’d tell anyone who wants help starting or growing a business to go to Pathway and take advantage of the coaching, which is invaluable. Pathway wants you to succeed – they truly understand that if they help me succeed they will succeed, too.”

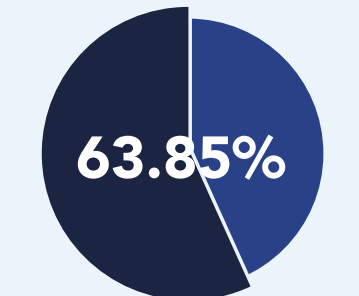
Neal Clack, Owner - D&C Freight | Memphis



When Neal Clack’s son Joe pitched him on starting a freight trucking business, he liked the idea and reasoned access to nearby markets from Memphis gave them an advantage. Plus, trucking ran in the family just like military service. SBA connected Neal to Pathway’s Veterans Business Outreach Center to solidify his business plan for securing a Pathway loan to purchase the trailer. Father and son see the business as the anchor for their family’s financial future.



**Pathway provided 21,265 hours of mentoring and coaching. Of these, 55% were women, 41% were minority, and 16% were veteran entrepreneurs.**



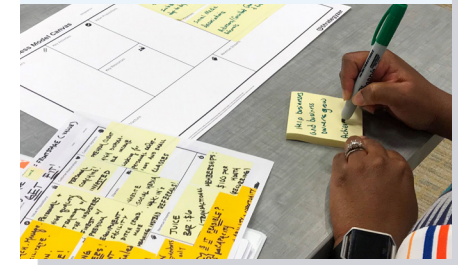
**loan clients who received technical assistance in 2019**

**2,050 unique clients mentored in 2019**



Alexa Hulse, owner of Encircle community acupuncture, completed Pathway’s Ignite 360 program where she developed a recruiting strategy for expansion and opened the doors to her second location in 2019. [Learn more](#)

In 2019, PL’s Women’s Business Center expanded statewide and strategically grew its network of volunteer mentors to deliver targeted 1-on-1 technical assistance that expands on its classroom offerings and capacity to generate educational impacts in disadvantaged communities across the state of Tennessee and extends the reach of its Women’s Business Center, Veterans Business Outreach Center and Business Advisory Services teams.





## OUTSTANDING PORTFOLIO COMPOSITION

TOTAL PORTFOLIO O/S (12/31/19):  
**\$116,925,676**

Commercial Loans (>\$50,000) 96.5%  
Commercial Real Estate Loans 9.7%  
Energy Efficiency Loans 24.5%  
Multi-Family Loans 16.1%  
Micro Loans 1.5%

## RATIOS (as of 12/31/19)

	2019	2018
Net Assets/Total Assets	17.20%	18.34%
Allowance for Loan Losses/Total Loans	6.86%	9.33%
Delinquencies > 90 days	0	0
Net Loan Losses/Outstanding Loans	1.79%	1.07%
Earned Income/Program Expense	146.04%	80.00%
Deployment Ratio	64.81%	70.15%
Staffing Level	42	37

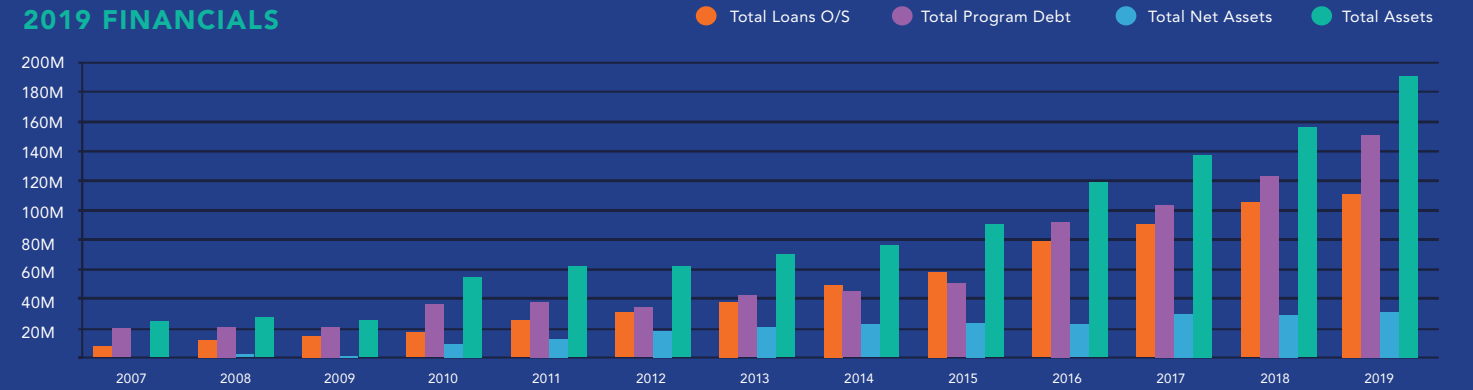
**\$302.5 million**  
total loans originated

**1.81%**  
historic loan loss rate

## 2019 PERCENTAGE ASSETS



## 2019 FINANCIALS



## Audited Financial Statement

### INCOME STATEMENT

	2019	2018	\$ Change	% Change
<b>REVENUE</b>				
<b>PROGRAM REVENUE</b>				
Interest Income Loans	\$6,351,698	\$5,934,474	\$417,224	7.0%
Interest Income Deposits	682,455	417,670	\$264,785	63.4%
Financing Fees and Charges	373,922	506,655	\$(132,733)	-26.2%
Management Fees	123,584	88,467	\$35,117	39.7%
TOTAL Interest and Program Service Revenue	7,531,659	6,947,266	\$584,393	8.4%
Grant Revenue to Support Program Services	6,414,234	3,568,907	\$2,845,327	79.7%
TOTAL Program Related Income	13,945,893	10,516,173	\$3,429,720	32.6%
Interest Expense	(2,441,567)	(1,769,902)	\$(671,665)	37.9%
Net Earned Income	11,504,326	8,746,271	\$2,758,055	31.5%
Provision for Loan Losses	(313,243)	(5,980,774)	\$5,667,531	-94.8%
Net Income Earned After Provision	11,191,083	2,765,497	\$8,425,586	304.7%
<b>PROGRAM SERVICES &amp; FUNDRAISING EXPENSES</b>				
Salaries and Benefits	4,586,078	3,624,662	\$961,416	26.5%
Professional Services	522,187	329,325	\$192,862	58.6%
Travel	234,043	214,633	\$19,410	9.0%
Marketing	10,155	68,960	\$(58,805)	-85.3%
Occupancy	132,206	117,827	\$14,379	12.2%
Other Program Expenses	1,309,996	1,038,878	\$271,118	26.1%
<b>TOTAL PROGRAM SERVICES EXPENSES</b>	6,794,665	5,394,285	\$1,400,380	26.0%
<b>SUPPORT SERVICES EXPENSES</b>				
Salaries and Benefits	597,175	485,426	\$111,749	23.0%
Professional Services	32,057	16,644	\$15,413	92.6%
Other Support Expenses	140,378	59,847	\$80,531	134.6%
Depreciation	30,296	7,679	\$22,617	294.5%
<b>TOTAL SUPPORT SERVICES EXPENSES</b>	799,906	569,596	\$230,310	40.4%
Contributed Loan Capital	225,000	2,500,000	\$(2,275,000)	-91.0%
<b>CHANGE IN NET ASSETS</b>	\$3,821,512	\$(698,384)	\$4,519,896	-647.2%

### audited financial statement continued

### BALANCE SHEET

	2019	2018	\$ Change	% Change
<b>ASSETS</b>				
Cash and Cash Equivalents				
Operations	\$3,983,487	\$4,056,764	\$(73,277)	-1.8%
Restricted Cash- Lending	63,480,830	44,728,690	\$18,752,140	41.9%
Restricted Cash- Loan Loss Reserves	5,328,269	5,694,782	\$(366,513)	-6.4%
Total Cash	72,792,586	54,480,236	\$18,312,350	33.6%
Loans Outstanding	116,925,676	105,134,094	\$11,791,582	11.2%
Allowance for Loan Losses	(8,026,446)	(9,805,552)	\$1,779,106	-18.1%
Net Loans	108,899,230	95,328,542	\$13,570,688	14.2%
Grants Receivables	1,101,697	2,302,645	\$(1,200,948)	-52.2%
Accrued Interest Receivables	569,893	524,673	\$45,220	8.6%
Other Assets	1,627,716	1,451,703	\$176,013	12.1%
Property and Equipment, net	3,216,211	1,517,039	\$1,699,172	112.0%
<b>TOTAL ASSETS</b>	\$188,207,333	\$155,604,838	\$32,602,495	21.0%
<b>LIABILITIES</b>				
Accounts Payable	\$117,811	\$100,943	\$16,868	16.7%
Interest Payable	472,302	422,669	\$49,633	11.7%
Lines of Credit Payable	36,211,861	27,000,000	\$9,211,861	34.1%
Mortgage Payable	2,042,712	829,693	\$1,213,019	146.2%
Notes Payable (Program Borrowings)	17,886,243	17,205,399	\$680,844	4.0%
Notes Payable (Program EQ2)	97,805,576	80,430,576	\$17,375,000	21.6%
Other Deferred Revenue	430,589	315,461	\$115,128	36.5%
Other Liabilities	877,102	758,472	\$118,630	15.6%
<b>TOTAL LIABILITIES</b>	\$155,844,196	\$127,063,213	\$28,780,983	22.7%
<b>NET ASSETS</b>				
Without Donor Restrictions	\$30,523,935	\$26,099,969	\$4,423,966	17.0%
With Donor Restrictions	1,839,202	2,441,656	\$(602,454)	-24.7%
<b>TOTAL NET ASSETS</b>	\$32,363,137	\$28,541,625	\$3,821,512	13.4%
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$188,207,333	\$155,604,838	\$32,602,495	21.0%



# Restart TN Initiative

## POST-COVID19 LOAN AND EDUCATION PROGRAMS

COVID19 interrupted many Tennessee businesses overnight, but it will take longer for them to get back up and running.

Pathway Lending's Restart TN statewide initiative – including flexible loan products and focused educational programs – helps clients and small businesses across the state restart today and plan for tomorrow.

“We had no idea how grateful we would become to have a partner as wonderful as Pathway to help us and other small businesses through times like these.”

— Rick Cox, Next Level Brewing | Knoxville

“The Pathway team is tremendous and has been the most proactive and forward thinking lender we've talked to during this difficult time.”

— Lisa Toto, City and State Coffee Shops | Memphis

MARCH-MAY 2020

**\$2.19MM**  
IN RECOVERY AND  
RESTART LOANS

**2,690+**  
HOURS OF  
TECHNICAL  
ASSISTANCE

**146**  
CLIENTS MODIFIED  
LOAN TERMS

## RESTART TN LOAN PROGRAM

Pathway's Restart TN Loans offer financing at competitive rates in key markets – veterans, rural Tennessee, the Memphis Medical District, and Memphis and Shelby County – and across the state. We partner loan clients with our Advisory Services team to help them navigate business decisions and effectively manage their loans.

## EDUCATION TO RESTART TN

Pathway's Road Ahead series offers virtual and online courses and workshops to provide resiliency training small businesses can access anywhere in the state, including scenario-based business planning and cashflow forecasting, small group counseling, and informal virtual peer learning and mentoring.

## THE ROAD AHEAD SERIES

**Roadmap to Resiliency** | Participants use the Business Model Canvas to explore alternatives for going to market so they can adapt as conditions change.

**Roadmap to Resiliency: Cashflow Forecasting** | Pathway finance experts guide small client groups through our cashflow template to prepare personalized cashflow forecasts.

## IGNITE MENTOR SERIES

Select mentors discuss small business challenges and offer expertise in an informal Q&A format.

**Power of the Pivot** | This interactive workshop helps participants uncover new opportunities so they can pivot their businesses in the event of disruptions.