SOLOMON HESS Capital Management | CRA news

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Solomon Hess SBA Loan Fund Raises Preferred Return for Q3

The Solomon Hess SBA Loan Fund ("the Fund") raised its Preferred Return for the fifth time in six consecutive quarters demonstrating confidence in the Fund's strength. The Fund's Preferred Return is annualized and NET OF ALL expenses and fees (including management fee). For Q3, the Preferred Return will be 2.25% for targeted CRA investments and 2.35% for non-targeted CRA investments. The Fund has paid investors the Preferred Return every quarter since inception in 2004. Past performance is no indicator of future results. The Fund has over $450 million in gross assets and 111 bank investors, solidifying its acceptance as a CRA-eligible fund for Community Development. Lending or Investment Test Credit. ■

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25th Administrator of the Small Business Administration, Linda McMahon. She assumed office on February 17, 2017.

2016 Annual Impact Report Available

Solomon Hess Capital Management ("Solomon Hess") recently published our 2016 Annual Impact Report which highlights the quantifiable impact that the SBA Loan Fund has made on low, moderate and otherwise economically distressed communities nationwide. Please visit www.solomonhess.com to download a copy of the report. ■

Linda McMahon: "SBA Reimagined" in a Time of Budget Cuts

SBA Administrator Linda McMahon has the goal of re-marketing and repositioning the SBA over the next year. "SBA Reimagined is our phrase," she said on WCBS Newsradio 880 Small Business Break-fast in Parsippany, N.J. in June. She renamed her team's marketing leader-ship conference as "The Spark Con-ference" and will embark on a cross country "listening tour" with Treasury Secretary Steven Mnuchin to hear what small business owners want from regulatory and tax reform. McMahon has hit the ground running after her Senate confirmation on February 14. She led the National Small Business week annual celebration in April and visited five states, touring small busi-nesses, meeting with district offices and participating in small business roundtable discussions.

On the budgeting side, McMahon has been taking a hard look at what pro-grams are duplicative. "If they are not efficient and effective, " she said, "we need to get rid of those programs to free up other funds."

The Trump 2018 budget proposal, released on May 23, spared the SBA from significant *(continued on page 2)*

SBA Reimagined *(continued from page 1)* reductions, unlike some other civilian government agencies. The proposed budget requests $826.5 million for the SBA, a 5% decrease from the 2017 annualized continuing resolution level.

The 2018 proposed SBA budget waives upfront fees on all 7(a) loans of $125,000 or less to spur lending in this market. The budget also waives upfront fees on SBA Express loans to veterans and provides a 50% waiver of upfront fees on all non-SBA loans to veterans between $125,001 and $350,000.

The proposed budget supports the administration of $46 billion worth of zero subsidy loan programs, including its primary lending program, the 7(a) loan program. The 7(a) program provides loan guarantees from the SBA to encourage lenders to make loans to small businesses that typically would not get made without some form of credit enhancement. The 2018 budget supports a 7(a) program level of $29 billion. If program demand were to exhaust the appropriated limit, there are provisions to increase the program level by 15% with notification to the Appropriations and Small Business Committees. In addition, the Secondary Market Guarantee ("SMG") Program allows the SBA's fiscal agent to sell the guaranteed portion of 7(a) loans as raw loans and pooled securities to investors. This mechanism provides much needed liquidity to lenders in the program. For 2018, the budget proposes a program level of $12 billion in 7(a) loan pools. Budget cuts as proposed would eliminate funding for three grant programs where the administration believes the private sector already provides efficient mechanisms for small business development and growth including: PRIME technical assistance for microenterprises, regional innovation clusters where the government partners with research and financing institutions and growth accelerators for start-ups. ■

Banks Use Small Business Funds to Spread CRA Risk

Banks of all sizes are investing in small business funds to promote community development while sharing risk. According to *American Banker*, banks are investing in small business funds to channel millions of dollars to companies that might not otherwise qualify for traditional bank loans and to meet investment test qualifications for CRA. One such fund in Baltimore County, MD, has $13.9 million in assets and the backing of 23 banks including PNC Bank, BB&T and Bay Bank. This fund provides real estate and fixed asset loans. Another example is The Capital Access Fund of Cleveland ("CAF") funded by Key Bank, Morgan Stanley and Fifth Third Bank, among others. While not called a small business loan fund, CAF operates like one. It is a three-year program that provides minority business owners with access to capital. CAF has a goal of creating and/or maintaining a minimum of 300 jobs within three years.

The recent emergence of these small business funds point to the growing need to find CRA community development investments while reducing economic risk through diversification. The Solomon Hess SBA Loan Fund ("the Fund") is a private fund that offers banks the same targeted CRA community development investment while offering diversification of risk on a national level. The Fund has 111 bank investors and over $450 million in assets. Banks invest in the Fund and the Fund then acquires the federally guaranteed portion of floating rate SBA 7(a) loans in the secondary market where the underlying small business borrower is located in a specific low or moderate income area targeted by bank investors. ■

Impact Record

The Solomon Hess SBA Loan Fund was established in 2004 and since then has invested over $1.3 billion in over 2,700 US-based small businesses nationwide. These investments have supported the creation and retention of over 35,000 jobs throughout investors' target communities nationwide. ■

Small Business Loan Profile: VetPowered in San Diego, California

VetPowered is an ISO 9001/2008 Certified, HUB Zoned, minority owned, service disabled veteran owned ("SDVSB"), small Business and micro-SB certified business. Above, student machinists.

When portfolio managers at Solomon Hess invest in CRA-eligible loans on behalf of bank investors, they try to comply not only with the technical requirements of the program but also the spirit under which CRA was created. An example of a loan that exemplifies this philosophy is the Fund's recent investment in VetPowered's SBA 7(a) loan.

VetPowered is a full service machine shop that provides machining, welding, fabrication and machine maintenance and repair services. Located in a low income census tract in San Diego, the business is committed to supporting veterans and transitioning service members. It is owned and operated by a 15-year combat veteran, Hernán Luis y Prado. 11 of the 17 employees that VetPowered supports are veterans.

VetPowered was founded in 2009 as a social enterprise company whereby profits support Workshops for Warriors ("WFW"), a state-licensed 501(c)(3) nonprofit school that provides veterans, wounded warriors and transitioning military personnel with accelerated training in advanced manufacturing skills at no cost to the students. VetPowered has been recognized for its achievements in community involvement. In 2015, VetPowered received Best Community Service Award in Manufacturing by the San Diego Business Journal. More recently, VetPowered received the Vets Success Small Business Award from the San Diego Chamber of Commerce in May. By supporting businesses like VetPowered, the Fund's investors are making a positive impact in communities nationwide. ■

"Job creation and capital reinvestment by small businesses play a vital role in maintaining the health of local economies. By providing financing for small businesses through the SBA 7(a) secondary market, Solomon Hess is helping revitalize low and moderate income communities," said Bill Einstein, CFO of Solomon Hess. ■

Both VetPowered and WFW were founded by Hernán Luis y Prado, who as recognized as a Champion of Change by the Obama Administration in 2012 for his dedication to service and his continued support for efforts to boost employment for fellow veterans.

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Managing Good Capital Well

Solomon Hess Capital Management ("Solomon Hess") is an alternative asset manager specializing in fixed income. Our mission is to provide investors with community and economic development-focused investment funds that generate both competitive risk-adjusted returns and positive quantifiable community impact. Founded in 2004 and located in Falls Church, Virginia, Solomon Hess has over $600 million of assets under management. Solomon Hess is Fund Manager to the SBA Loan Fund and investors include banking institutions of all sizes that are seeking Community Development Investment or Lending test credit within the Community Reinvestment Act (CRA) rules via exposure to SBA 7 (a) loans and related assets. Other investment opportunities with Solomon Hess include investing in our Absolute Return strategy fund or our Impact Fund (under development). We also offer Separately Managed Accounts or Single Investor Funds.

The Solomon Hess SBA Loan Fund LLC attempts to provide its investors with CRA credit related to their participation in the Fund. Investment decisions are not always exclusively based on the economic characteristics or investment merit of a specific asset. Certain CRA eligible securities sought by the Fund in specific geographies may not provide as great an economic benefit to the Fund as the same securities located in non-CRA geographies. The Fund may engage in transactions at times for reasons related to CRA considerations that may not be desirable from an investment standpoint. If one or multiple federal banking regulators, such as the OCC, FDIC or the Federal Reserve Board, were to deem an investment in the Fund as not qualifying for CRA credit, the impact to Fund investors could be material.