



TN Small Business Jobs
Opportunity Fund



ECONOMIC & FISCAL IMPACT

Dr. Murat Arik, Ph.D., PDBP, Director

Business and Economic Research Center
Jones College of Business
Middle Tennessee State University

Prepared for
Pathway Lending

Acknowledgments

I want to acknowledge the contributions of several individuals to this project: Dr. Rubi Devi, BERC Research Associate, for project management and research coordination, and Andrea Lawrence, BERC Executive Assistant, for her valuable input in designing this report. Special thanks go to the following individuals for contributing to the research and completion of this project:

- Elijah Mitchell – BERC Undergraduate Researcher
- Priscilla Hammermeister – BERC Undergraduate Researcher
- Josh Narrell – BERC Graduate Research Assistant

Executive Summary

As a Community Development Financial Institution (CDFI), Pathway Lending plays a critical role in Tennessee's business development and economic growth. This report assesses the economic impact of the Tennessee Small Business Job Opportunity Fund (TNSBJOF) loans on the Tennessee economy. To estimate the economic impact of TNSBJOF loans, the study calculated the 5-year business survival rates for companies and the net direct job impact. Indicators reported in the study demonstrate that TNSBJOF loans have substantially impacted Tennessee's economy. Some of the key findings of this study include:

- *Demographic Profile of TNSBJOF Loan Clients*
 - The total number of loans distributed through TNSBJOF: 338
 - Number of companies that benefited from the TNSBJOF loans: 228
 - Low-income owners benefited from TNSBJOF loan: 20.2%
 - Women-owned companies benefited from TNSBJOF loans: 38.6%
 - Minority-owned companies benefited from TNSBJOF loans: 29.4%
 - Loan clients that used developmental services: 61%
 - Total loan amount (in 2023 value): \$157.2 million

- *Selected Client Profile Survey Findings*
 - TNSBJOF loans have helped companies stay in business: 86%
 - TNSBJOF loans have helped companies retain their existing employees: 81%
 - TNSBJOF loans have helped companies to expand their business: 81%

- *Business Survival Rates of TNSBJOF Loans:* TNSBJOF loan companies have a 41 percentage-point higher business survival rate beyond five years compared to the national and state levels.
 - 5-year business survival rate for US companies: 49%
 - 5-year business survival rate for Tennessee companies: 49%
 - 5-year business survival rate of the TNSBJOF client companies: 90.3%

- *Economic Impact*
 - Total business revenue generated: \$433 million
 - State and local taxes generated: \$17.3 million
 - Total federal taxes generated: \$32 million
 - Total jobs generated by TNSBJOF loans: 2,396

- *Return on Investment for Every Million-Dollar Investment through TNSBJOF*
 - Number of jobs either created or retained: 15.24
 - State and local taxes generated: \$110,301
 - Business revenue generated: \$2.76 million

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I. Introduction

Established in 1999, Pathway Lending has emerged as a pivotal force, acting as a Community Development Financial Institution (CDFI) committed to injecting hundreds of millions of dollars into businesses across Tennessee and Alabama. At its core, Pathway Lending is dedicated to empowering underserved small businesses, fostering affordable housing, and contributing to sustainable communities, shaping a transformative narrative within the regional economic landscape.

With over two decades of successful operation, Pathway Lending has continually expanded its reach, showcasing an unwavering commitment to addressing diverse needs. Offering over 150 loans annually, deliberately focusing on historically underserved business owners, Pathway Lending remains dedicated to breaking down financial barriers for those often overlooked by traditional financing. This is done through various initiatives, including Pathway Women’s Business Center, the Veterans Business Outreach Center at Pathway Lending, the Rural Opportunity Fund, and the Tennessee Small Business Jobs Opportunity Fund. These collaborative efforts reinforce the institution's impact by offering additional support to existing and emerging small businesses, particularly entrepreneurs from underserved communities.

Through the Tennessee Small Business Jobs Opportunity Fund (TNSBJOF), Pathway Lending has been providing loans to businesses anywhere in Tennessee on a revolving basis since 2010. As a public-private partnership among Pathway Lending, the State of Tennessee, and private financial institutions, this fund brings together capital resources to maximize statewide impacts for job creation and business expansion. Pathway Lending has financed 228 businesses through the TNSBJOF with 328 loans, amounting to \$157.2 million (in 2023 value) loaned to small businesses across the state.

In a strategic move to evaluate the broader impact of its loans on the Tennessee economy, Pathway Lending has commissioned the Business and Economic Research Center (BERC) at Middle Tennessee State University to conduct this study. This comprehensive analysis focuses explicitly on the economic and fiscal impacts (both direct and indirect) of loans provided through the Tennessee Small Business Jobs Opportunity Fund.

Working closely with Pathway Lending, BERC examined the demographic profiles of 228 businesses receiving loans over the years. The study also reviews research reports and information on the best practices relevant to small business loans, business growth, and economic impact analysis.

II. Literature Review

The following is an overview of select literature on small loans, small-business growth, and economic impact.

Many new businesses need more than what is essential to become successful: financial investment. Entrepreneurs need loans to start businesses and maintain and continue expanding operations. According to the *Journal of Small Business Strategy* (2020), 81% of small businesses usually fail within 10 years of inception. According to the Kauffman Foundation, firms younger than five years are also credited with most of the new job creation each year. Policy analysts and strategists, hence, suggest that startups and new business ventures, such as small firms, are to be targeted with specific programs and policies such as financial assistance, tax incentives, technical assistance, and workforce development. State financial programs often provide access to capital for small firms and companies with the potential for growth and job creation. These programs also offer business loans to firms to promote business development, research, and expansion. Making business loans available by organizations such as Pathway Lending is one option to support entrepreneurs. In 2022, Pathway Lending helped fund 156 businesses and granted loans to 177 small businesses, resulting in the origination of \$50.8 million in loans (Pathway Lending, 2023). Organizations like Pathway Lending offer loans to small businesses that face challenges in accessing loans.

This section explores the challenges entrepreneurs and small-business owners face and the importance of assistance through government-funded loans for business survival. These challenges may include the need for capital investment, funding for business training, and/or growth. Strategies and business planning for costs and financial resource allocations are essential to keep businesses running. It also briefly looks into the successful government-funded programs around the country that have contributed to small firms' business growth and sustainability.

Delfino (2023) discusses the survival rates of small businesses and the industries associated with failure rates. The failure rates of small businesses are highest after the 10-year mark. About 21% of small private-sector businesses fail within the first year of inception, about 48% fail after five years, and about 65% fail after 10 years. The agricultural industry has the lowest five-year failure rate, while the information industry has the highest one-year failure rate. Interestingly, states that might have some of the lowest failure rates within the first year can still have one of the highest failure rates after 10 years. Small businesses are typically highly affected by inflation, access to capital, and timing. Another factor not to be underestimated is word-of-mouth advertisement.

Galli-Debicella (2020) inquires whether the support (financial and development services) by the Small Business Administration (SBA) improves the four-year survival rate and the overall success of small businesses. The average survival rate for small businesses is two years, and the four-year survival rate is 44%. About 81% of small businesses fail within 10 years of inception. Between 1991 and 2001, the SBA supported 435,000 small businesses in obtaining an estimated \$94.6 billion in loans. The SBA does not offer direct loans to small businesses. Instead, it stands in the gap where lenders are weary of providing loans to new businesses by offering a guarantee. Small businesses face challenges ranging from a lack of capital or financial limitations to business expansion to hiring specialists who can offer support for their business. The SBA also supports certified microlenders to re-lend capital to small business borrowers. Further, the SBA offers support in venture capital programs, training, and counseling services. The study results indicate that small firms receiving SBA loans improve the four-year survival rate over the general

population of small firms. Further, it also suggests that women-owned small firms experience a similar increase in survival rate as compared to minority-owned small firms. A 1999 study in Connecticut uncovered that the survival rate of small businesses receiving support from the SBA in the form of loans increased to 74% rather than stagnating at 44% without the support of the SBA.

Different challenges could contribute to the failure rates of small businesses and firms, including ineffective responses to different economic challenges.

Another study by Turner et al. (2017) has explained the impact of small businesses in the United States in connection with its economy. Small businesses employ about 48% of private sector employees. Fifty percent of small businesses fail within the first five years of inception, and about 33% survive past the 10-year mark (Turner & Andrews, 2017). Some common challenges are unpreparedness, hiring the “right” employees, and lacking the information and finances to pay for operations and profitability. Leadership style and the ability to network contribute to the business’ success; however, store owners explained that it could be challenging to attend networking events due to long hours and the need for hands-on involvement in their business. The research on the successful small business owners (coffee shop owners in Duval County, Florida) that survived the past five years points out that the owners of surviving businesses had support from the Small Business Administration, volunteer support from a consulting firm, as well as family members, friends, and bankers. Small business owners must create a niche market with a solid strategic plan, stakeholder involvement, business partnerships, and competitive strategies. The article further points out that only about 50% utilize a management information system meant to aid with making operational decisions.

According to Jorgensen et al. (2022), small businesses also fail due to a lack of proper online communication to stay in the market or knowledge to manage marketing and advertising. Online communication benefits marketing, recruitment, customer communication, and advertising. One-third of small businesses maintain their website despite not having the time, knowledge, or finances to stay consistent and successful. Interestingly, owners of small businesses over 55 are more likely to survive than younger owners. Their research also pointed out that small business owners do not consider using technology as a contributing factor to their business success. Another study by Couto et al. (2023) expands on the notion that quite a few businesses required to respond to economic change will default to cutting costs when investment costs can help businesses succeed. This is an example of when businesses might need help deciphering what investments are worthwhile by connecting costs to outcomes, assessing which areas need adjustments and which do not, and creating a cost-focused system. One approach that can be used for creating a growth-oriented company is cost transformation. This approach includes “achieving EBITDA above the industry median while experiencing revenue growth below the industry median.” Out of 1,500 companies, the research identified 201 that utilized cost transformation from 2015 to 2018.

Aktug et al. (2021) dive into the correlation between small business loans, the dynamics of banks, and the growth of small businesses. It highlights a reduction in commercial banks in the United States, prompting questions about its potential impact on small businesses that depend on banks for funding. The study reveals a positive correlation between small business loans and the expansion of both small banks and small businesses. Community banks with assets under \$10 billion provide loans to small businesses significantly. Furthermore, loans under \$100,000 are vital for stimulating employment growth

and establishing new companies. Hence, the report suggests a policy recommendation prioritizing small-business loans under \$100,000 for businesses with fewer than 100 employees.

Treece (2023) created an article that underscores the critical role of business loans for entrepreneurs and established businesses, with various lenders offering flexible financing options. It addresses small businesses' escalating financial challenges and highlights the widening gap in fulfilling their financial needs. Despite a decline in traditional financing applications, the study reveals that outstanding debt for small businesses has decreased. Reasons for applying for loans are diverse, with business expansion, equipment purchases, and marketing being prominent choices. The article also explores disparities in loan disbursement based on race and gender and the unique financing needs of different industries and states. Overall, it highlights the significance of tailored financial assistance and the importance of staying informed about evolving financial trends for informed decision-making. The statistics presented in this article provide an excellent baseline for comparing our findings in the Pathway Lending data analysis.

However, newly formed small businesses often do not get access to regular/commercial bank loans due to insufficient financial/credit history or the collateral required by banks. While this is a common way for banks to determine eligibility, certain institutions recognize this is not always the best criterion. Melnick (2021) points out that a credit score is not necessarily an accurate representation of whether a business should be granted a loan. Some small businesses need a loan. Typically, bank institutions will use highly regulated measures when assessing whether someone or some company is "loan-worthy." Those institutions will utilize character, capacity, conditions, capital, and collateral to arrive at a decision. Some economic development organizations, such as the Colorado Lending Source, offer loans to small businesses in ways that common banks and credit unions would not. Such institutions are called Community Development Financial Institutions (CDFI) and still grant loans to small businesses when they do not fully satisfy all "Cs." Unlike typical banks, CDFIs will do an underwriting process that ensures a default rate (usually 3.27%) lower than that obtained from the standard credit system.

The new businesses' challenges in gaining access to capital have led to an alternative approach made by government-funded financial institutions or similar independent organizations toward helping business owners gain access to loans. The State of Alaska (2023) offers a government loan, namely Alternative Energy, created to support companies constructing, installing, and purchasing energy-related systems, energy-conversation improvements, and commercial buildings. The maximum amount for this loan is \$50,000 and is accessible if financial institutions have denied an entity a loan. Virginia Economic Development Partnership International Trade (2023) offers similar loans in Virginia that help companies seeking to expand on international sales. Companies that want to improve their supply chain can receive up to \$10,000 in reimbursement. The California Capital Access Program (Cal CAP) (2023) is geared towards helping small businesses that might experience a challenging time accessing loans. The program works with financial institutions to meet the financing needs of small businesses in California. This loan money can be used for capital projects, working capital, start-up costs, and land acquisition.

Hegar (2022) explains that the Development Corporation Act of 1979 enables cities to support local business enterprises through economic development corporations (EDCs), specifically Type A and Type B EDCs. Type A EDCs typically fund industrial development projects, job training, and public transportation. At the same time, Type B EDCs can also finance community-focused projects like parks, museums, sports facilities, and affordable housing. These EDCs are funded through city sales taxes, and allowable costs include land acquisition, machinery, construction, professional services, and administrative expenses. To

qualify for EDC support, businesses must create or retain primary agricultural, mining, manufacturing, and research and development jobs. Performance agreements with businesses outline job creation, capital investment, and terms for investment repayment. Special provisions exist for border communities, allowing EDCs in certain areas to fund airport facilities, ports, and infrastructure needed for business development.

Virginia Food Access Investment Fund Grants offer financial investment options for different businesses. VFAIF's primary focus is promoting fairness and equity within local food systems by providing grants and loans to bolster new and existing food retailers. Eligible applicants include individuals, farmers, nonprofit organizations, faith-based groups, and for-profit businesses. Projects led by individuals from low-income communities receive special consideration. Successful applicants can secure funding ranging from \$5,000 to \$50,000 per project annually. Go Green Financing (2023) discusses various energy-saving measures available through California's Go Green Financing program, emphasizing the importance of replacing outdated appliances and embracing improved energy efficiency. The measures covered include agricultural upgrades, appliance replacement, building-envelope improvements, data-center optimizations, demand-response initiatives, food-service equipment enhancements, heating and cooling system upgrades, industrial-equipment improvements, lighting-efficiency solutions, and other measures like energy management systems, pool-equipment upgrades, refrigeration improvements, water-heating replacements, and miscellaneous projects. The webpage encourages businesses to explore financing options for these energy-saving measures.

Fairlie et al. (2021) discuss the Ewing Marion Kauffman Foundation, which has developed four indicators evaluating early-stage entrepreneurship. Those include the rate of new entrepreneurship, startup early job creation, opportunity share of new entrepreneurs, and startup survival rate. Altogether, the indicators contribute to an index used to view entrepreneurship from different angles regarding trends in new entrepreneur rates, opportunity share of new entrepreneur rates, startup early job creation, and startup early survival rates. In 2022, Dakota Business Lending (2023) approved 57 loans in North Dakota, Montana, and Minnesota. The Small Business Administration approved 90% of those loans on the first submission. The businesses created 267 jobs and represented the auto repair, construction, healthcare, personal care, and professional services industries. Twenty-one percent of the businesses were owned by women, 7% by veterans, 37% were owned by entrepreneurs in rural communities, and 18% were a start-up business.

III. Methodology

Conceptual Framework

This study assesses the impact of Pathway Lending's TNSBJOF loans on Small Businesses in Tennessee. Since 2010, Pathway Lending has been supporting and preserving existing businesses that are otherwise not eligible for business loans or cannot access loan capital in the amount or at the rate and terms to make their projects viable through the Tennessee Small Business Jobs Opportunity Fund (TNSBJOF), contributing to business and economic growth in Tennessee's economy. The ultimate question BERC asked in this section is: What would have happened to the companies if they had not benefited from the TNSBJOF loans? BERC created a comprehensive methodology to answer this question using surveys and demographic information from loan applicants.

Net Direct Job Impact: To measure the economic impact of the Tennessee Small Business Jobs Opportunity Fund (TNSBJOF), BERC calculated the net direct jobs impact. Net direct job impact is calculated as a percentage difference between the Tennessee companies' 5-year survival rate and the TNSBJOF clients' 5-year survival rates.

BERC incorporated the company's demographic profile, business survival rates, and survey data from the Pathway Lending clients to measure the net direct jobs impact. Within the company demographic profile, BERC looked at the sectoral distribution of the businesses, credit scores, and ownership. Business survival rates were calculated using the Bureau of Labor Statistics and Tennessee Secretary of State Company Registry Database at 1-year, 3-years, and 5-years for the Tennessee companies. We calculated the difference in 5-year survival rates to calculate the net direct job impact.

Economic Impact Analysis: The study examines the direct and indirect economic and fiscal impact of the TNSBJOF loans on the regional economy. Economists often conduct impact analyses to examine the marginal impact of change in local and regional economies. This standard impact analysis model is done by considering the interaction of industries as inputs, and then the outputs are created by using the multipliers. These multipliers capture the impact rate on the rest of the economy resulting from spending changes due to an event or activity. The input-output analysis has three types of multipliers: direct, indirect, and induced. These multipliers capture the backward linkages in every industry that lead to the final output production.

The direct effect computes the initial change in expenditure. The direct effect takes place at the initial level of expenditure or production. The indirect effect is the sum of the round-by-round effect increases in business spending for inputs, excluding labor. It refers to inter-industry transactions that supply resources and materials to direct industry activities. Finally, the induced effect is the sum of the round-by-round increases in employee spending caused by increased payrolls and household incomes. Many residual changes take place from the local level of employment.

This study uses IMPLAN software to estimate the impact of Pathway Lending's TNSBJOF loans on Tennessee's economy. Net direct jobs by industry are used as inputs into IMPLAN to estimate the impact.

Study Assumptions

To measure the economic and fiscal impact of Pathway Lending’s TNSBJOF loans on the Tennessee economy, BERC used the following major assumptions:

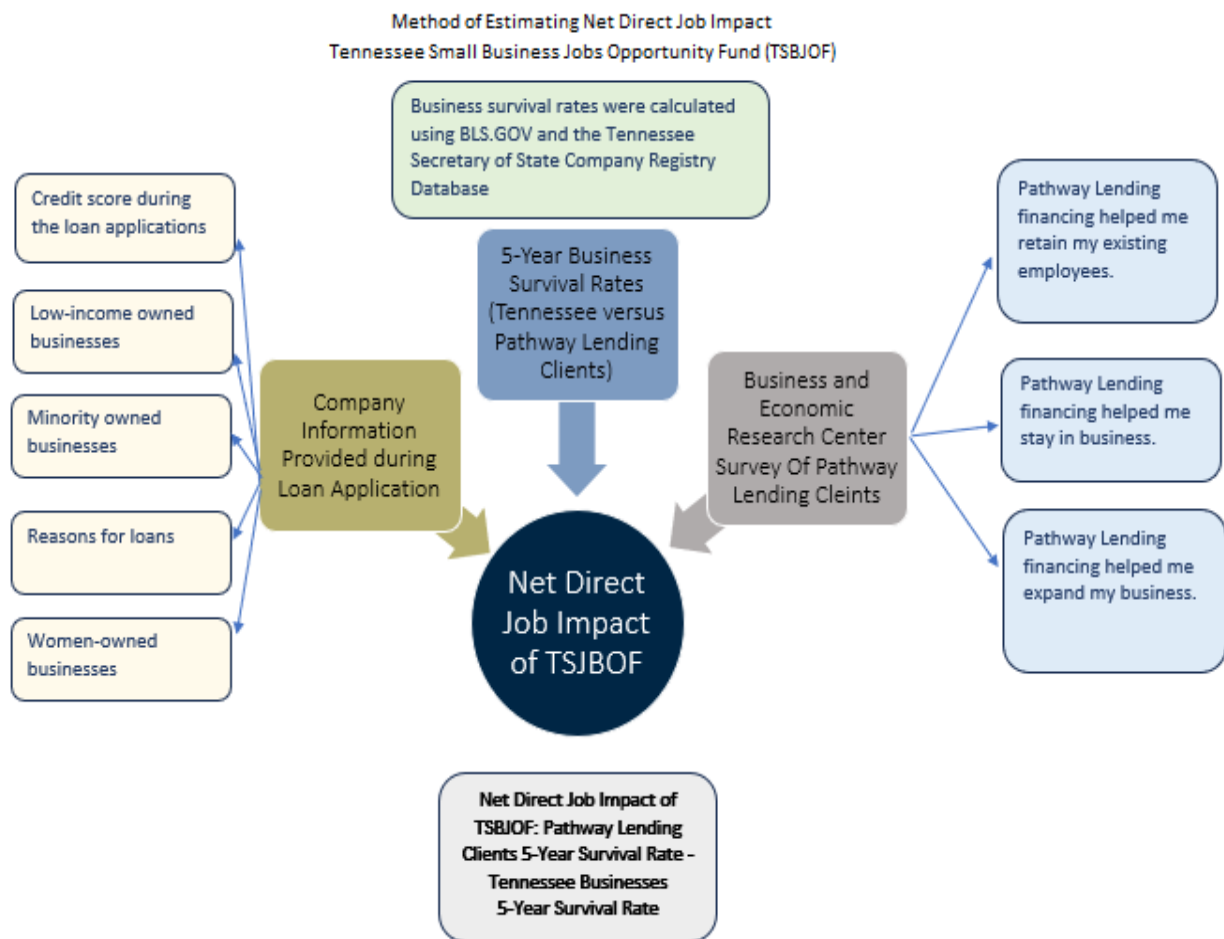
Study Region: The state of Tennessee is considered the study region for this analysis.

Counterfactual Approach: This study counterfactually removed the net direct jobs associated with the sectors of Pathway Lending’s client companies to determine the impact of the TNSBJOF loans on Tennessee's economy.

Survival Rates: BERC calculated the 5-year survival rates for the Tennessee companies and Pathway Lending’s TNSBJOF client companies. BERC used the difference in 5-year survival rates to calculate the net direct job impact.

Figure 1. Presents BERC’s methodology for calculating the Net Direct Jobs.

Fig. 1



Data

BERC used the following data sources for this assessment:

- Bureau of Labor Statistics (www.bls.gov)
- Pathway Lending client database
- BERC survey of Pathway Lending clients
- IMPLAN software and database
- Tennessee Secretary of State Company Registry data

IV. Demographic Data

Uses of the Loans

For several reasons, small businesses may turn to an institution to secure loans, and allocating these funds is likely diverse and multifaceted. Businesses that apply to Pathway Lending also have multiple needs and usage spanning from critical needs such as operating expenses to business development or debt management and restructuring. Pathway Lending has loaned \$157.2 million (valued in 2023) to small businesses since 2011 to strengthen the community and foster growth.

As shown in Table 1, 35% of the number of loans cited working capital (the difference between assets and liabilities) as a use; this translates to nearly \$14.6 million in loans. Assets may include anything from property and inventory to cash, while liabilities may include expenditures such as wages, rent, and utilities. Access to substantial working capital is imperative for executing short-term operations, making these loans essential to manage day-to-day responsibilities effectively.

The second most often cited use of a loan was capital expenditures in real estate, equipment, and materials. Totaling over \$81.2 million, these make up 30% of all loans by number (see Table 1). Capital expenditures are money a business spends on acquiring or maintaining fixed assets, such as commercial real estate, inventory, etc. It is often a one-time investment to help the business maintain and expand its operations. These loans allowed businesses to acquire new buildings, expand existing infrastructure, and increase capacity.

Table 1 also shows that businesses cited debt refinancing in nearly 20% of all loans by number. In total, these businesses received almost \$58 million. This has allowed them to optimize their financial structure, utilizing existing liabilities more efficiently, strongly impacting the businesses' viability.

Disasters and unforeseen circumstances can destroy any business, but these quick and dramatic shifts pose an exceptionally high risk to small businesses. For companies grappling with challenges posed by the COVID-19 pandemic and natural disasters, Pathway Lending was also able to grant \$2.1 million in loans to aid in emergency recovery, according to Table 1.

Many loans (\$15.9 million) to these businesses have also gone toward other initiatives, such as fulfilling contracts, paying taxes, and more, all of which are vital to the health of a business.

Table 1.***TNSBJOF Loan Reasons***

Loan Reasons	Number of Businesses	Percent Breakdown	Total Employees (Time of Loan Application)	Total Employees (Most Recent)	Loan Amount (Adjusted to 2023 Value)
Capital Expenditures: Real Estate, Equipment/Materials	69	30.26%	1,471	1,496	\$66,378,409
COVID-19, Working Capital	16	7.02%	91	86	\$2,191,780
Debt Refinance	45	19.74%	826	1,140	\$58,101,257
Other	18	7.89%	157	189	\$15,944,070
Working Capital	80	35.09%	506	566	\$14,596,559
Grand Total	228	100.00%	3,051	3,477	\$157,212,074

Source: Pathway Lending Client Data and BERC Calculations

Company Profiles***Sectoral Distribution of TNSBJOF Loans***

The small businesses and companies supported by TNSBJOF represent all major industrial sectors. Table 2 shows the sectoral distribution of companies that have received TNSBJOF loans with adjusted loan amount totals as shown in the table below; out of the total 228 businesses that benefited from the TNSBJOF loans, the top two business sectors, in terms of loan amounts, are manufacturing and real estate and rental and leasing. Thirty-four manufacturing companies (15% of the total businesses) have received \$35.44 million (adjusted to 2023 value) in loan amounts. They are followed by the real estate and rental and leasing businesses, comprising only 7% of total businesses, which received 22% of the total TNSBJOF loan amount. On the other hand, companies in the arts, entertainment, recreation and finance and insurance sectors received the lowest loan amounts.

Table 2.***Sectoral Distribution of TNSBJOF Loans***

Companies by Major Sectors	Number of Businesses	Percent of Businesses	Total Employees (Time of Loan Application)	Total Employees (Most Recent)	Loan Amount (Adjusted to 2023 Value)	Percent Distribution of Loan Amount
23: Construction	20	9%	185	255	\$6,071,790	4%
31-33: Manufacturing	34	15%	582	753	\$35,446,719	23%
42: Wholesale Trade	9	4%	28	33	\$4,612,542	3%
44-45: Retail Trade	17	7%	116	110	\$10,391,611	7%
48-49: Transportation and Warehousing	13	6%	303	386	\$7,729,090	5%
52: Finance and Insurance	7	3%	28	24	\$1,097,686	1%
53: Real Estate and Rental and Leasing	16	7%	38	50	\$35,230,275	22%
54: Professional, Scientific, and Technical Services	15	7%	167	188	\$8,172,775	5%
56: Administrative and Support and Waste Management and Remediation Services	9	4%	198	279	\$5,061,107	3%
62: Health Care and Social Assistance	20	9%	93	135	\$5,870,538	4%
71: Arts, Entertainment, and Recreation	5	2%	51	42	\$531,769	0%
72: Accommodation and Food Services	32	14%	1,051	890	\$19,762,806	13%
81: Other Services (except Public Administration)	24	11%	129	193	\$9,867,011	6%
All Others	7	3%	82	139	\$7,366,357	5%
Grand Total	228	100%	3,051	3,477	\$157,212,074	100%

Source: Pathway Lending Client Data and BERC Calculations

Credit Score Rating of TNSBJOF Clients

Most small businesses and companies that have received loans through the TNSBJOF have fair or good credit score ratings. As the table below indicates, 58% of TNSBJOF clients with a credit score rating between 670-799 have received the highest loan amount, i.e., \$103.98 million (adjusted to 2023 value). These client companies also have the highest employment growth since the time of their loan application. TNSBJOF has also significantly supported businesses with bad and fair credit score ratings at 34.2% of the 228 loan recipients. These businesses have the second-highest employment growth.

Table 3.***TNSBJOF Client Credit Scores***

Credit Score	Number of Businesses	Percent of Businesses	Total Employees (Time of Loan Application)	Total Employees (Most Recent)	Loan Amount (Adjusted to 2023 Value)
Bad (300-579)	21	9.21%	264	373	\$7,863,833
Fair (580-669)	57	25.00%	468	570	\$23,210,219
Good (670-799)	132	57.89%	1,150	1,904	\$103,979,490
Excellent (800-850)	4	1.75%	95	101	\$6,192,407
N/A	14	6.14%	1,074	529	\$15,966,125
Grand Total	228	100.00%	3,051	3,477	\$157,212,074

Source: Pathway Lending Client Data and BERC Calculations

Women-Owned Businesses

Table 4a. shows that of 228 borrowers, 88 (38.6%) are women-owned businesses, which translates to \$36.9 million in loans. The same businesses also reported a 20.6% (110 employees) increase in total employees, compared to a 12.5% (316 employees) increase among businesses not owned by women. As indicated in Table 4b., the TNSBJOF loan has supported a higher percentage of women-owned businesses compared to the state and national levels.

Table 4a.***TNSBJOF Women-Owned Companies***

Women-Owned	Number of Businesses	Percent Breakdown	Total Employees (Time of Loan Application)	Total Employees (Most Recent)	Loan Amount (Adjusted to 2023 Value)
No	140	61.40%	2,518	2,834	\$120,281,394
Yes	88	38.60%	533	643	\$36,930,681
Grand Total	228	100.00%	3,051	3,477	\$157,212,074

Source: Pathway Lending Client Data and BERC Calculations

Table 4b.***Women-Owned Companies: TNSBJOF vs. TN State vs. USA***

	Number of Businesses Women-Owned	Percent Breakdown	Number of Total Businesses*
USA	1,275,523	26.19%	4,871,179
TN	18,258	23.73%	76,930
TNSBJOF	88	38.60%	228

*Excluding Equally Men and Women-Owned Business

Source: Census Bureau (2021: ECNSVY Annual Business Survey Company Summary)

Pathway Lending Client Data and BERC Calculations

Minority-Owned Businesses

67 of the 228 (29.4%) businesses that received a Pathway Lending loan are owned by a minority, as shown in Table 5a. Having received a total of \$20.7 million in loans, the minority-owned businesses added 426 employees, an increase of 34.1%. As shown in Table 5b., Pathway Lending’s TNSBJOF loans also supported a higher percentage of minority-owned businesses compared to the national and state levels.

Table 5a.
TNSBJOF Minority-Owned Companies

Minority-Owned	Number of Businesses	Percent Breakdown	Total Employees (Time of Loan Application)	Total Employees (Most Recent)	Loan Amount (Adjusted to 2023 Value)
No	161	70.61%	2,621	2,900	\$136,517,471
Yes	67	29.39%	430	577	\$20,694,604
Grand Total	228	100.00%	3,051	3,477	\$157,212,074

Source: Pathway Lending Client Data and BERC Calculations

Table 5b.

Minority Owned Business: TNSBJOF vs. TN State vs. US

	Number of Businesses	Percent Breakdown	Number of Total Businesses
USA	1,230,751	20.88%	5,893,425
TN	11,680	12.29%	95,016
TNSBJOF	67	29.39%	228

Source: Census Bureau (2021: ECNSVY Annual Business Survey Company Summary), Pathway Lending Client Data and BERC Calculations

Low-Income-Owned Businesses

Low-income-owned businesses account for 46 of 228 total businesses, i.e., 20.2%, culminating in a total loan amount of \$24.8 million. Between the time of the loan and the most recent data, the number of employees at these businesses has more than doubled, from 303 employees to 779 employees, as shown in Table 6.

Table 6.
TNSBJOF Low-Income Owned Companies

Low-Income Owned	Number of Businesses	Percent Breakdown	Total Employees (Time of Loan Application)	Total Employees (Most Recent)	Loan Amount (Adjusted to 2023 Value)
No	182	79.82%	2,748	2,698	\$132,428,540
Yes	46	20.18%	303	779	\$24,783,534
Grand Total	228	100.00%	3,051	3,477	\$157,212,074

Source: Pathway Lending Client Data and BERC Calculations

Client Education

As shown in the table below, 61% of Pathway Lending’s TNSBJOF clients are also education clients. This indicates that these companies benefit from the business development educational coaching and training support alongside the loan to continue their business ventures.

Table 7.

Are TNSBJOF Companies Also Education-Clients?

Education Clients	Number of Businesses	Percent of Businesses
No	90	39.47%
Yes	138	60.53%
Grand Total	228	100.00%

Source: Pathway Lending Client Data and BERC Calculations

Employment Growth by Sector

In terms of employment growth since the time of loan origination, TNSBJOF clients from other services (except public administration) sectors have gained the highest growth with 49.6%, followed by healthcare and social assistance (45%), administrative and support and waste management and remediation services (41%), construction (38%), and real estate and rental and leasing (32%). Other services (except public administration) may include businesses engaged in machinery repairs, care services, in-house operations, advocacy, and so on. Employment growth is lowest in finance and insurance and arts, entertainment, and recreation sectors.

Table 8.***Employment Growth by Sector Since Loan Origination***

Companies by Major Sectors	Number of Businesses	Total Employees (Time of Loan Application)	Total Employees (Most Recent)	Percent of Employment Growth	Loan Amount (Adjusted to 2023 Value)
23: Construction	20	185	255	37.84%	\$6,071,790
31-33: Manufacturing	34	582	753	29.38%	\$35,446,719
42: Wholesale Trade	9	28	33	17.86%	\$4,612,542
44-45: Retail Trade	17	116	110	-5.17%	\$10,391,611
48-49: Transportation and Warehousing	13	303	386	27.39%	\$7,729,090
52: Finance and Insurance	7	28	24	-14.29%	\$1,097,686
53: Real Estate and Rental and Leasing	16	38	50	31.58%	\$35,230,275
54: Professional, Scientific, and Technical Services	15	167	188	12.57%	\$8,172,775
56: Administrative and Support and Waste Management and Remediation Services	9	198	279	40.91%	\$5,061,107
62: Health Care and Social Assistance	20	93	135	45.16%	\$5,870,538
71: Arts, Entertainment, and Recreation	5	51	42	-17.65%	\$531,769
72: Accommodation and Food Services	32	1,051	890	-15.32%	\$19,762,806
81: Other Services (except Public Administration)	24	129	193	49.61%	\$9,867,011
All Others	7	82	139	69.51%	\$7,366,357
Grand Total	228	3,051	3,477	13.96%	\$157,212,074

Source: Pathway Lending Client Data and BERC calculations

Pathway Lending TNSBJOF Client Survey

To give an enhanced picture of the clients benefiting from the TNSBJOF, BERC conducted a short survey requesting client feedback on the effects of the fund on companies' business survival and expansion, as well as the impact the fund made on employee retention and growth. Among the 228 companies, 192 were invited to participate, and 21 surveys were completed with a 10.9% response rate. This survey shows how vital TNSBJOF loans are for select clients.

Purpose of Loans

The purpose of the Pathway Lending Program was to help small businesses receive the necessary funding that they could not get otherwise, whether it was because of credit scores or other barriers. Of all the survey participants, 43% sought the first loan to help with operating expenses, while 29% cited other reasons for loan application. Businesses also applied for loans for business expansion and other business-related costs. Overall, the Pathway Lending Program helped businesses expand and increased employee retention.

Table 9.

What was the purpose of the first loan from Pathway Lending? (Please select all that apply.)

Purpose of Loan	Number of Responses	Percent of Responses
Meet Operating Expenses	9	42.86%
Expand Business (New Hiring)	4	19.05%
Other- Open and Purchase New Business	5	23.81%
Other Reasons	6	28.57%
Employee Retention, Maintenance, and Debt Refinance	4	19.05%

Source: TNSBJOF Client Survey

Financing and Barriers

The TNSBJOF loans affected businesses that had issues securing funds through traditional lending. Before the loan, 76.19% of survey clients had issues accessing business financing. Barriers to financing, such as strict requirements, age of business, and debt, kept clients from acquiring funding.

Table 10.

In what ways did the Pathway Lending loan help you expand your business? (Please select all that apply.)

Type of Business Expansion	Number of Responses	Percent of Responses
Increase sales/revenue	13	61.90%
Hiring or retaining employees	11	52.38%
Location update	7	33.33%
Management information system (e.g., employee database, sales, production data, or business procedure)	3	14.29%
Online communication or business promotion	4	19.05%

Source: TNSBJOF Client Survey

Among the top reasons for not securing funds through competitive markets, 43% of survey respondents pointed to strict lender requirements. The survey participants also pointed to a lack of approval from other lenders (33%) and other reasons, including rejection and debt, for not seeking financing from other lenders.

Table 11.

What was the reason for not securing financing through other competitive markets?
(Please select all that apply)

Reasons	Number of Responses	Percent of Responses
Strict lender requirement	9	42.86%
Lenders do not approve financing for businesses like mine	7	33.33%
Other- Too much debt, denied financing previously, new business, etc.	6	28.57%

Source: TNSBJOF Client Survey

Employment and Employee Retention

Pathway Lending’s funding assisted businesses when traditional financing was not an option. The TNSBJOF clients indicate that the loans contributed to employee retention and helped them stay in business. The change in company employees from the time of loan application to the recent time rose 121.43%. Almost 90% of survey respondents also stated that the loan has helped them retain existing employees.

Table 12.

What was the change in company employees?

Employees during the loan application	Recent Employees	Percent Change
Full-Time Equivalency 310	Full-Time Equivalency 140	121.43%

Source: TNSBJOF Client Survey

One of the biggest issues companies face today is employee retention. When surveyed, 85.71% of participants stated staffing is one of their top three business challenges. The second and third barriers are cash flow and rising costs.

Table 13.

What are the top three challenges your business faces in day-to-day operations?

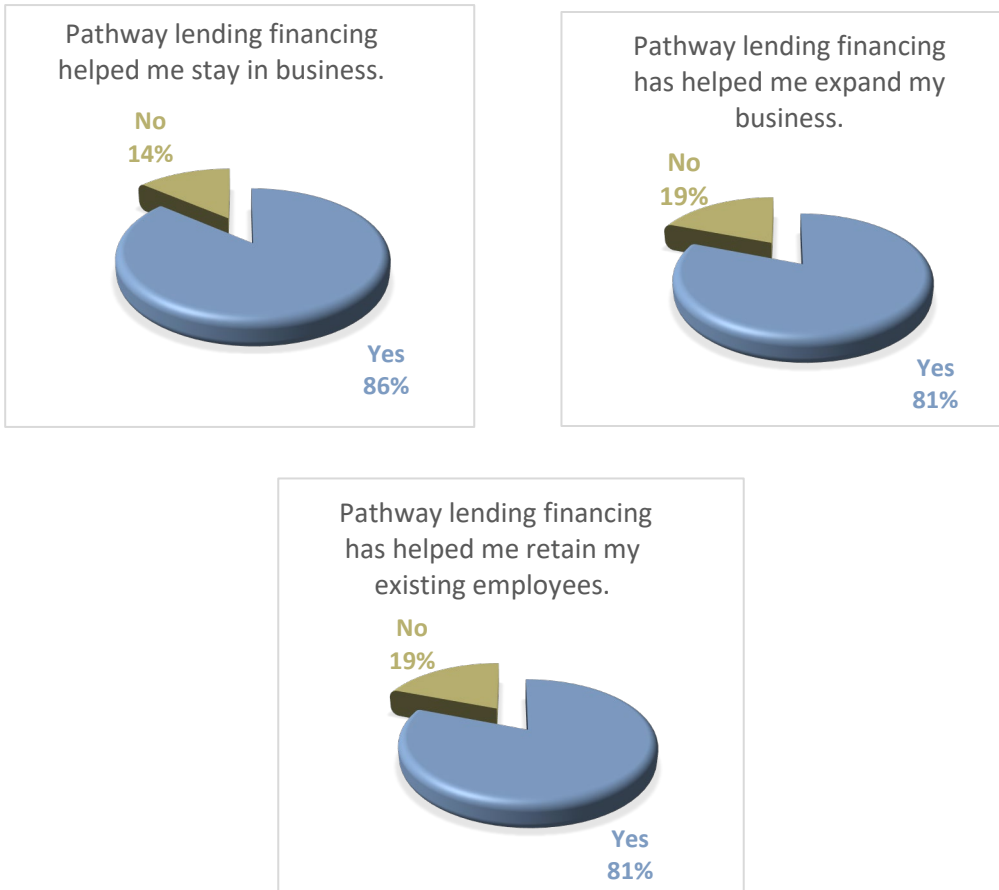
Top Three Challenges	Number of Responses	Percent of Responses
Market Competitiveness	5	23.81%
Staffing- Quality, Retention, and Motivation	18	85.71%
Rising Costs- Labor, Materials, and Real Estate	10	47.62%
Cash Flow, Money Management, and Debt Management	11	52.38%
Site Improvement	5	23.81%
Sales and Marketing	4	19.05%
Other	7	33.33%

Source: TNSBJOF Client Survey

Business Growth

The TNSBJOF financing also helped businesses stay open and expand: 85.71% of those surveyed stated that the loan helped them keep their business open, and 80.95% reported that the financing helped expand their business.

Fig.2-4



Source: TNSBJOF Client Survey

V. Economic and Fiscal Impact

Business Survival Rates

To measure the direct economic impact of TNSBJOF loans on the Tennessee economy, this study calculated the business survival rates of Tennessee companies and Pathway Lending’s TNSBJOF client companies at the 1-year, 3-year, and 5-year marks. As shown in the table below, TNSBJOF companies have a very high rate of survival at 5-year which is significantly higher than the national and state ratings. The difference in the 5-year survival rates between Tennessee companies and Pathway Lending clients is used to calculate the direct job impact of the TNSBJOF loans.

Table 14.

Business Survival Rates: A Comparison

	US (Percent% of Businesses)	TN (% of Businesses)	Pathway Lending (% of Businesses)
1st Year	78.55	91.65	98.81
3rd Year	60.02	59.70	93.63
5th Year	49.43	49.02	90.28

*Note: TN and US survival rates include all business sizes (not only small businesses)

Business survival rates since 2000.

Sources: Calculated from www.bls.gov, TN Secretary of State Company Registry Database, and Pathway Lending Client Data

Economic Impact

Through the TNSBJOF loans, Pathway Lending has made a significant impact on Tennessee's economy. Table 15 includes the direct, indirect, and induced impacts of TNSBOF loans on jobs, wages, and business revenues. TNSBJOF loans helped create 2,396 jobs, which eventually contributed \$433 million in business revenue.

Table 15.

Economic Impact of TSBOF

Impact	Employment	Wage & Salary Impact	Business Revenue Impact
Direct	1,435	\$78,684,084	\$238,202,982
Indirect	457	\$31,496,561	\$99,736,572
Induced	504	\$31,858,125	\$95,122,290
Total	2,396	\$142,038,771	\$433,061,844

Source: Authors' Calculations and IMPLAN

Fiscal Impact

Regarding fiscal impact, TNSBJOF loans have contributed to state, local, and federal taxes; the total fiscal impact at the state and federal levels is \$49.43 million.

Table 16.

<i>Fiscal Impact of TNSBJOF</i>	
Sales Tax	\$10,520,394
Property Tax	\$3,743,552
Other Taxes and Fees	\$3,076,538
Total State and Local	\$17,340,484
Federal Taxes	\$32,098,633
Total Fiscal Impact (State and Federal)	\$49,439,117

Source: Authors' Calculations and IMPLAN

Economic Impact of TNSBJOF by Industry

The study also reviews the economic impact of the TNSBJOF loans by industry sectors. The table below shows that the total economic impact of TNSBJOF loans is \$433 million across all industries. The highest impact is seen on all other food manufacturing sectors, while the lowest is seen on child day care services, with only 36 million.

Table 17.*Economic Impact of TNSBJOF by Industry*

Industry	Total Business Revenue Impact
103: All Other Food Manufacturing	\$48,629,962
214: Miscellaneous Nonmetallic Mineral Products Manufacturing	\$24,102,595
391: All Other Miscellaneous Manufacturing	\$18,750,668
509:- Full-service Restaurants	\$18,615,015
507: Hotels and Motels, including Casino Hotels	\$17,213,464
339: All Other Miscellaneous Electrical Equipment and Component Manufacturing	\$16,915,923
447: Other Real Estate	\$15,847,290
462: Management Consulting Services	\$14,427,147
510: Limited-service Restaurants	\$13,930,872
449: Owner-occupied Dwellings	\$10,744,891
61: Maintenance and Repair Construction of Residential Structures	\$10,017,281
445: Insurance Agencies, Brokerages, and Related Activities	\$8,825,052
402: Retail- Motor Vehicle and Parts Dealers	\$8,707,280
396: Wholesale- Other Durable Goods Merchant Wholesalers	\$8,229,226
475: Investigation and Security Services	\$7,871,788
128: Apparel Accessories and Other Apparel Manufacturing	\$7,415,901
418: Transit and Ground Passenger Transportation	\$6,915,983
469: Management of Companies and Enterprises	\$6,778,398
57: Construction of New Single-family Residential Structures	\$6,279,865
441: Monetary Authorities and Depository Credit Intermediation	\$6,004,203
417: Truck Transportation	\$5,488,583
490: Hospitals	\$5,320,517
56: Construction of Other New Nonresidential Structures	\$5,320,127
520: Other Personal Services	\$5,235,622
472: Employment Services	\$4,691,213
483: Offices of Physicians	\$3,809,193
398: Wholesale- Grocery and Related Product Wholesalers	\$3,653,170
494: Child Day Care Services	\$3,603,785
All Other Industries	\$119,716,829
Total	\$433,061,844

Source: Authors' Calculations and IMPLAN

VI. Return on Investment of TNSBJOF Loans

In terms of return on investment, the study finds that the return on investment of the TNSBJOF loan amount of \$157 million is generating a total amount of \$433 million in business revenue. A total number of 2396 jobs are also created (Table 18). The study results indicate that for every dollar of TNSBJOF loans invested in the businesses, \$2.75 in business revenue is generated across the state. For every million dollars of investment, 15 or more jobs are created or retained in the economy (Table 19).

Table 18.

Return on Investment

Total TNSBJOF Invested	\$157,212,074
Total Business Revenue Created	\$433,061,844
Total Jobs Created	2,396
State and Local Taxes	\$17,340,484
Federal Taxes	\$32,098,633
Total Fiscal Impact (State & Federal)	\$49,439,117

Source: Authors' calculations and IMPLAN

Table 19.

For every dollar of investment,	\$2.75	of business revenue created across Tennessee
For every million dollars of investment	15.24	jobs either created or retained in the economy
For every million dollars of investment	\$110,301	state and local taxes generated
For every million dollars of investment	\$204,177	federal taxes generated
For every million dollars of investment	\$314,478	federal and state-level taxes created

Source: Authors' Calculations and IMPLAN

VII. Conclusion

Through the Tennessee Small Business Job Opportunity Fund, Pathway Lending has significantly contributed to the economic and sustainable growth of small businesses in Tennessee. This study examines how Pathway Lending has contributed to job creation, retention, and revenue growth and has channeled economic growth through its TNSBJOF loans since 2010.

Indicators reported in the study demonstrate that TNSBJOF loans have substantially impacted Tennessee's economy. Some of the key findings of this study include:

- For the invested loan amount of \$157.2 million, the business revenue generated is \$433 million.
- The business survival rate of TNSBJOF companies at 5- year mark is 90%, which is 41% higher than the state survival rate.
- The total fiscal impact generated at the state, local, and federal levels is \$49.4 million.

It is essential to note that Pathway Lending as a CDFI provides important credit access to small businesses that otherwise have limited access to capital and supports its client businesses with loan education, coaching, and loan management training. Of the 228 businesses supported by the TNSBJOF loan, 38.6% are women-owned, 29.4% are minority-owned, and 20% comprise low-income businesses. The TNSBJOF is critical in building equitable access to capital and promoting sustainable business development in the state economy.

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