# **Investing in Small Business Development:** What Motivates Banks in Creating Partnerships?

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## Executive Summary

As a Community Development Financial Institution (CDFI), Pathway Lending plays a crucial role in fostering economic growth and supporting underserved communities through its partnerships with banks and other financial institutions. This report examines the motivations behind banks' decisions to partner with Pathway Lending. The survey and interview findings indicate that banks highly value Pathway Lending's leadership, risk management capabilities, and commitment to social impact, which collectively help mitigate the risks associated with investments in underserved markets. Banks are especially drawn to Pathway Lending's ability to align financial investments with Community Reinvestment Act (CRA) compliance and to create meaningful, long-term social benefits for low- and moderate-income communities. Some key findings of this study include:

- ***Priorities in Investment Decisions***
    - Banks value social impact and regulatory compliance as the highest priorities when making community investment decisions through CDFIs. Findings indicate that **regulatory compliance** and social impact are considered very important in making community investment decisions by 93% and 85% of bank representatives, respectively.
    - Almost 71% of bank representatives indicated that banks have a formal community investment plan.

- ***Factors Influencing Community Investment***
    - Credit risk and familiarity with community organizations are important factors that influence community investment decisions, as 57.15% of banking professionals rated these factors as highly significant in their decision-making process.

- ***Pathway Lending as a reliable Banking Partner***
    - Majority of the banks **share 15-22 years of partnership** with Pathway Lending.
    - Banks are motivated to partner with Pathway Lending because of its **strong leadership**, **reliable management**, and **deep community connection** serving low- and middle-income groups and minority businesses.
    - Bank professionals demonstrate high confidence in Pathway Lending's leadership, which is key to ensuring successful partnerships and long-term trust.

- ***Risk Management***
  - Banks value Pathway Lending's ability to **mitigate risks through its financial stability** and management of high-risk clients.
  - Pathway Lending bridges the gap between banks and underserved businesses that often do not qualify for traditional loans, thus reducing the risk.

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## I. Introduction

Pathway Lending plays a crucial role in the economic development of underserved communities by providing financing to small businesses and fostering local growth. A significant element of this process is the partnership between banks and community development financial institutions (CDFIs), such as Pathway Lending, to stimulate investments that promote sustainable economic opportunities. This report aims to explore the motivations and experiences of banks in forming partnerships with Pathway Lending.

Community banks have long been essential to local economies, offering personalized financial services and cultivating deep-rooted relationships with small businesses. However, as regulatory frameworks evolve and the financial sector becomes increasingly dominated by larger institutions and fintech companies, the role of community banks in driving local economic development has come into sharper focus. Pathway Lending offers these banks an opportunity to reinforce their commitment to community investment, aligning their operations with broader financial inclusion goals and sustainable local development.

This report is based on survey and interview data collected by the Business and Economic Research Center (BERC) at Middle Tennessee State University from various banking professionals, aiming to understand their motivations for forming partnerships with Pathway Lending. The survey focused on the key factors influencing their community investment decisions, and the challenges they face in making investment decisions and partnership development processes. The survey explored several aspects, including whether banks have formal community investment strategies, how frequently these strategies are updated, the factors driving their decision-making, and the role of regulatory requirements, financial incentives like the Tennessee Small Business Jobs Opportunity Fund (TNSBJOF) tax credit, and social impact considerations. Additionally, it examined how banks assess risks, returns, and the overall value of their community investments. The survey aimed to gather insights into the decision-making framework of banks when partnering with Pathway Lending (or similar CDFIs) and to identify the most effective incentives that encourage further investment in community development projects. BERC also conducted in-depth interviews with the banking representatives. During the interviews with the banking representatives, the length and nature of their partnership with Pathway Lending were explored, along with the benefits, concerns, and risks of partnership building with CDFIs like Pathway Lending. It also reviewed the preferred community investment types by banking professionals and prospects for engagements with CDFIs.

By engaging with these financial institutions, the report examines how community investment strategies are influenced by regulatory factors, the perceived value of local partnerships, and the incentives provided through tax credits. This introduction sets the stage for a more in-depth analysis of the literature surrounding banks' motivations for community investment and their collaboration with CDFIs. The following sections will review the existing research on bank partnerships with CDFIs and the strategic value these collaborations bring to local economic ecosystems. The study findings are presented in the subsequent chapters.

## II. Literature Review

The dynamic landscape of small business lending, underscored by the evolving roles of community and larger banks, presents a multifaceted picture of how financial innovations, regulatory changes, and technological advancements have reshaped access to credit for small businesses. Through a comprehensive literature review, a nuanced understanding emerges regarding the influence of small business credit scoring, the shifting preferences of small businesses towards banking institutions, and the enduring value of relationship lending. This review highlights the increasing complexity of how banks serve small businesses, challenging traditional perspectives but reaffirming the critical role of community banks in fostering economic growth. This literature review explores various aspects of small banks' investment incentives in local communities, examining the impacts of bank organizational structure and the competitive advantages of local knowledge and personalized service (Berger & Udell, 2002). Additionally, this review looks at how Community Development Financial Institutions (CDFI) and regulations have increased investment and development in underserved communities. This review aims to offer a comprehensive insight into the current state and future prospects of small business lending, focusing on the vital role of community banks in supporting local economies by investing in CDFIs.

Community banks promote local economic growth, stability, and resilience. In partnership with CDFIs, these banks can leverage "soft" information through relationships with their clients, thereby facilitating access to credit for small businesses and individuals whom larger banking entities might otherwise overlook (Hein et al., 2016) (Scott, 2004). This approach helps to bridge the information gap, giving the community banks an advantage in understanding and serving the needs of their local markets. Moreover, the literature reveals that regions with a strong community bank presence tend to be economically resilient. Such resilience comes from the banks' ability to continue providing credit to small businesses (Petach et al., 2021). By focusing on relationship-based lending and commitment to community development, small banks play a distinctive role in promoting sustainable economic growth and investing in opportunities that satisfy the Community Reinvestment Acts.

The collaboration between community banks and CDFIs significantly enhances the financial resources of local communities, especially for low and middle-income or minority business owners. The literature provides evidence that such partnerships enrich the financial landscape of underserved areas and offer strategic benefits to the participating institutions. Literature indicates the collaborative nature of small banks and CDFIs, highlighting the critical role of CDFIs in filling the credit gaps unaddressed by larger banking entities (Hein et al., 2016). These partnerships enable community banks to extend their reach, fostering economic growth and resilience in local markets by supporting small businesses, affordable housing, and community services (FDIC, 2014). Furthermore, the literature underscores the strategic importance of aligning with CDFIs for community banks, particularly in offering specialized financial products and services and meeting regulatory requirements. This alignment enhances the banks' ability to fulfill their Community Reinvestment Act (CRA) obligations and also allows them to make an impact on community development (FDIC, 2014). Since changes to the CRA Act in 1995, the percentage of bank investment in these areas has increased from 15 percent in 1995 to 38 percent in 2013 (Balboni & Tavers, 2017). The mutually beneficial relationship between community banks and CDFIs can, thus, economically uplift local communities while expanding investment opportunities. This partnership strengthens the financial resources available for local development projects, providing targeted financial solutions for underserved communities and leading to ensuring sustainable and inclusive growth for the communities they serve.

The gap between large and small banks, particularly in small business lending, has been a subject of extensive study. The advent of small business credit scoring (SBCS) models marks a crucial shift in lending practices (Berger & Frame, 2005; Berger et al., 2014). This innovation, primarily adopted by large banks to simplify the process for "micro credits" under $250,000, leverages consumer data about the business owner and limited business-specific data. The SBCS aims to predict future credit performance, which has revolutionized the availability and terms of small business credits. Banks utilize Small Business Credit Scores (SBCS) in varying ways, sometimes limiting the accessibility of loans for some small businesses. While some banks rely on these scores for automated decision-making processes, employing preset "rules," others blend the scores with additional information through a more "discretionary" approach (Berger & Frame, 2005). Using the “rules” approach has also ignited concerns over the diminishing role of relationship lending. The personal, localized approach characteristic of small banks, which often involves in-depth knowledge of the borrower and their business, faces challenges due to automated methodologies. The loss of the traditional relationship lending process raises questions about the future landscape of small business financing. For small or regional banks, shifting toward adopting streamlined processes for making loan decisions and collaborating with CDFIs can enhance the scope of lending to small enterprises while also providing secure investment prospects.

The literature consistently highlights a mutually beneficial relationship between CDFIs and small enterprises. CDFIs possess an inherent advantage in servicing small businesses compared to larger banking entities. Larger banking entities face higher lending costs due to organizational structure and consolidation practices. However, by partnering with CDFI, banks can improve their operations, community impact, financial health, etc. Literature underscores that CDFIs are noted for their focus on local communities, where they gather deposits and lend within a restricted trade area. This way, banks can exhibit a capacity for adaptation and resilience, allowing them to play a better role in fostering community development and supporting small businesses (Strahan & Weston, 1998; Stiroh, 2004). This allows banks to have a greater scope in addressing the needs of small businesses and individuals in their regions. By working closely with CDFIs, small banks can further leverage this advantage, emphasizing personalized service and understanding local needs, leading to more targeted and effective financial solutions for underserved communities. Utilizing CDFIs' expertise in serving low-income communities, banks can facilitate more community development and expand their financial inclusion (Hein et al., 2016). The literature also suggests that by advancing technology use by collaborating with CDFIs, banks can access technological resources and platforms that may otherwise be out of reach. This collaboration can enhance their ability to offer online banking services, mobile banking, and financial literacy programs, making banking more accessible and convenient for underserved communities.

The rise of online lenders has introduced new dynamics in the market for small business loans. Despite the vital role of banks in local communities, these new entrants have begun to attract small businesses and minorities that traditionally faced challenges in securing loans from traditional banking. Small-dollar loans, often under $250,000, are particularly sought after by small businesses, a segment where community banks, in collaboration with CDFIs, could significantly enhance their presence (Mills & McCarthy, 2016). Utilizing their local knowledge and relationships with the community, banks can appeal to businesses and individuals seeking smaller loans for growth or operational needs. This approach not only strengthens the banks' ties to their local communities but also positions them as viable alternatives to online lenders, appealing to small businesses and groups that value local, personalized banking relationships (Mills & McCarthy, 2016). Collaborating with CDFIs also offers an avenue for diversifying their loan portfolios. This collaboration can improve risk management practices and financial stability, ensuring banks can serve their communities effectively without compromising their financial health.

In summary, banks, and their partnership with CDFIs are critical for promoting economic growth and resilience in the local market. Furthermore, their collaboration offers significant strategic benefits, enabling both to expand their influence and fulfill regulatory requirements while fostering economic growth. This combined effort is essential to ensuring long-term stability and financial prosperity.

## III. Methodology

Since its inception, Pathway Lending has partnered with multiple banks, community organizations, and government financial organizations to build financial security for small businesses in Middle Tennessee. Pathway Lending has been supporting and preserving existing businesses that are otherwise not eligible for business loans. The primary purpose of this study is to assess banks' motivation to create investment partnerships with Pathway Leading. This study used survey research and interviews to collect data from banking professionals in the middle Tennessee region. Pathway Lending provided the initial contact list of 22 banking professionals. The survey and interview response rates are 64% and 32%, respectively.

The survey procedure involved three significant research tasks: i. Designing the survey instrument, ii. Surveying the banking professionals following the survey best practices, and iii. Analyzing the survey data. BERC used the Qualtrics survey platform to create a survey incorporating the research objectives and ensuring the study participants' ease of access. BERC obtained the Institutional Review Board (IRB) approval from the Office of Research and Sponsored Program (ORSP) at Middle Tennessee State University (MTSU). Using the contact list provided by Pathway Lending, BERC sent the survey to bank representatives, followed by multiple email reminders within the 6-week survey period. BERC used a 5-digit survey code unique to each participant to maintain participant confidentiality and data accuracy. Once the survey ended, the data were compiled, cleaned, and analyzed to develop market insights.

Similarly, the interview process included an open-ended questionnaire with IRB approval from the Office of Research and Sponsored Program (ORSP) at Middle Tennessee State University (MTSU). The interviews were conducted via Zoom with prior permission from the participants during the span of 6-8 weeks. The interview data was then transcribed, decoded, and analyzed using a content analysis method.

The findings presented in this report include data from the survey research and interviews. While the response rate may appear modest, the findings offer valuable and critical insights into the factors influencing investment partnerships between banks and Pathway Lending.

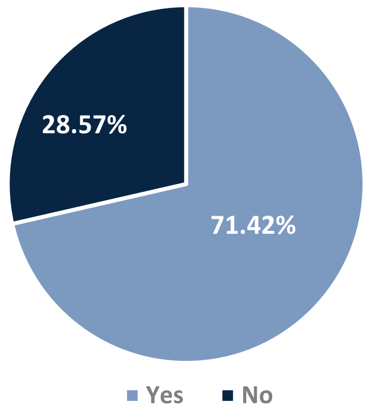
## IV. Survey Findings

This section provides a detailed analysis of survey responses regarding banks' motivations and decision-making processes when forming partnerships with Pathway Lending for community investment. The survey sought to understand the factors influencing banks in community investment through CDFIs like Pathway Lending, the challenges they face, and the key factors influencing their strategies. Each question from the survey offers insights into different aspects of community investment, from the existence of formal plans to the importance of financial returns and social impact. Through these findings, Pathway Lending can better understand how to enhance its partnerships with financial institutions, align with their investment priorities, and address any challenges or barriers.

### 1. Formal Community Investment Plan

The survey data shows that most banks (71.42%) have a formal community investment plan. This indicates a strong institutional commitment to structured, strategic investments in the community. Such formal plans suggest that these banks view community investments not as incidental activities but as integral components of their corporate social responsibility or regulatory compliance frameworks. The presence of a formal plan often translates to a clearer pathway for engaging with organizations like Pathway Lending. Conversely, 28.57% of respondents reported not having a formal community investment plan, which might imply a more reactive or less structured approach to community engagement. For these banks, Pathway Lending could position itself as a strategic partner to help formalize or enhance their community investment efforts.

**Does your bank has a formal community investment strategy or plan?**

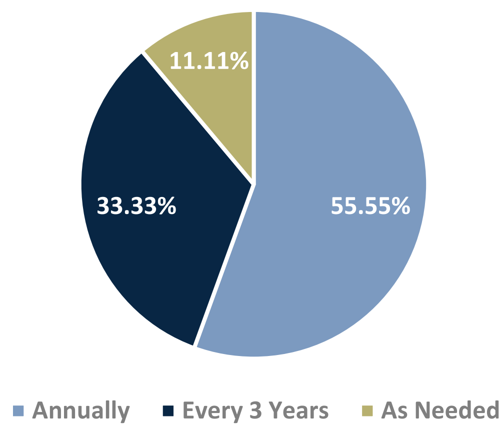



*Source: BERC Community Investment Survey*

**2. Frequency of Community Investment Strategy Updates**

Most banks (55.55%) reported updating their community investment strategies annually, reflecting a proactive approach to ensuring that their investments remain relevant and aligned with evolving market and community needs. Regular updates may be driven by changing regulatory environments, shifting community needs, or emerging opportunities for collaboration. On the other hand, a significant portion (33.33%) of respondents update their strategies every three years, which may indicate longer planning horizons and a focus on sustained long-term projects. A small percentage (11.11%) stated that their strategies are updated as needed, which might suggest flexibility or other ventures serving as top priority.

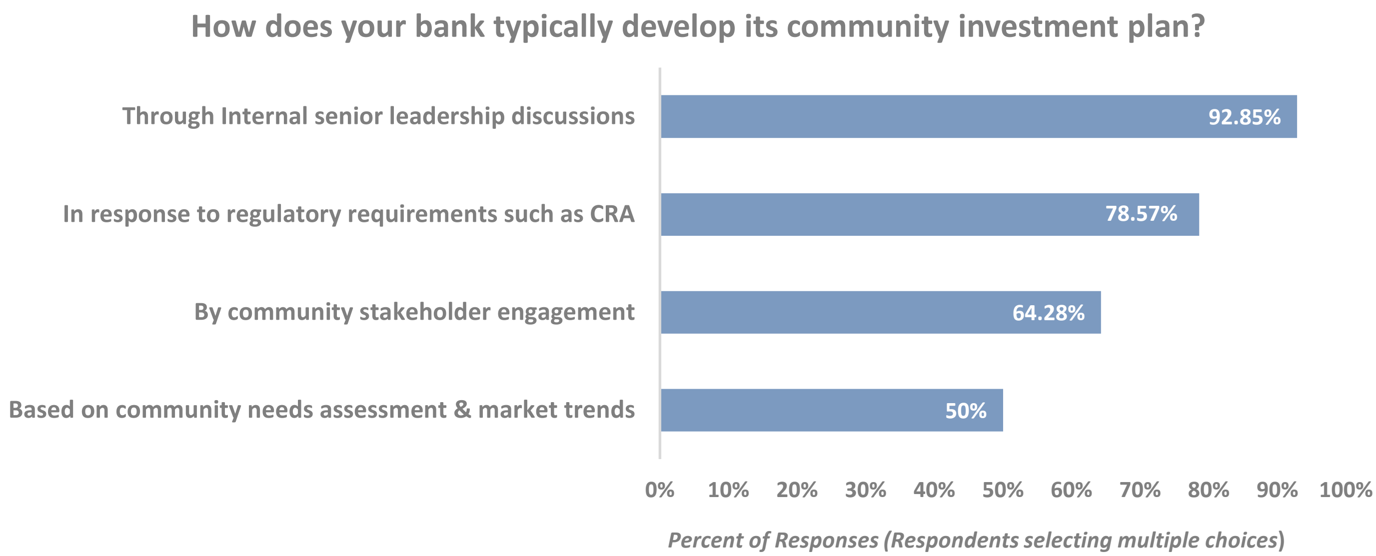
How often is the community investment strategy updated?




*Source: BERC Community Investment Survey*

### 3. Developing Community Investment Plans

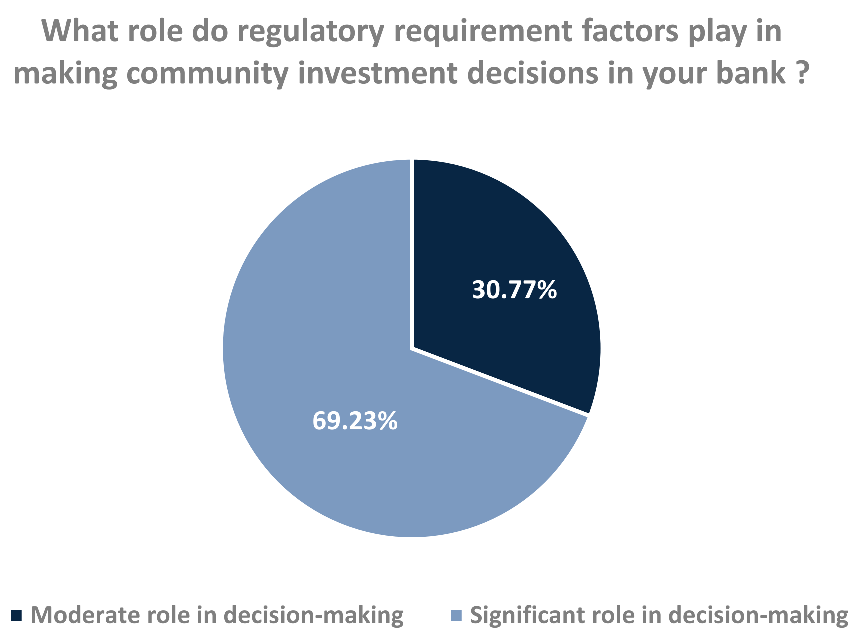
When asked how banks develop their community investment plans, 92.85% of banks indicated that they rely on internal discussions and collaborations among senior leadership. This points to the importance of senior leadership buy-in for community investment initiatives and suggests that CDFIs like Pathway Lending may need to engage directly with senior decision-makers to secure partnerships. Regulatory requirements such as CRA compliance are another key reason banks are motivated to invest in Pathway Lending or similar community development financial institutions, as indicated by 78.57% of survey respondents. Additionally, 64.28% of respondents engage with community stakeholders such as local governments and nonprofits when developing their plans, highlighting the collaborative nature of many banks' community investment strategies. Pathway Lending's engagement with these stakeholders can enhance its visibility and make it a more attractive partner for banks.




*Source: BERC Community Investment Survey*

### 4. The Role of Regulatory Requirements

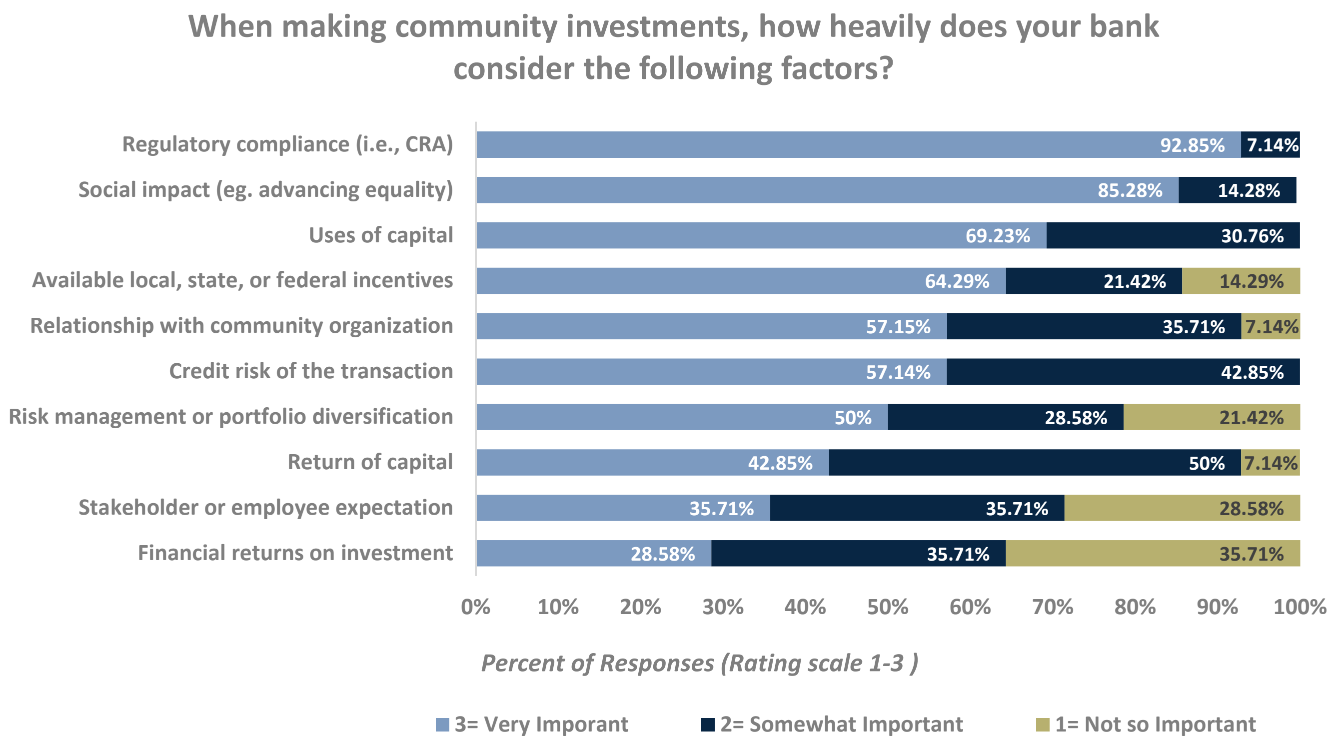
For banks, regulatory compliance plays a major role in community investment decisions, with 69.23% of survey participants indicating that regulatory requirements play a significant role in their decision-making process. This is unsurprising, given the stringent regulations banks must follow, particularly concerning the Community Reinvestment Act. While CRA compliance remains a high priority, 30.77% of survey respondents also noted that regulatory requirements play only a moderate role, suggesting that there are other factors at play, such as financial returns or social impact, alongside compliance while making investment decisions.




*Source: BERC Community Investment Survey*

### 5. Factors Influencing Community Investment

Banks take into consideration multiple factors while making investment decisions involving CDFIs. When asked to rate the importance of various factors in their community investment decisions, the survey respondents highly emphasized regulatory compliance, with 92.85% rating it as the most important. The respondents also rated social impact (85.28%) and use of capital (69.23% ) as the most important factor. Additionally, they recognize available local, state, or federal tax incentives (64.29%) and relationships with community organizations (57.15%). These responses highlight that many banks seek financial returns and want to ensure their investments make a meaningful difference in their communities. Credit risk of the transaction is also seen as important, with 57.15% of respondents placing a high value on this factor and 42.85% of respondents rating it as somewhat important. These responses underscore that while regulatory compliance or social impact is critical, credit risk cannot be overlooked.

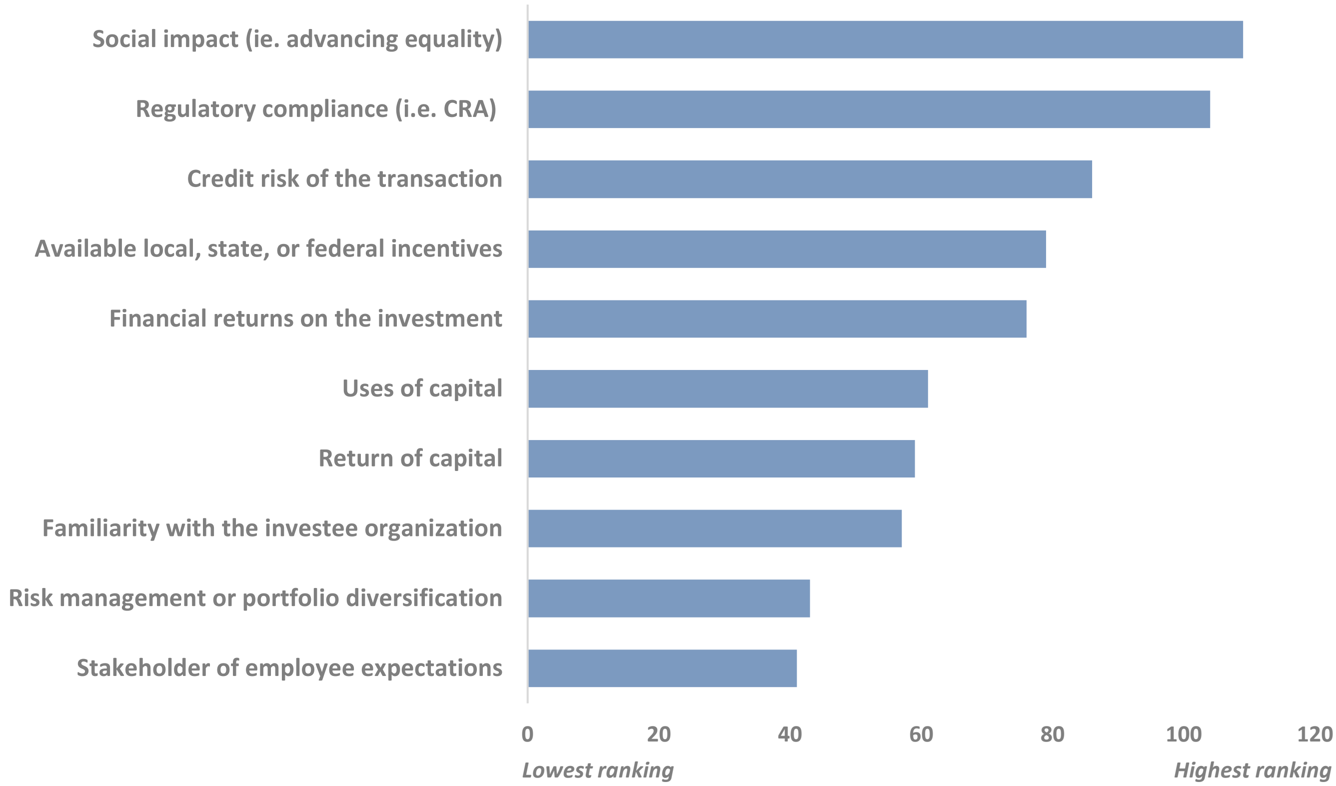



*Source: BERC Community Investment Survey and BERC Calculations*

### 6. Prioritization of Factors in Community Investment Decision-Making

Respondents placed social impact and regulatory compliance as the top priority when ranking the factors that highly influence community investment decisions. While still significant, credit risk for transactions was ranked slightly lower, which suggests that some banks may feel confident in meeting regulatory requirements such as CRA and are more focused on the outcomes of their investments. Other factors, such as stakeholder expectations and risk management, were ranked lowest among the participants, implying that while these considerations are part of the decision-making process, they are not as critical as the social impact or returns on the investment.

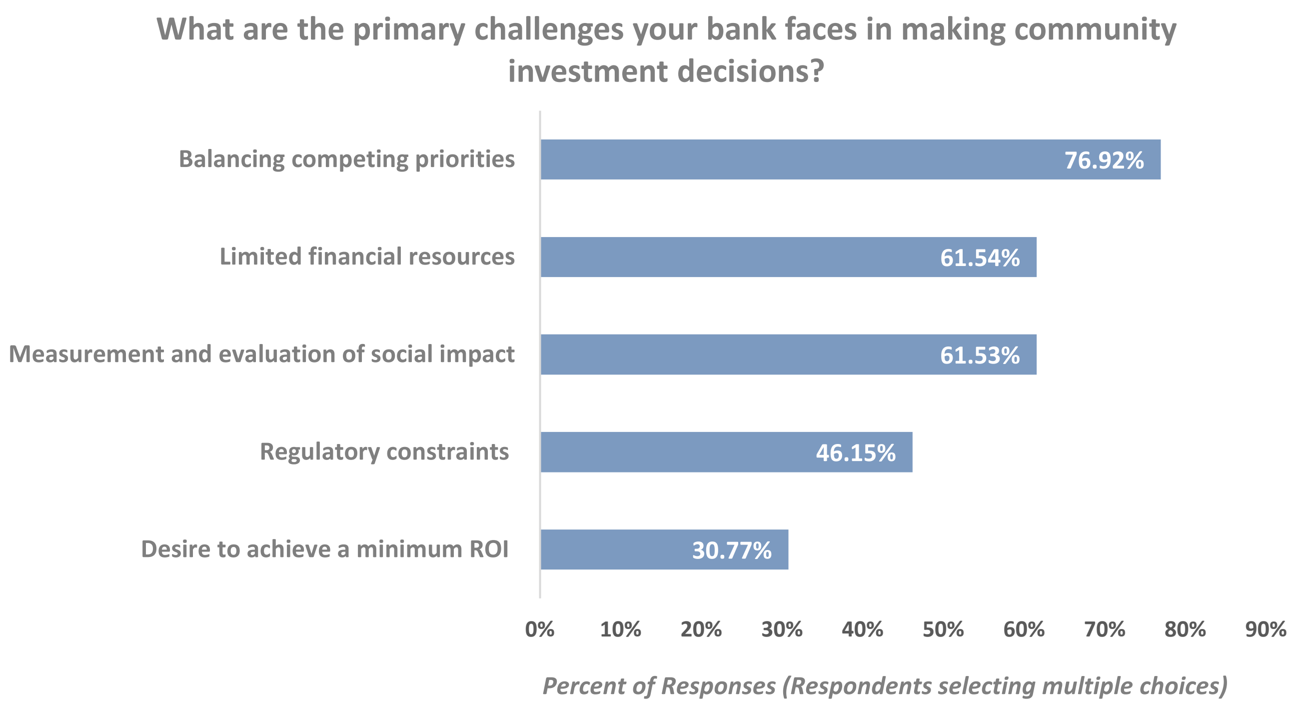
## Rank the following factors based on the weight given in the community investment decision-making process from lowest to highest.




*Source: BERC Community Investment Survey and BERC Calculations*

### 7. Challenges in Community Investment Decisions

The most significant challenge banks face in making community investment decisions is balancing competing priorities. The survey findings indicate that 76.92% of bankers identify balancing competing priorities as the biggest challenge, followed by 61.54% of respondents who highlighted limited financial resources as a key barrier. This indicates that while banks are committed to social investment, they often struggle to allocate resources between competing demands. Another major obstacle, cited by 61.53% of respondents, is the measurement and evaluation of social impact. Banks recognize the importance of social outcomes, but the challenge lies in effectively quantifying and tracking these impacts. Regulatory constraints, mentioned by 46.15% of respondents, also pose a significant challenge in making investment decisions. These regulations may limit the flexibility banks have in structuring community investments, requiring them to carefully navigate complex compliance issues. Finally, 30.77% of respondents noted the desire to achieve a minimum return on investment (ROI), reflecting that while social impact is a priority, financial return is also important. This highlights the tension banks face between fulfilling their social responsibility and maintaining financial sustainability. Together, these challenges paint a picture of the multifaceted hurdles banks must overcome in balancing community investments with their broader goals.

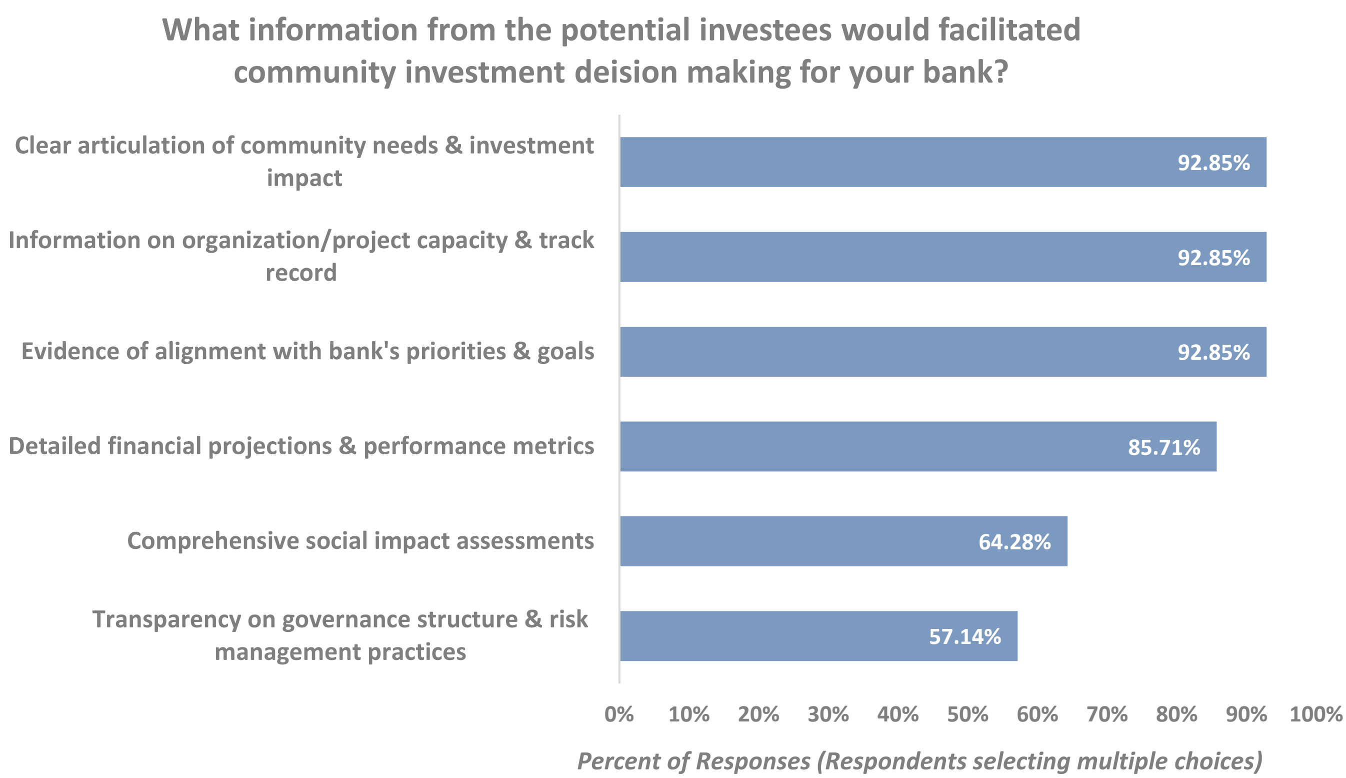



*Source: BERC Community Investment Survey*

## 8. Potential Investee Information to Facilitate Investment Decisions

When asked what information from potential investees would facilitate banks' decision-making regarding community investments, the highest-rated factors were alignment with the bank’s strategic priorities, the capacity and track record of the organization or project, and the clear articulation of community needs and investment impact, with 92.85% of respondents emphasizing these aspects. These findings suggest that banks prioritize investees that align with their goals and demonstrate proven capability and a deep understanding of community needs and how their investments will create positive impacts.

Detailed financial projections and performance metrics were also critical, as cited by 85.71% of the respondents, underscoring the importance of transparent and quantifiable financial data to support investment decisions. Additionally, 64.28% of respondents highlighted the need for comprehensive social impact assessments, reflecting the growing emphasis on understanding the broader outcomes of investments. Transparency regarding governance structures and risk management was noted by 57.14%, indicating that banks value strong leadership and accountability in potential investment partners.

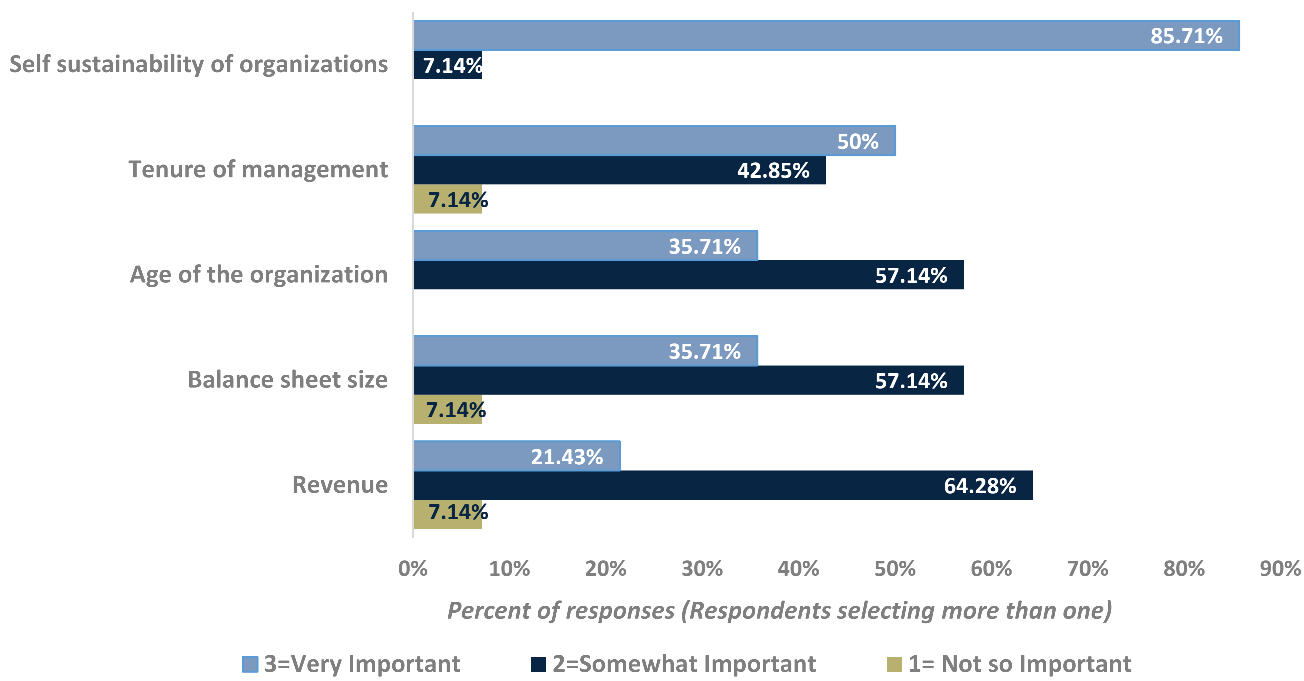


*Source: BERC Community Investment Survey*

### 9. Factors for Selecting CDFIs to Invest In

Banks rated several factors when selecting CDFIs like Pathway Lending for investment. The self-sustainability of financial institutions was the most important factor, with 85.71% of respondents rating it as very important, highlighting banks' preference for organizations that can operate independently of external funding. The management tenure was also significant, with 50% of respondents rating it as very important, though 42.85% found it somewhat important. Balance sheet size and the age of the organization were rated very important by only 35.71%, with a larger portion of respondents (57.14%) finding these factors somewhat important. Revenue was considered somewhat important by 64.28% of respondents, while 21.43% rated it as very important. This hints that financial stability and leadership are valued but secondary to an organization's ability to sustain itself.

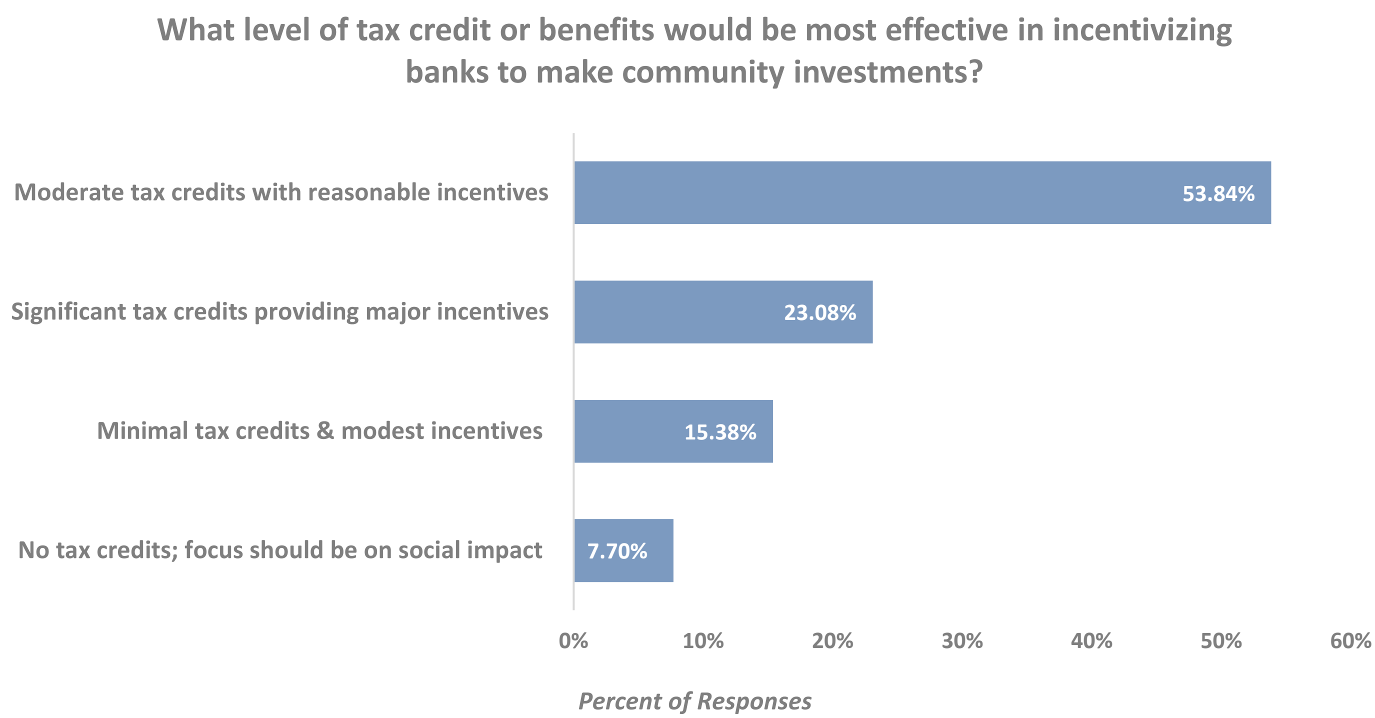
**When selecting organizations to invest in, how does your bank rate the following factors?**




*Source: BERC Community Investment Survey and BERC Calculations*

**10. Effectiveness of Tax Credit Levels**

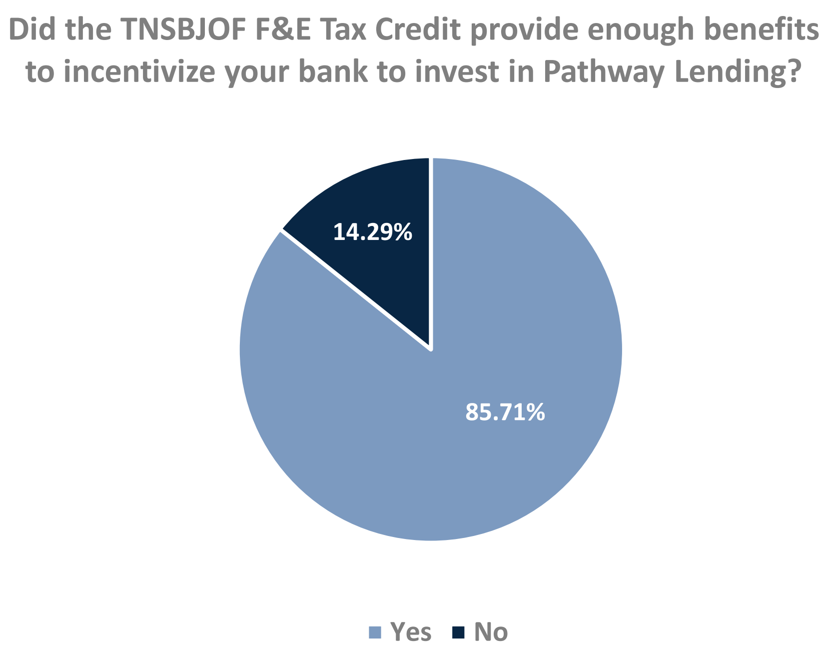
Most survey respondents (53.84%) indicated that moderate tax credits or benefits are the most effective in incentivizing banks to make community investments. This suggests that while financial incentives are a motivator, they do not need to be overly generous to influence investment decisions. However, a notable portion of banking respondents (23.08%) preferred significant tax credits, indicating that some banks still value maximizing financial incentives. Interestingly, (15.38%) of respondents preferred minimal tax credits, and a small percentage (7.70%) stated that no tax credits are needed, highlighting that factors such as social impact or alignment with strategic goals can be more important drivers for certain institutions but not the majority.




*Source: BERC Community Investment Survey and BERC Calculations*

### 11. Benefits of the Tennessee Small Business Jobs Opportunity Fund (TNSBJOF)

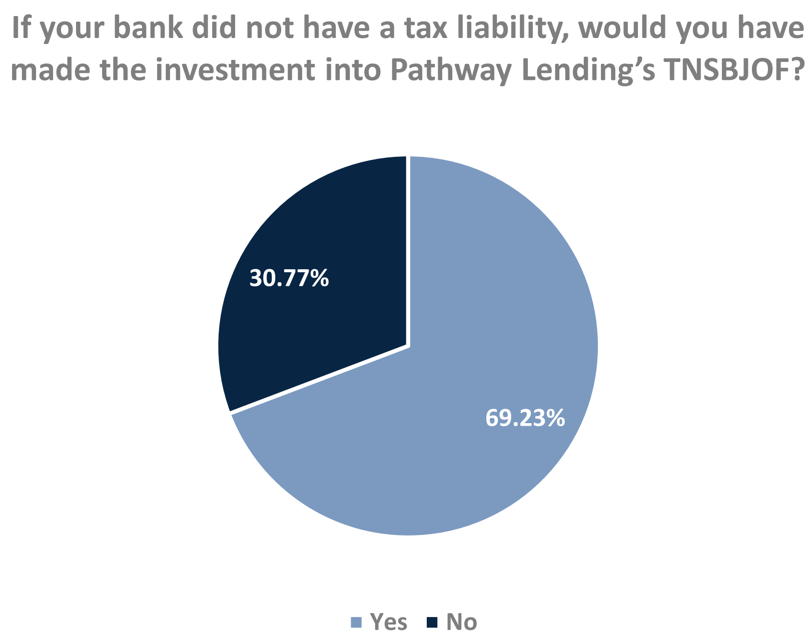
A large majority of respondents (85.71%) reported that the Tennessee Small Business Jobs Opportunity Fund (TNSBJOF), provided enough benefits to incentivize their investment in Pathway Lending. This highlights the effectiveness of the TNSBJOF program in encouraging community investments from banks. However, 14.29% of respondents felt that the benefits were insufficient, which suggests there may be room for improvement in the structure or communication of the benefits offered by the program to appeal to a broader range of financial institutions.




*Source: BERC Community Investment Survey*

## 12. Investment Without Tax Liability

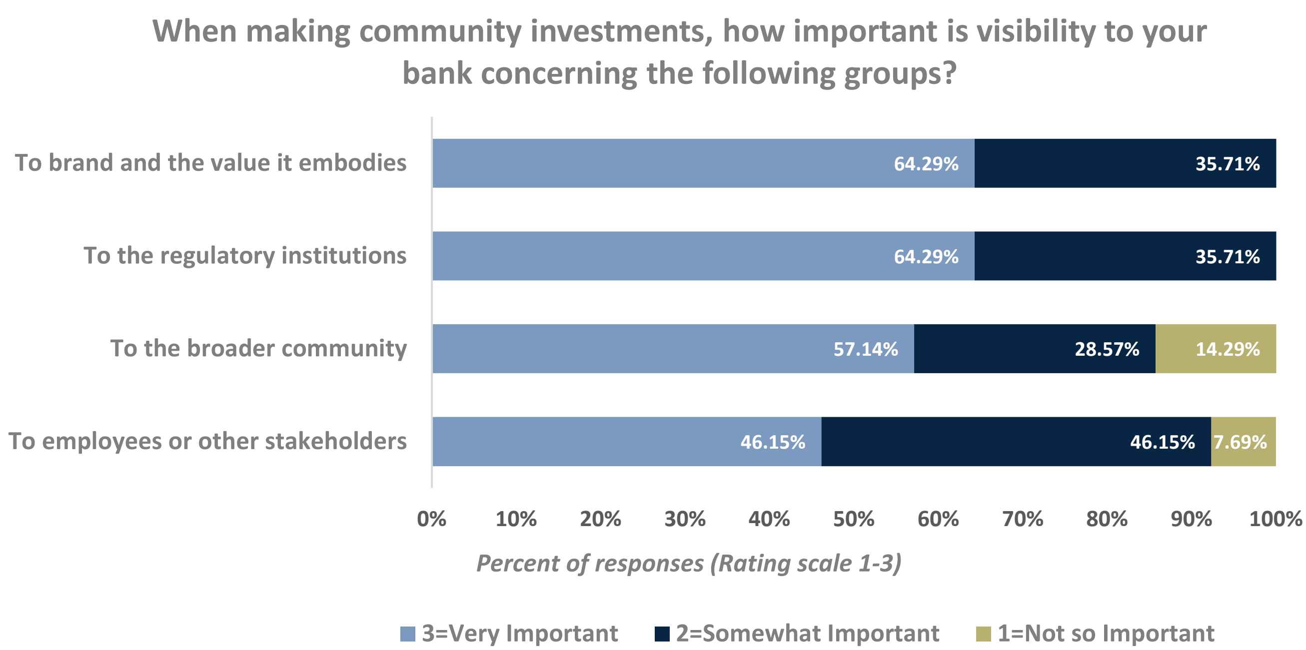
When asked whether the banking professionals would still invest in Pathway Lending's TNSBJOF without having tax liability, 69.23% of respondents said yes, indicating that most of the banks value the investment for reasons beyond tax incentives. This suggests that while tax credits play a role, many banks see intrinsic value in partnership building and the impact of their investments. On the other hand, 30.77% of respondents indicated they would not invest without tax liability, underscoring the importance of financial incentives for a significant portion of the banking sector.




*Source: BERC Community Investment Survey*

### 13. Importance of Visibility and Recognition in Community Investments

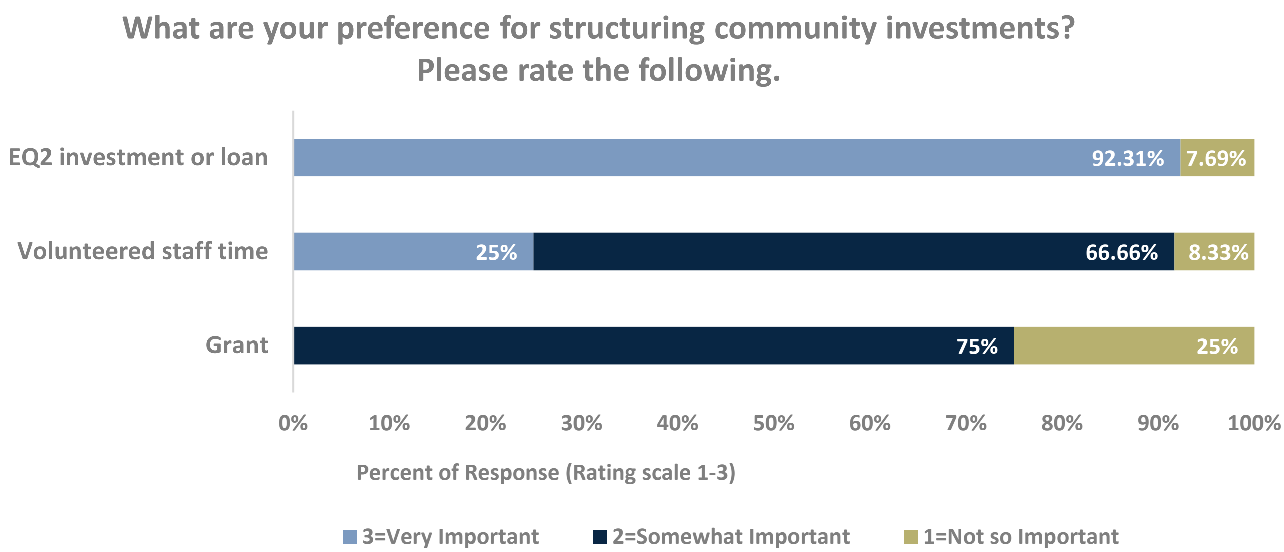
Banks rated visibility and recognition of community investments as highly important, with 64.29% of respondents highlighting visibility to regulatory institutions. The same percentage of respondents (64.29%) rated their brand and the values they aim to embody as very important, emphasizing the need for compliance and alignment with the bank's public image. Visibility to the broader community was also valued, with 57.14% of respondents rating it as very important, though 28.57% found it only somewhat important. Meanwhile, visibility to employees or other stakeholders received a mixed response, with 46.15% rating it as very important and another 46.15% as somewhat important, indicating that internal recognition, while relevant, may not be as critical as external factors.




*Source: BERC Community Investment Survey and BERC Calculations*

**14. Preferences for Structuring Community Investments**

When asked about their preferences for structuring community investments, most banks (92.31%) preferred EQ2 investments or loans, highlighting their interest in financial structures that allow for a return on capital. This preference indicates that banks are more likely to invest with a potential financial return than outright grants. Grants are rated less favorably, with 75% rating them as somewhat important. Interestingly, donated, or volunteered staff time was also seen as valuable, with 25% of respondents rating it as very important, reflecting a desire to engage in community support beyond just financial contributions. 100% of respondents expressed preferences for other types of investment structures.




*Source: BERC Community Investment Survey and BERC Calculations*

These insights provide a clear understanding of banks' motivation to engage with Pathway Lending by aligning their offerings with the factors most valued by potential partners. Pathway Lending can further strengthen its partnerships and enhance its role in community development investments by focusing on transparency, impact assessments, and aligning projects with strategic goals.

## V. Interview Findings (A)- Pathway Lending is a Reliable Partner

This study assesses the motivations and incentives that lead banks to build partnerships with community development financial institutions. The purpose is to gain insights into the prospects for such partnership-building in the future. To accomplish this, BERC surveyed regional banking professionals to understand their motivation for building community investment partnerships with Pathway Lending. BERC then conducted in-depth Zoom interviews with a subset of these individuals. The total response rate was 32%. The major themes of the interviews are summarized below. BERC noted that the interviewed bankers agreed on all major points, particularly in evaluating their experiences working with Pathway Lending.

### A1. Partnership-Building with Pathway Lending

As the interview findings reveal, banks have long-standing relationships with Pathway Lending, often spanning 15 to 22 years. These partnerships have evolved over time and include various capacities such as investments, loan purchases, and collaborative lending programs. The following key points have emerged from the thematic content analysis of the interview responses.

**Ties Built Over Many Years and in Multiple Capacities**

- The majority of the banks have **partnered with Pathway Lending since its inception** or early years. For example, one of the interview participants noted that his *"…connection with Pathway Lending goes all the way back to [the original name of his bank] way back in 1999..."*
- In more than a few cases, the bankers had partnered with Pathway Landing at earlier institutions before moving to their current position. A participant recounted his professional connection with Pathway Lending as being *"…through three institutions…for over 15 years..."*
- Pathway Lending has gained a reputation as a reliable partner that provides scope for community investments outside of standard banking procedures. *"Pathway Lending is stable, and its book is solid."*
- Communication is frequent. One banker noted that he speaks to Pathway Lending once a month.

### A2. Reasons for Partnering with Pathway Lending

The interview findings indicate that most banks partner with Pathway Lending due to its strong leadership as a community-focused financial organization. As a CDFI, it can facilitate Community Reinvestment Act (CRA) compliance, has risk mitigation capabilities, and has expanded reach into underserved markets. The following key points have emerged from the thematic content analysis of the interview responses.

**Strong Leadership and Trust**

- Pathway Lending's **reliable management instills confidence** in banks. Many of the interviewed bankers cited Pathway Lending's leadership role in small business development. They also pointed out the management skills exhibited by Pathway Lending as a CDFI.
- **Leadership is crucial for long-term investments** among bank professionals. The interview findings reveal that most banking professionals highly trust Pathway Lending's leadership. It is the key to a successful partnership with Pathway Lending.
- In many of the interviews, bankers repeated the same point. In the words of one: "We *are not concerned about their financials*." Another pointed out that Pathway Lending shares its audits: "*They are in a strong financial position…. we rate all this stuff*." Yet another, "*They have a good balance sheet*." There is a consensus that the **financial soundness of Pathway Lending** is a major strength.

**CRA Compliance**

- Partnering with Pathway Lending helps banks meet **regulatory obligations** such as CRA compliance. Bankers universally cited the need to meet CRA requirements as a motive for using CDFIs. As a CDFI, Pathway Lending offers a unique opportunity for banks to invest in businesses in low- and medium-income communities.
  As one noted*, "…(Pathway Lending) allows (us) to get capital into the community…",*
- Investments with Pathway Lending often qualify for desirable **CRA credits and tax benefits**. As a CDFI, Pathway Lending provides scope for community investments outside the standard banking procedures. It allows businesses certain flexibility in terms of loan access and below-market financing. Thus, Investing in Pathway Lending allows banks to invest in businesses that need the most support.

**Risk Mitigation**

- Pathway Lending's financial stability reduces the inherent risks in community investments. As a CDFI, Pathway Lending **bridges the gap between banks and small businesses** or "young entities" that often do not qualify for traditional banking loans. As pointed out by one interviewee,

*"... (PL) helps bridge the gaps with younger entities/members; we may not always reach … (younger entities) …are not quite ready for traditional banking loans; in that case, Pathway Lending steps in."*

- Bankers note that CDFIs have already vetted the loans and have the background information. It is thus pretty much guaranteed that the bank will get the credits.
- Pathway Lending's expertise in managing high-risk clients benefits the banks. As an intermediary between the banks and the businesses from low and moderate-income communities, Pathway Lending **reduces the traditional risk factors** that often restrain banks from investing in businesses or small entities in those communities.
- Banks can reduce exposure to risks through CDFIs because CDFIs have risk pools that the banks themselves can't get into. (Such as that involving grant money.)
- Audited financials and annual reviews from Pathway Lending provide assurance to banks in risk management.

**Expanded Reach**

- As a CDFI, Pathway Lending focuses on **low- and moderate-income communities**, minorities, and small businesses. As such, they can access lower-cost funds and tax credits that indirectly benefit banks. The result is greater reach for banks when they collaborate with Pathway Lending. *"Not everybody is bankable"* said one executive, "*Pathways Lending makes it possible to get to them."*
- Low and medium-income communities often fall through the cracks when accessing banking loans and services. As a CDFI, Pathway Lending provides **training and loan accessibility** for those businesses. Bankers appreciate that it can "*hand hold their clients"* in a way that they cannot. Or, as another put it, they provide *"training wheels"* for new borrowers.
- Experienced CDFIs, like Pathway Lending, also have the knowledge to **tailor loans to underserved communities** in ways banks cannot. They can do things that aren't as *"standardized"* as regular banking practices.
- *"They help us understand markets that we don't."*

**A3: Benefits of Partnering with Pathway Lending**

Partnerships with Pathway Lending deepen banks' community connections. Further, it reduces investment risks and enhances overall performance, including regulatory compliance and access to incentives.

**Deepen Community Connection**

- Pathway Lending helps banks **reach hard-to-serve members of their community**. It allows banks to better support these individuals and businesses, which is, as almost everyone interviewed agreed *"is the right thing to do."*
- Most of the banks in our survey are smaller, and they are focused upon growth. They see Pathway Lending as offering them a means to become more **deeply engaged in the community** so as to achieve this growth.
- Several bankers pointed to the pleasure taken in the greater connection to their community that Pathway Lending enabled. Words like "fun" and "love" were used to describe this. One banker noted that folks in his bank can drive around their community and see the impact that Pathway **Lending** is making, seeing projects that *"wouldn't get off the ground before Pathway Lending got involved."*

**Risk Reduction**

- As a CDFI, Pathway Lending structured loan funds, and financial practices insulate banks from losses. Partnering with Pathway Lending ensures banks' financial security. Also, CRA credits and CITC investment funds are greater incentives for banks regarding risk assessment.
- Audited financials and annual reviews from Pathway Lending provide assurance to banks in risk management.

**Size, Experience, and Creativity**

- Bankers noted that there are other CDFIs, but few are of any scale. They do not have the range of Pathway Lending. *"They are in all of our major markets,"* noted one interviewed banker. *"They have the capacity,"* said another.
- Their scale and experience put Pathway Lending in the middle of everything. "*They touch everything, they know all the players, they know the government."*
- Several interviewed bankers independently praised the creativity of Pathway Lending in identifying and pursuing lending opportunities. One particularly noted his bank's preference for Pathway Lending because it was the "*most helpful in letting us know the opportunities…"* while another explained the same preference because Pathways Lending is *"better at communicating what's available."*

**Improved Performance**

- The "skill" or "skill fit" of Pathway Lending was frequently cited.
- Access to tax credits and financial incentives through Pathway Lending investment is another reason banks consider partnership beneficial. Partnership with Pathway Lending offers greater financial capacity for banks as they qualify for TN CITC- Community Investment Tax Credit and TN Franchise and Excise (F&E) Tax Credit.
- Pathway Lending is not seen as a competitor because it is helping banks reach borrowers that they cannot otherwise access.

**A4: Concerns and Risks Associated with Partnering with Pathway Lending**

While banks value their partnerships with Pathway Lending, they also harbor concerns regarding return on investment, management of high-risk clients, potential competition, and effective deployment of funds.

**Return on Investment (ROI) and Liquidity**

- There is a generic concern about the underwriting skill and capitalization of CDFIs.
- As a CDFI, Pathway Lending works with uncapitalized clients who need training and assistance managing loans. Most banks share the concern about return on investment.
- The importance of liquidity and redeployment of funds is another concern that banking professionals must address while investing in CDFIs like Pathway Lending. It's a fine line between being "*too risky*" and the ability to "*deploy their capital with speed*."

**Risk Management**

- Despite a strong partnership with Pathway Lending, banks remain concerned about managing undercapitalized or less sophisticated clients. As one interviewee puts it,
  "… (*I) worry that they manage their risk. There is always risk in lending, but they have more because they have generally unsophisticated and undercapitalized clients..."*
- There are additional regulatory concerns that come into play when dealing with a CDFI. For example, being certain about what census tracks one is operating in.

**Potential Competition**

- One executive wondered whether Pathways Lending could become big enough to be a competitor. Banks will monitor Pathway Lending's expansion to avoid overlap.

**Impact and Deployment**

- Interview findings indicate that banks hold the expectation that Pathway Lending will continue to effectively deploy capital for tangible community impact. Future concerns may arise if deployment is slow, or community impact is minimal.

## VI. Interview Findings (B) – Community Investments, Risks and Future Prospect

### B1: Preferred Types of Community Investments

Banks prefer investments that align with strategic goals and regulatory requirements, focusing on affordable housing, small business lending, community services, and environmentally friendly projects**.**

**Affordable Housing**

- Affordable housing is one of the preferred community investments banks prioritize in their investment decisions through Pathway Lending. It is due to high community needs.
- Banks also target low- and moderate-income housing and community projects while investing through Pathway Lending and other CDFIs.

**Small Business Lending**

- The interview findings also indicate that support for underserved small businesses is important for banks. Banks value programs that support businesses to "become bankable." CDFIs like Pathway Lending support businesses with training and technical knowledge sharing in loan application and financial management.

**Community Services and Development**

- Investments in education, workforce development, and financial wellness are also highly important for banks to invest through CDFIs like Pathway Lending. The interview findings indicate that economic and community development projects align with banks' missions.

**Environmental and Innovative Projects**

- Interview findings also indicate that sustainable and environmentally friendly investment opportunities are gaining attention among banks regarding future community investment possibilities. Unique projects like micro-homes are also gaining some attention among the banks.

### B*2:* Challenges in Community Investment Decisions and Mitigation Strategies

Banks often face challenges regarding limited resources, competing priorities, regulatory requirements, and minimum ROI considerations. They navigate these through due diligence, strategic partnerships, needs assessments, and creative solutions.

**Due Diligence and Partner Selection**

- When making investment decisions with CDFIs, banks thoroughly assess potential partners' financial stability and leadership. Preference for regulated and reputable partners like Pathway

Lending occurs only after carefully evaluating its leadership qualities and financial stability. As revealed by an interview participant, *"…(We) always do our due diligence; it has to pass through our standards; we like to take risks, but we always weigh the risks and benefits..."*

**Strategic Partnerships**

- Collaborations with trusted CDFIs help manage risks for the partnered banks. Pathway Lending's expertise in community investment minimizes the risk factor for partnering banks, allowing banks to fulfill community investment goals.

**Needs Assessments, Creative Solutions, and Cross-Functional Teams**

- Interview findings also reveal that banks work on needs assessment before making investment decisions through CDFIs. The top community needs must align with their investment goals. Prioritization ensures that investments address pressing issues.
- Banks also deploy teams to find innovative ideas and solutions to address regulatory requirements and community needs before investments through CDFIs. As pointed out by banking professionals, cross-departmental collaboration is critical in such decision-making.

**B3: Impact of Tennessee's Incentive Programs**

Banks view Tennessee quite favorably for its incentive programs, particularly the Community Investment Tax Credit (CITC), which encourages community investments and enhances profitability. There was no feeling that the state lags or is uncompetitive in this regard.

**Positive Perception of Incentives**

- Banks appreciate the state's support for community investments. CITC is highly valued and considered a significant advantage by Pathway Lending's partner banks.

**Leader among the Neighboring States**

- Tennessee is seen as ahead of neighboring states in offering such incentives. Other states' bankers recognize Tennessee's programs as beneficial.

**Desire for Expansion**

- Interview findings also indicate that banks express interest in more or enhanced incentive programs. Additional tax credits could further stimulate investments in CDFIs.

**B4: Prospects for Engagement with Pathway Lending and Other CDFIs**

Banks are optimistic about future engagements with Pathway Lending and are open to partnering with other CDFIs and participating in incentive-based investment programs that align with their strategic goals.

**Prospects with Pathway Lending**

- Most of Pathway Lending's banking partners are enthusiastic about continuing and expanding partnerships.
- There is a high knowledge of and positive interest in new funds and programs initiated by Pathway Lending. Banks also demonstrate confidence in Pathway Lending's leadership and strategic alignment with their investment goals.

**Engagement with Other CDFI**

- Interviews also show banks' interest in similar CDFI initiatives. The criteria for such a partnership would include strong management, specialized programs, and alignment with goals. This holds the potential to address specific regional needs or market gaps. Other CDFIs were referred to during the interviews, but generally note that they were smaller, less experienced, or less connected than Pathways Lending.

**Interest in Incentive-Based Programs**

- Banks indicate significant interest in programs offering financial incentives like CITC. Banks value investments in alignment with CRA obligations and community development goals.
- Banks are also attracted by the innovation and impact aspect of the CDFI projects.

**B9: Overall Value of Partnerships with Pathway Lending**

Banks highly recognize the mutual benefits of partnering with Pathway Lending. This includes meeting regulatory obligations, mitigating risks, expanding market reach, and making meaningful community impacts.

**Mutual Benefits**

- Banks and Pathway Lending work based on mutual help to achieve strategic objectives.
- Partnerships contribute to economic growth and community well-being.

**Regulatory Compliance and Performance**

- Partnership with Pathway Lending has enhanced the banks' CRA performance and allowed them access to financial incentives.
- Pathway Lending assists banks in fulfilling regulatory obligations efficiently.

**Expertise and Skills**

- Pathway Lending brings valuable expertise in managing higher-risk clients and projects.
- Banks benefit from PL's specialized services and programs.

## VI. Conclusion

This report assessed banks' motivation in partnership building with Pathway Lending. The study used both surveys and interviews to collect firsthand information from Pathway Lending's partnering bank representatives. The findings indicate that the partnership between banks and Pathway Lending is a mutually beneficial relationship driven by shared goals of regulatory compliance, community impact, and risk management. Banks highly value Pathway Lending's strong leadership and connection with small businesses from minority groups and hard-to-reach communities. These qualities instill confidence in navigating investments within underserved markets. The ability to align investments with CRA obligations while fostering meaningful social outcomes further solidifies this partnership. As financial institutions continue to prioritize investments that balance societal benefits with financial security, Pathway Lending remains a key partner in facilitating sustainable growth.

Key survey findings include:

- Banks develop their community investment plan through internal discussions and collaborations among senior leadership.
- Regulatory or CRA compliance (93%) and social impact (85%) are highly rated as priorities in making investment decisions with Pathway Lending or similar CDFIs.
- For most bankers (76.92%), balancing competing priorities is the biggest challenge in making community investment decisions.
- Majority of bankers (87%) believe that the Tennessee Small Business Job Opportunity Fund (TNSBJOF) offers greater investment benefits.

Key interview findings include:

- Banks value their partnership with Pathway Lending due to its strong leadership, risk management, and deep community connection with its clients from low- and middle-income groups and minority businesses.
- Banks seek new funds and programs initiated by Pathway Lending. Pathway Lending bridges the gap between banks and underserved businesses that often do not qualify for traditional loans, thus reducing the risk.
- Banks conduct thorough needs assessments before making investment decisions through CDFIs. The community's top needs must align with the banks' investment objectives to ensure a successful partnership.

Pathway Lending’s role in bridging the gap between banks and community investments not only strengthens partnerships but also mitigates investment risk, encouraging further collaboration. The consistency between interview and survey findings highlights a shared trust and alignment with Pathway Lending’s impact and leadership.

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**Appendix A**

# Community Investment Survey

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## Informed Consent

**Study Title: 2024 Investing in Pathway Lending's Small Business Development: What Motivates Banks in Creating Partnership?**
**Protocol Number:**
**Approval Date:**
**Principal Investigator: Dr. Murat Arik**
**Institution: MTSU**

You are being asked to participate in a research project. The following information is provided to inform you about the research project and your participation in it.

1. **Purpose of the study:** In partnership with Pathway Lending, the Business and Economic Research Center (BERC) at Middle Tennessee State University conducts an economic assessment of the bank's motivation for building a community investment partnership. The study aims to assess the economic motivation and incentives that lead banks to partnership-building with community development financial institutes and gain insights on future prospects for such partnership-building. The online member survey and interview questionnaire are critical to the study.

2. **Description and duration of the Study**:
This study aims to measure – (a) Banks' motivation for partnership building with Pathway Lending, (b) Factors that affect banks' motivation for community investment, (c) Prospects for future engagement. The online member survey and interviewing are critical to gather data from the study. The online Qualtrics survey should take approximately 10-15 minutes of the participant's time. The survey will be available online for two weeks from (mm/dd/yyyy) to mm/dd/yyyy). It is not mandatory to complete the survey in a single session. The participants can log out anytime during the survey and log in again to complete the remaining questions. The completed responses will be saved in the system.

3. **Compensation for participation:** There is no monetary compensation for participating in this study

**Here are your rights as a participant.**

a) Your participation in this research is voluntary.
b) You may skip any item that you don't want to answer, and you may stop the research at any time. Note that if you leave an item blank, you will be warned that you missed one, just in case it was an accident. You can still click that you don't want to answer. Some items may be required in order to accurately present the study.
c) There are no risks associated with your participation besides possible discomfort with some of the questions.
d) There are no real benefits to you from participating besides possibly learning something about the research.
e) You are NOT required to provide any identifiable personal information to complete the survey.
f) All efforts, within reason, will be made to keep the personal information in your research record private, but total privacy cannot be promised. Your information may be shared with people at MTSU (such as the MTSU Institutional Review Board) or other agencies (such as the Federal Government Office for Human Research Protection) if you or someone else is in danger or if we are required to do so by law.

**Contact Information:** If you should have any questions about this research study please contact:
Principal Investigator: Murat Arik, PI, and BERC director,
Contact Information: Murat.Arik@mtsu.edu / phone : (615) 898-2610.

For additional information about giving consent or your rights as a participant in this study, please contact the Middle Tennessee State University (MTSU) Office of Compliance at 615-494-8918 or via email at irb_information@mtsu.edu. (http://www.mtsu.edu/irb)

If you're ready to get started, please make your choice below before clicking the arrow button.

Thank you for volunteering your time for this project!

**Statement by Person agreeing to Participate in this Study:**

I have read the information above. I am at least 18 years old. I believe I understand the purpose, risks, and benefits of the research, and I know what I will be expected to do as a study participant.

- ○ I consent to participate.
- ○ I decline to participate

Q2. *Please enter your 5-digit business ID number e-mailed to you by BERC:

**Part A Survey Questionnaire**

Q3. Does your bank have a formal community investment strategy or plan?

- ◯ Yes
- ◯ No

Q4. (If selected "Yes" to the previous question), How often is the community investment strategy updated (i.e. annually, bi-annually, or in 3 years, 5 years, or more)?

Q5. How does your bank typically develop its community investment plan or priorities? (Select all that apply)

- ☐ Through Internal discussions ad collaborations among senior leadership
- ☐ By engaging with community stakeholders, including local government, nonprofits, and community members
- ☐ In response to the regulatory requirements, like Community Reinvestment Act( CRA)
- ☐ Based on the analysis of community needs assessment and market trends
- ☐ Other (Please Specify)

Q6. If regulatory requirements are a factor in your bank's community investment decision making process, please assess the extent to which they influence your decisions from the following choices.

- ◯ They are the sole factor influencing decision-making
- ◯ They play a significant role and heavily influence decision-making
- ◯ They play a moderate role and somewhat influence decision-making
- ◯ They plan a minimal role and have little influence on decision-making
- ◯ Not applicable- regulatory requirements are not a factor in decision-making process

Q7. When making community investments, how heavily does your bank consider the following factors? Please rate based on 1-3 ratings scale (1 = Not so important, 2 = Somewhat important, and 3= Very important).

| | 1 | 2 | 3 |
|---|---|---|---|
| a. Social Impact (e.g, addressing poverty promoting education, advancing equality) | | | |
| b. Financial returns on the investment | | | |
| c. Available local, state, or federal incentives (e.g. TNSBJOF, F&E tax credit) | | | |
| d. Regulatory Compliance such as Community Reinvestment Act (CRA) requirements | | | |
| e. Stakeholder or employee expectations | | | |
| f. Risk management or portfolio diversification | | | |
| g. Credit risk of the transaction | | | |
| h. Return of capital (the ability to structure as a loan or EQ2 vs a grant) | | | |
| i. Uses of capital (i.e. education, community services, small business loans, affordable housing, etc.) | | | |
| j. Personal relationship or familiarity with the recipient community organization | | | |

Q8. Please rank the following factors based on the weight given in the community investment decision-making process. (1=highest weight, 10=lowest weight).

Social Impact
Financial returns on the investment
Available local, state, or federal incentives
Regulatory Compliance
Stakeholder of employee expectations
Risk management or portfolio diversification
Credit risk of the transaction
Return of capital
Uses of capital
Personal relationship or familiarity with the recipient community organization

Q9. What are the primary challenges your bank faces when making community investment decisions? (Select all that apply)

- [ ] Limited financial resources
- [ ] Desire to achieve a minimum ROI on community investments
- [ ] Balancing competing priorities
- [ ] Measurement and evaluation of social impact
- [ ] Regulatory constraints
- [ ] Other (Please specify)

Q10. (If Selected "Yes" to the previous Question), What is the bank's minimum ROI threshold?

Q11. What information or data from potential investees would facilitate the decision making process for your bank regarding community investments? (Select all that apply)

- [ ] Detailed financial projections and performance metrics
- [ ] Comprehensive impact assessments, including social outcomes
- [ ] Evidence of alignment with our bank's strategic priorities, objective, and geographies
- [ ] Information on the capacity and track record of the organization or project
- [ ] Clear articulation of community needs and how the investment addresses those needs
- [ ] Transparency regarding governances structures and the risk management practices
- [ ] Other (please specify)

Q12. When selecting organizations to invest in, how heavily does your bank consider the following factors? Please rate based on 1-3 ratings scale (1 = Not so important, 2 = Somewhat important and 3= Very important).

| | 1 | 2 | 3 |
|---|---|---|---|
| a. Balance sheet size | ○ | ○ | ○ |
| b. Revenue | ○ | ○ | ○ |
| c. Self sustainability of organizations from earned revenue | ○ | ○ | ○ |
| d. Age of the organization | ○ | ○ | ○ |
| e. Tenure of management | ○ | ○ | ○ |

Q13. What level of tax credit or benefits, considering that your bank may not have annual tax liabilities to offset, would be most effective in incentivizing your bank to make community investments?

○ Significant tax credits or benefits, providing substantial financial incentives regardless of tax liabilities

○ Moderate tax credits or benefits offering a reasonable incentive for community investment, taking into account varying tax liabilities

○ Minimal tax credits or benefits, providing modest incentives but acknowledging the limitations of tax liabilities

○ No tax credits or benefits are needed; other factors such as social impact and strategic alignment are more important

○ Not applicable. I am not familiar with tax credit or benefits program for community investment

Q14. In your opinion, did the Tennessee Small Business Jobs Opportunity Fund (TNSBJOF) F&E Tax Credit provide enough benefits to your organization to incentivize your investment in Pathway Lending?

- ○ Yes
- ○ No

Q15. If your bank did not have a tax liability, would you have made the investment into Pathway Lending's TNSBJOF?

- ○ Yes
- ○ No

Q16. When making community investments, how important is visibility or recognition to your bank concerning the following groups? Please rate based on 1-3 ratings scale (1 = Not so important, 2 = Somewhat important and 3 = Very important).

| | 1 | 2 | 3 |
|---|---|---|---|
| a. To the broader community in which your bank operates | ○ | ○ | ○ |
| b. To the regulatory institutions who evaluate your activities | ○ | ○ | ○ |
| c. To your employees or other stakeholders | ○ | ○ | ○ |
| d. To you brand and the value you aim to embody | ○ | ○ | ○ |

Q17. What are your preferences for structuring community investments Please mark based on 1-3 ratings scale (1 = Not so important, 2 = Somewhat important and 3 = Very important).

| | 1 | 2 | 3 |
|---|---|---|---|
| a. Grant | ○ | ○ | ○ |
| b. EQ2 Investment or loan | ○ | ○ | ○ |
| c. Donated or volunteered staff time | ○ | ○ | ○ |
| d. Other (Please Specify) ______ | ○ | ○ | ○ |

**Debriefing Statement**

Thank you for your time and effort in the study. Your responses are very important to this study.

The goal of this commissioned study is to assess the economic motivation and incentives that lead banks to partnership-building with community development financial institutions like Pathway Lending and gain insights on future prospects for such partnership-building for Pathway Lending. The online member survey is critical to this study. By participating in this study, you have provided valuable information and insights that will contribute to Pathway Lending's policy planning and strategic partnership building with banks.

"If you have questions about this study, or you would like to know more about the study findings, please contact Dr. Murat Arik, Principal Investigator and BERC Director by email via Murat.Arik@mtsu.edu or phone at (615) 898-2610 anytime during and after the study."

The study report will be submitted to Pathway Lending at the end of the study. The report will be posted publicly on the BERC website for anyone interested. The pdf copy of the report will also be available for study participants and interested individuals upon request from Dr. Murat Arik (Murat.Arik@mtsu.edu) or BERC (berc@mtsu.edu)

"For additional information about the giving consent, or your rights as a participant in this study, please contact the Middle Tennessee State University (MTSU) Office of Compliance at 615-494-8918 or via email at irb_information@mtsu.edu. (http://www.mtsu.edu/irb)".

**Appendix B**

Pathway Lending | MIDDLE TENNESSEE STATE UNIVERSITY. JONES COLLEGE OF BUSINESS Business and Economic Research Center

# Interview Questionnaire

1. How long and in what capacity has your bank partnered with Pathway Lending?

2. What are your reasons for partnering with Pathway Lending?

3. Does partnering with Pathway Lending help your bank to deepen your connections with the local community? (e.g., does it improve your access to or ability to serve hard-to-reach communities?)

4. How has partnering with Pathway Lending helped your bank reduce the risk commonly associated with a typical community development investment?

5. What concerns do you have when investing in community partners, like Pathway Lending? (e.g., What value do potential investees need to show? What returns on your investments do you need to see?)

6. What types of community investments does your bank prefer to make? (e.g. small business lending, education, homeownership, climate-related, community facilities, affordable housing, etc.)

7. What other investment opportunities does your bank consider? How must community investments compare relative to other options to gain favorable outcomes in your bank's decision-making process?

8. Considering the various challenges inherent in community investment decisions such as limited resources, competing priorities, regulatory requirements, and minimum ROI considerations, how does your bank navigate and address these challenges within its decision-making process?

9. Compared to neighboring states, does Tennessee offer enough business incentive programs to encourage banks to invest in community development financial institutions (CDFI), such as Pathway Lending?

10. Does partnering with a CDFI improve your bank's performance or increase your bank's ability to access other government programs or financial incentives (e.g. SBA)?

11. How does your bank fulfill obligations to the community via targeted investments to partners like Pathway Lending?

12. What are the prospects for future business engagement with:
    a. Pathway Lending
    b. Another CDFI
    c. Incentive-based investment program (e.g. TNSBJOF or CITC tax credit program)

.....

**Debriefing Statement:**

Thank you for your time and effort in this study. Your responses are very important to this study.

The goal of this commissioned study is to assess the economic motivation and incentives that lead banks to partnership-building with community development financial institutions like Pathway Lending and gain insights on future prospects for such partnership-building for Pathway Lending. The online member survey and interviews are critical to this study. By participating in this study, you have provided valuable information and insights that will contribute to Pathway Lending's policy planning and strategic partnership building with banks.

"If you have questions about this study, or you would like to know more about the study findings, please contact Dr. Murat Arik, Principal Investigator and BERC Director by email via *Murat.Arik@mtsu.edu* or phone at (615) 898-2610 anytime during and after the study."

The study report will be submitted to Pathway Lending at the end of the study. The report will be posted publicly on the BERC website for anyone interested. The pdf copy report will also be available for study participants and interested individuals upon request from Dr. Murat Arik (*Murat.Arik@mtsu.edu)* or BERC (*berc@mtsu.edu).*

"For additional information about the giving consent, or your rights as a participant in this study, please contact the Middle Tennessee State University (MTSU) Office of Compliance at 615-494-8918 or via email at irb_information@mtsu.edu. http://www.mtsu.edu/irb"