

Community Development Investment and Loan Opportunities

Business Lending

Pathway Lending Revolving Loan Funds – *Enhanced Yield*

- Provides loans to underserved small businesses in all 95 Tennessee counties. Also available for Nashville and Knoxville regions target geographies.
- Bank lends capital directly to Pathway Lending
- Traditional CRA qualified promissory note
 - 10 year term
- Prime – 4 (Community Investment Tax Credit provides a 5% annual F & E tax credit)

Rural Opportunity Fund and Small Business Jobs Opportunity Fund – *Reduced Credit Risk*

- ROF – Provides loans to underserved small businesses in 92 rural Tennessee counties
- SBJOF - Provides loans to underserved small businesses in all 95 Tennessee counties.
- Traditional CRA qualified promissory note
 - 10 year term
- SBJOF Tax Credit
 - 10% annual F & E tax credit for 10 years repays principal
 - 2.5% annual interest rate (interest paid quarterly)

Affordable Multi-family Housing

Tennessee Affordable Housing Loan Consortium – *Traditional Credit Risk*

- Provides long term permanent financing to multi-family affordable housing (<80% MFI) developments
- Pathway Lending sources, underwrites, and services loans
- Banks buy traditional participation in the loan (takes credit risk of specific loan)
- No cost to look at loans but \$1,000 fee if you participate on an annual basis (\$750 to TBA)
- Terms:
 - 10 year fixed rate
 - 30 year amortization
 - 4.0% - 5.25%
 - 50 bp servicing fee to Pathway Lending

Pathway Lending Affordable Multi-family Housing Revolving Loan Fund – *Enhanced Yield*

- Provides long term permanent financing for affordable multi-family developments in all 95 Tennessee counties.
- Bank lends capital to Pathway Lending
- Traditional CRA qualified promissory note
 - 10 year term
- Prime – 4 (Community Investment Tax Credit provides a 5% annual F & E tax credit)

Revolving Loan Fund Community Investment Tax Credit (CITC)

History:

In 2006, the General Assembly of the State of Tennessee passed and Governor Bredesen signed SB3930/HB4048 amending the Community Investment Tax Credit to include Community Development Financial Institutions that provide small business loans as eligible entities for financial institutions to invest in and receive a credit against their annual Franchise and Excise (F & E) taxes.

Tax Credit Structure

The amount of the tax credit is based on the rate of interest paid by the Community Development Financial Institution (CDFI). In summary, the tax credit received by the investing financial institution is based on the rate below Prime.

For purposes of this credit:

- (1) "Qualified loan" means a loan that is at least **2 percent below the prime rate** that does not qualify as a qualified low-rate loan;
- (2) "Qualified long-term investment" means an equity investment made for a period of more than five years; and
- (3) "Qualified low-rate loan" means a loan that is at least **4 percent below the prime rate**.

Credit is based on outstanding balance at 12.31.xx each year and cannot be carried forward.

Pathway Lending requests financial institutions to consider the following investment/loan structure.

- 10-year Equity Equivalent borrowing
- Qualifies for CRA investment/loan test
- Interest paid quarterly

This structure results in a Prime + 1 annual return on the investment in Pathway Lending.

TN Rural Opportunity Fund (ROF) & TN Small Business Jobs Opportunity Fund Tax Credit (SBJOF)

History:

In 2010, the General Assembly of the State of Tennessee passed and Governor Bredesen signed the state's budget which included expansion of the 2007 Tennessee Rural Opportunity Fund Franchise and Excise Contribution Tax Credit to include the Tennessee Small Business Jobs Opportunity Fund (TSBJOF) as an eligible contribution for banks and a matching grant of \$10 million for the creation of the TSBJOF.

Tax Credit Structure

Provides each financial institution making a loan to Pathway Lending for the Tennessee Small Business Jobs Opportunity Fund a F & E tax credit equal to 10% of the original principal balance of the loan annually for 10 years.

Following the receipt of ten years of tax credits equaling the principal of the loan the bank forgives the loan to Pathway Lending to create a permanent pool of loan capital for underserved Tennessee small businesses. At this time the bank can receive a federal deduction for a contribution to a 501 (c) 3.

CRA Credit Received

The bank receives credit under either the CRA Investment Test or Community Development Loan Test for the full amount of the loan for 10 years.

The bank receives a second CRA Investment test credit at year ten when it makes a contribution (forgives loan) to a CDFI.

Interest: Annual rate of 2.5% (paid quarterly)

This Structure significantly removes repayment risk and provides a treasury type yield with principal protection.