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Solomon Hess to Sponsor CRA & Fair Lending Colloquium

Since its inception in 1996, the Colloquium has grown to become a prominent forum for bank compliance officers, regulators, risk managers, and vendors who seek insights into the complex regulatory environment that financial institutions face. Above, conference participants.

The Solomon Hess SBA Loan Fund is sponsoring the 22nd Annual CRA & Fair Lending Colloquium (the "Colloquium") at The Diplomat in Hollywood, FL on November 4-8. The Colloquium is organized by Wolters Kluwer, a global information services company, and brings together industry experts from banks, regulatory agencies, credit unions, mortgage companies and community groups to share information about regulatory development and oversight trends in the CRA, the Home Mortgage Disclosure Act ("HMDA") and Fair Lending. Attendance is expected to be record-setting this year, given the interest and uncertainty around *(continued on page 2)*

Inside

Update on CRA Modernization Efforts: OCC Takes Single-Agency Approach to Move Forward

Breaking from tradition, the Office of the Comptroller of the Currency ("OCC") on August 28 released an independent Advanced Notice of Proposed Rulemaking ("ANPR") to seek comment on the best ways to modernize the regulatory framework implementing the Community Reinvestment Act ("CRA"). Leading up to the ANPR's much anticipated release, Joseph Otting, Comptroller of the Currency repeatedly blamed delays in the process partly on efforts to get the Federal Insurance Corporation ("FDIC") and Federal Reserve Board ("FRB") to work on an inter-agency notice. Otting repeatedly said that the OCC would strike out alone if the other agencies could not get on board. True to his word, Otting did exactly this.

Otting's decision to move forward independently poses few risks at this information-gathering phase. However, some in the industry and several consumer lending groups have already raised concerns that any changes may not be as robust and effective if regulators don't coordinate. This is not the first instance that the OCC has ventured out independently on an ANPR. Last year, the OCC, under then-acting Comptroller Keith Noreika, asked for public comment on changes to the *(continued on page 2)*

While banks under OCC regulation are the biggest in the industry by asset totals, they make up only 21% of the charters. By contrast, the FDIC supervises over 60% of the nation's banks.

SBA Loan Fund Profile: Maddi's Cookery & TapHouse in Worcester, MA

Maddi's is owner Adam Hicks' second restaurant. He also owns Depot Street Tavern in Milford, MA. Worcester's Canal District popped up on Hicks' radar as he saw the growth of small businesses in that area. "You can definitely feel the energy coming back around into the city," he said. Proceeds of the SBA 7(a) loan were used to purchase equipment to open the business. The restaurant is located in a low income census tract and a CDFI Fund Qualified Investment census tract. The borrower self-reported to the SBA that this loan supported the creation of 42 jobs. Left, workers at a restaurant.

An example of the type of loans in the SBA Loan Fund portfolio is the loan to Maddi's Cookery & TapHouse ("Maddi's"), a recently opened full-service restaurant located in Worcester's Canal District. The restaurant was designed to have a casual, neighborhood feel to go with its classic comfort food menu and substantial draft list. "It's going to be something fun for the city," owner Hicks said prior to opening. Maddi's opened on June 18. In addition to qualifying as a CRA loan as it is located in a low income census tract and a CDFI Fund Qualified Investment census tract, this loan should further qualify for CRA as a new business that promotes economic development. *(continued on page 3)*

CRA Modernization Update *(from page 1)* Volcker Rule. Following that ANPR, the regulators acted jointly when the proposal was unveiled in May to reform compliance procedures for the proprietary trading ban.

The ANPR is a request for public input on a range of questions related to a future proposal and does not include any recommendations. The document invites comments on the key topic areas of reform: 1) how to update assessment area definitions to accommodate digital lending channels, 2) considering the expansion of the range of activities supporting community and economic development that qualify for CRA credit, 3) how to improve the current approach to performance evaluations, including the use of metrics to increase the objectivity of performance measures, and 4) updating recordkeeping and reporting to be made more timely. The OCC also asks commenters to note any aspects of the current framework that are effective and should remain unchanged.

Otting said on August 28, "I believe this ANPR starts the process of the discussion of how we can bring more lending to low– and moderate-income communities across America. The longer we wait on an ANPR is just the longer that those communities will be undeserved and not have the hope that we assist them in those respected communities."

The comment period will be open for 75 days after the ANPR is published in the Federal Register (August 28). Otting has said that the OCC will need about 75 to 100 days after that to go through the comments and share them with other regulators before proposing a rulemaking notice, which would also have a 75-day comment period. Given this timeframe, it is highly likely that a final rulemaking process will not be released until the summer of 2019 at the earliest. ■

Colloquium *(from page 1)* the modernization of CRA and the celebration of the 50th anniversary of the Fair Housing Act, Title VIII of the Civil Rights Act of 1968.

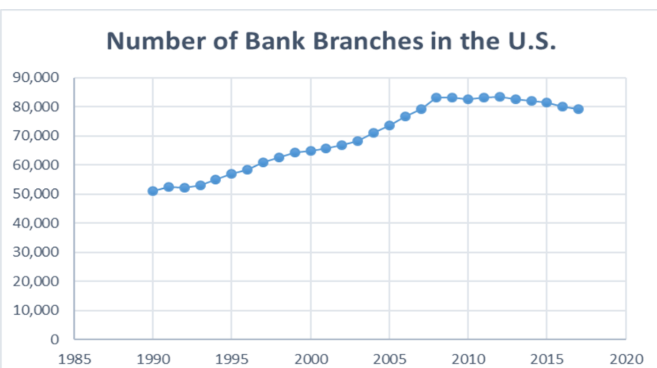
This year's keynote speaker will be Fair Housing expert, former U.S. Department of Justice civil rights attorney and current K&L Gates LLP Partner Paul F. Hancock (left). Hancock will share his experiences with this historical legislation.

In addition to Hancock, more than 70 federal regulators, attorneys, bank compliance officers and other industry experts will speak on panels and in sessions. The tentative agenda includes the following topics: Washington Update with the OCC, FRB and FDIC, "Community Development Workshop: Strategies for Finding Opportunities," "CRA, Fair Lending and HMDA Topics Du Jour," "Fair Housing Act: Progress Made, Progress Yet to Be Made," and "When it Comes to CRA, You've Got a Great Story to Tell!"

If you are attending the Colloquium, please stop and visit at the SBA Loan Fund exhibit table. To learn more about the event, visit www.cracolloquium.com. ■

Above, the Solomon Hess team at a conference: Michelle Lai, Investor Relations, and Rana Maghera, Business Development Associate.

FRB Reports on the Value of Bank Branches to Depositors and Small Businesses



According to the FRB study, the number of bank branches increased from 1990 to 2008, plateaued between 2008 and 2012 and decreased only slightly since 2013 as branch closures in some locations have been somewhat offset by openings in others.

Source: FRB "The Branch Puzzle: Why are There Still Bank Branches?"

At a time when much discussion around CRA reform is centered on how to redefine bank assessment areas to accommodate the growth in digital lending channels, the FRB released a study on August 20th providing evidence that the persistence of the large number of brank branches across the nation may be due to the value placed on branches by depositors and small businesses. The goal of the study, entitled "The Branch Puzzle: Why are There Still Bank Branches?" is to understand why bank branches are still pervasive across the nation, even in areas with expensive real estate and in the face of improving information technology.

Depositors: Data from the 2016 Survey Consumer Finances ("SCF") was analyzed to form conclusions about the value of branches to depositors. The report found that even though the majority of depositors use online banking for some transactions, a majority of the depositors that use online banking still visit branches. Over 70% of households reported using online banking in the last 12 months. Of those respondents, 85% of households reported visiting the local branch of their bank within the last year and almost all households who visited their local branch did so to use banking services other than the *(continued on page 3)*

SBA Loan Fund Profile: Laurus College in Santa Maria, CA

The Laurus model is designed to give its students, many of whom are working adults with families and full-time jobs, more flexibility. It is accredited by the Accrediting Council for Independent Colleges and Schools. Proceeds from the SBA 7(a) loan were used to purchase new equipment to support the bachelors degree programs started this year. Laurus operates in 4 cities in California, 2 of which are in low income census tracts (Santa Maria and Oxnard). The borrower self-reported to the SBA that this loan supported the creation and/or retention of 100 jobs. Left, students.

Another example of the type of loan in the SBA Loan Fund portfolio is the loan to Laurus College ("Laurus"), a private post-secondary career school headquartered in Santa Maria, CA. Founded in 2006, its career-focused courses help students earn Occupational Associate Degrees in a number of fields including Medical Billing & Coding and Professional Business Systems. All of its classes are offered on-line via live video feed. Students can interact with their professors online or watch class recordings throughout the day.

In July, the college announced that it will begin offering 4 new bachelor's degrees, which came at the request of local students and employers. Laurus President Wayne Neale has said that higher education opportunities are limited in many Central Coast communities and that not all residents have the means to move or commute to cities that have 4-year universities. "We wanted to offer this to give people the opportunity to get employed," he added. In July, 40 students were already enrolled in Laurus' 4 bachelor programs. ■

Profile: Maddi's Cookery *(from page 1)* 12 CFR 25.12(g)(3) provides that community development involves both a "size" and "purpose" test. Q&A section_.12(g)(3)-1 provides that a community development activity meets the "purpose" test to promote community development if, among other things, the activity involves financing recently formed small businesses. The SBA Loan Fund acquired this SBA 7(a) loan in July, one month after the business opened and is thus considered a recently formed small business. ■

The SBA Loan Fund has invested in over 3,000 US-based small businesses since inception in 2004, which have supported the resultant creation and/or retention of over 45,000 jobs. "When we review small business loans for investment, we look for businesses that embody the spirit of the regulations and go beyond CRA requirements," said Bill Einstein, Chief Financial Officer of Solomon Hess.

Value of Branches *(from page 2)* ATM. According to the report, higher wealth households and self-employed households are more likely to use their local bank branch. The report also claims that older households are more likely to value bank branches, with an upward trend in this reported value beginning at around age 31. Thus, the report concludes, as young depositors reach 31 and get older, they will place stronger value on visiting bank branches and that branches will remain important in the future.

Small businesses: Data on small business loans under $1 million from CRA disclosures was merged with data on local branches from the FDIC's Summary of Deposits and analyzed to form conclusions about the value of bank branches to small businesses. It was noted that CRA bank disclosures only accounted for 60-75% of small business lending over the sample period. The FRB report found that despite a substantial growth in the share of loans made by lenders without a local branch after 2011, share of loans made by lenders without a branch presence remains below 20% for urban markets and below 45% for rural markets. Thus, the FRB report contends, local bank branches still play an important role in small business lending.

The FRB report concludes that its findings support the geographical definition of banking markets today. ■

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www.lauruscollege.edu

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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 $800 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. We offer our strategies as funds or separate accounts. To learn more, please visit www.SolomonHess.com.

Come see us at the 22nd Annual CRA & Fair Lending Colloquium

November 4-7, Hollywood, FL

www.cracolloquium.com

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