



SBA Loan Fund Bank CRA Practitioner Survey

Trends and Challenges in the CRA Landscape

JULY 2019

THE SBA LOAN FUND conducted a survey of bank CRA practitioners with the goal of gaining insight into the trends and challenges faced by banks in meeting CRA requirements under the current regulatory framework.

A total of 113 responses were received with an overall completion rate of 70%. Responses include SBA Loan Fund investors and non-investors. We are pleased to share the survey results in this report and have highlighted some of the differences between SBA Loan Fund investor and non-investor response results to provide further nuance that may be helpful.

Results of the survey point to several key **trends** in the current CRA bank landscape

- 1 While most banks have a designated CRA Officer who is responsible for overseeing CRA activities, some banks designate the responsibility to other positions.
- 2 Majority of respondent banks received “Satisfactory” ratings on their most recent CRA exam and are targeting “Satisfactory” ratings for their upcoming CRA exam.
- 3 Majority of banks received current period consideration for outstanding investments held over from the prior exam period.
- 4 Most banks are proceeding with CRA planning as usual amidst current regulator efforts to modernize the CRA.

Results of the survey also pointed to several key **challenges** faced by banks in meeting CRA requirements under the current regulatory framework:

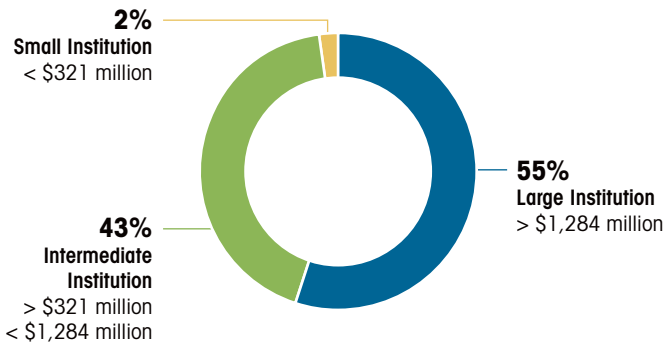
- 1 CRA investment planning is disparate and inconsistent across banks — there is no consistency in the measurement metric used by banks to plan CRA investments.
- 2 Banks experience the most difficulty satisfying the Community Development portion of the CRA evaluation.
- 3 Addressing the challenge of sourcing Community Development investments, banks responded that CRA Targeting and Credit Risk are the most important investment factors considered.

SURVEY SAMPLE SET

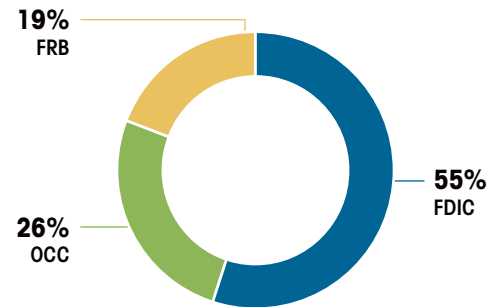
Thank you to all the banks who took the time and made the effort to participate in the survey.

Our sample set of 113 banks consisted primarily of Intermediate and Large bank institutions. The majority of responses came from FDIC-regulated banks though OCC-regulated banks and FRB-regulated banks were also well represented. SBA Loan Fund Investor responses consisted of 38% of the total.

What is the asset size of your bank? | 111 responses

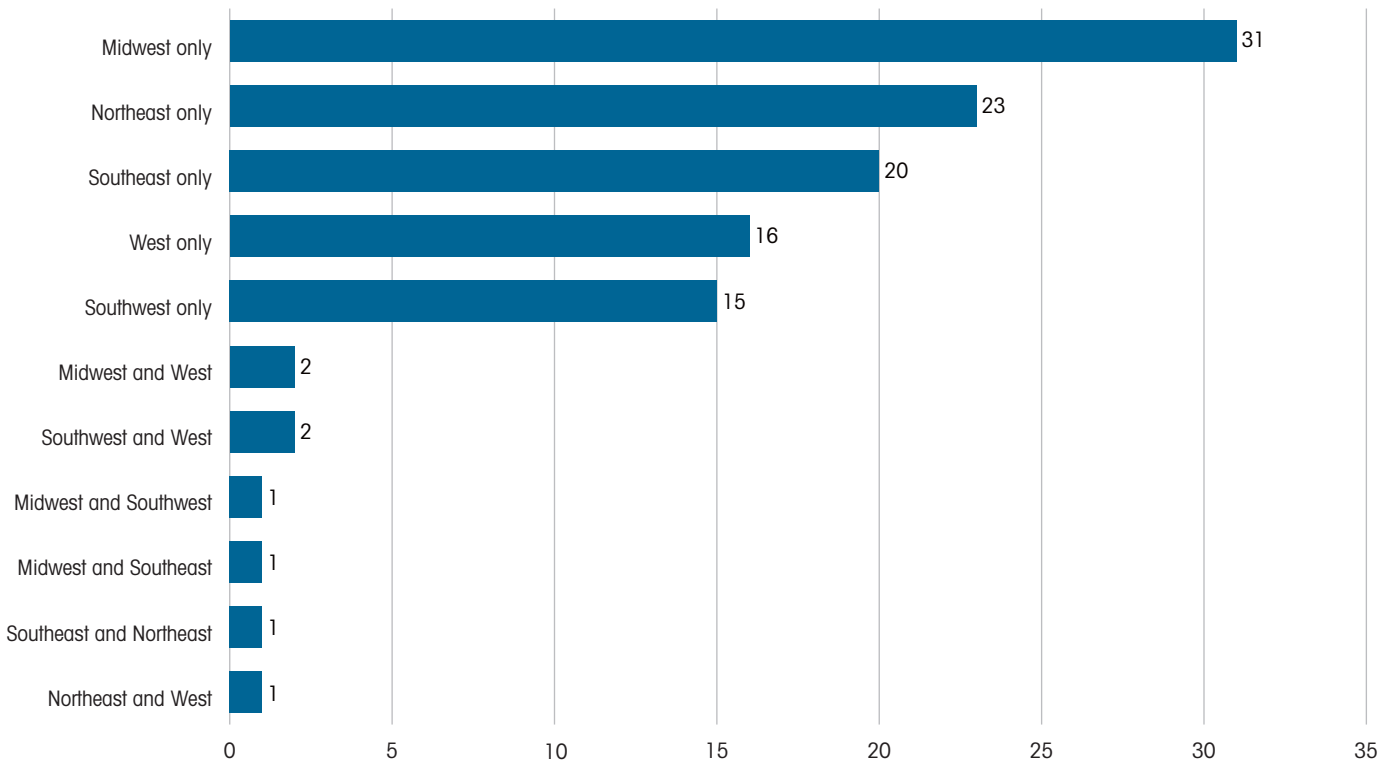


Who is your bank's regulator? | 113 responses



Regions across the country were well represented in the survey responses. The majority of respondents reported to have single region assessment areas.

Where is your bank's primary assessment areas? | 113 responses

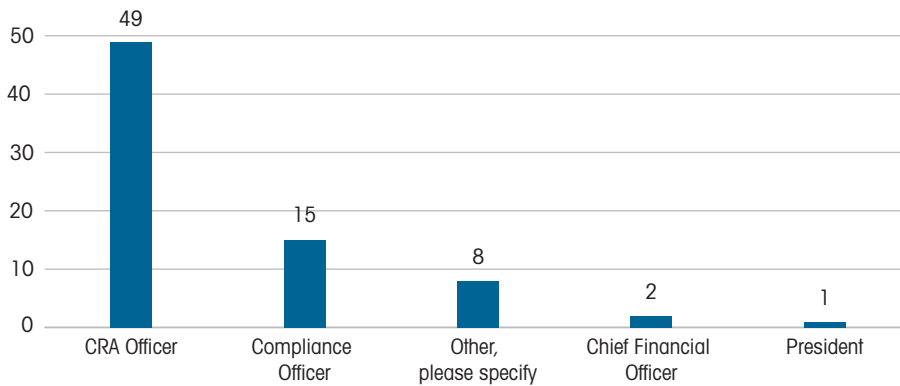


KEY TRENDS IN THE CRA BANK LANDSCAPE

The following are key trends in the CRA bank landscape that came out of our survey results.

1 Most banks have a designated CRA Officer responsible for overseeing CRA activities though some banks designate the responsibility to other positions. While it is no surprise that the majority of respondent banks have CRA activities overseen by the CRA Officer (65%) or the Compliance Officer (20%), not all banks have a designated position responsible for overseeing CRA activities. Other positions named as having the responsibility of overseeing CRA include: Chief Operating Officer, Investment Officer, Director of Community Development, EVP Construction Lending, VP of Loan Operations and the Management Committee.

Who is responsible for overseeing CRA for your bank? | 75 responses



“Multiple officers in both our CRA and Line of Businesses coordinate our CRA lending and investment activities”

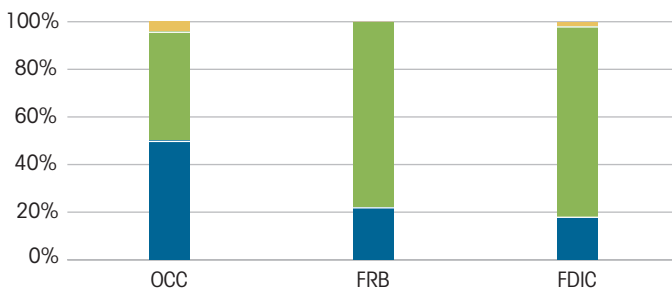
“CRA and Community Accountability Officers manage regulatory risk; CRA is directly aligned with Line of Businesses”

2 Majority of respondent banks received “Satisfactory” ratings on their most recent CRA exam and are targeting “Satisfactory” ratings for their upcoming CRA exam.

What was your bank’s overall rating in your most recent CRA exam? | 84 responses

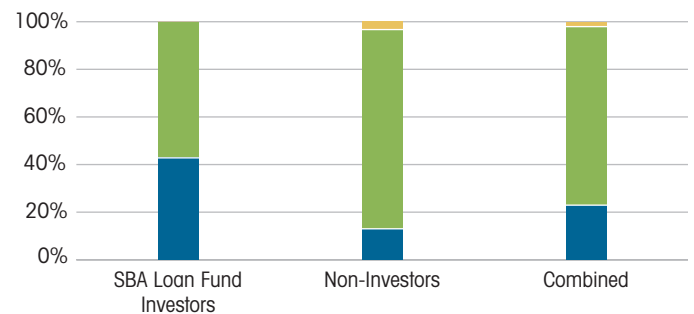
By regulator

Responses broken out by regulator show that OCC-regulated banks have a significantly higher percentage of banks rated “Outstanding” when compared against FRB- and FDIC-regulated banks.



Overall

Despite having a larger number of responses from FDIC-regulated investors, SBA Loan Fund investor responses consisted of a significantly higher percentage of banks rated “Outstanding” when compared against non-investor responses.

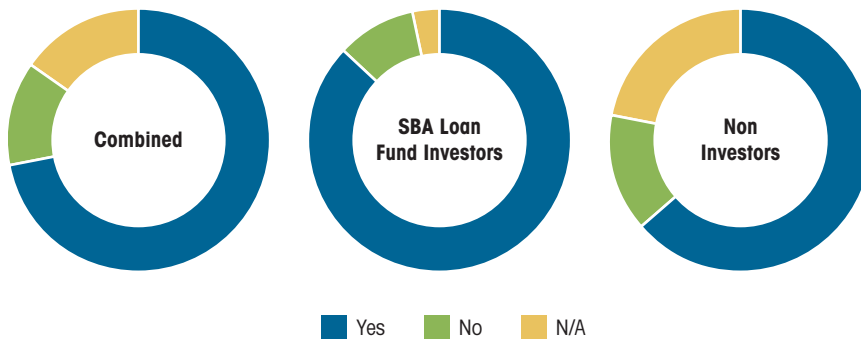


■ Outstanding ■ Satisfactory ■ Needs to Improve

Key Trends in the CRA Bank Landscape (continued)

3 Majority of banks received current period consideration for outstanding investments held over from the prior exam period. SBA Loan Fund investor respondents showed a higher percentage of banks that received current period consideration for outstanding investments held over from the prior exam period when compared against non-investors.

Did your regulator give your bank current period consideration for outstanding investments held over from the prior exam period? | 86 responses

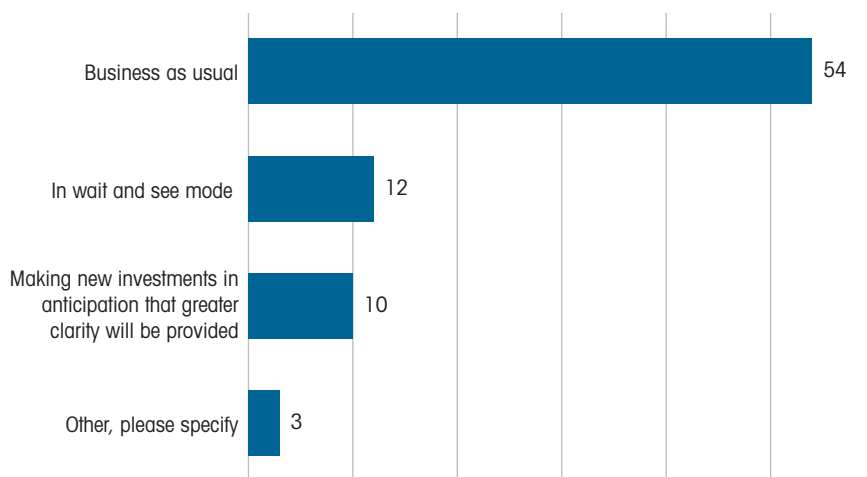


“The examiner did not want to give us credit and it took some work as we had to convince the examiner the funds were redistributed during the current period. We were able to provide information to support the redistribution strategy.”

“Yes, but with diminishing value.”

4 Most banks are proceeding with CRA planning as usual amidst current regulator efforts to modernize the CRA. Recent announcements from all three regulators signal that progress is being made towards the highly anticipated inter-agency release of a notice of proposed rulemaking regarding the modernization of the CRA. These efforts were prompted by the U.S. Department of Treasury’s release of recommendations to improve the CRA on April 3, 2018. Banks were asked how CRA planning and activities are proceeding given current regulatory efforts.

How is your bank proceeding with CRA planning and decision-making given current regulator efforts to modernize the CRA? | 79 responses



“CRA modernization is a must. What would count in one exam won’t count in another depending on which examiner you get.”

“Trying to be more proactive instead of reactive but staffing does not allow capacity for being fully proactive.”

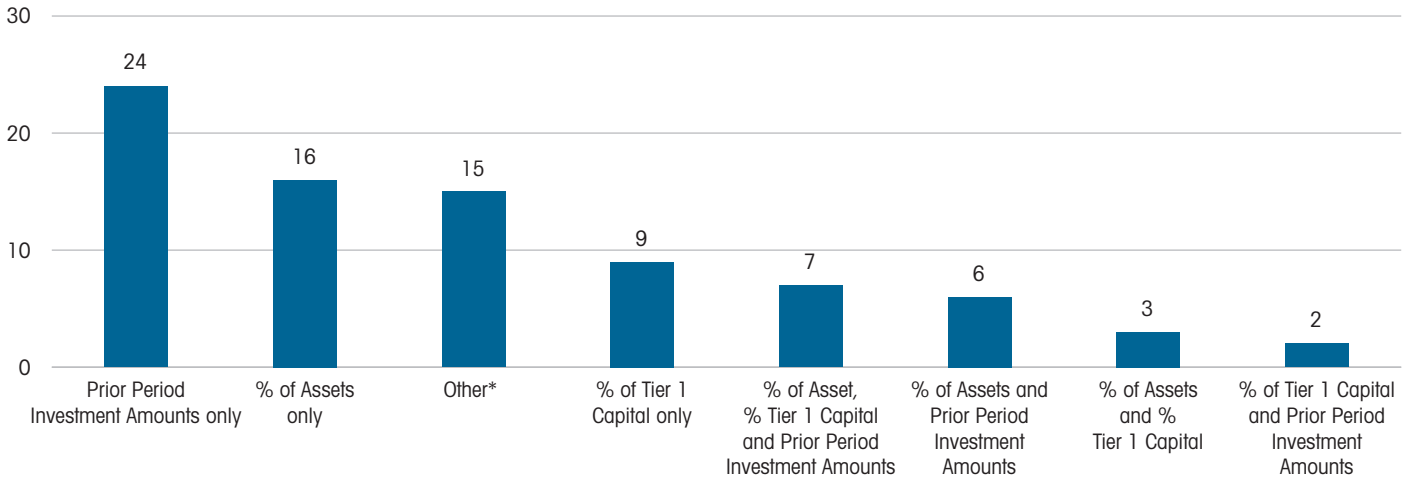
“We are trying to better track investments, loans and services.”

KEY CHALLENGES FACED BY BANKS IN MEETING CRA REQUIREMENTS

The following are key challenges faced by banks in meeting CRA requirements under the current regulatory framework.

1 **CRA investment planning is disparate and inconsistent across banks — there is no consistency in the measurement metric used by banks to plan CRA investments.** When asked what measurement metric was used by the bank to plan CRA investments, respondents were all over the board. “Prior Period Investment Amounts” was the one metric most often cited.

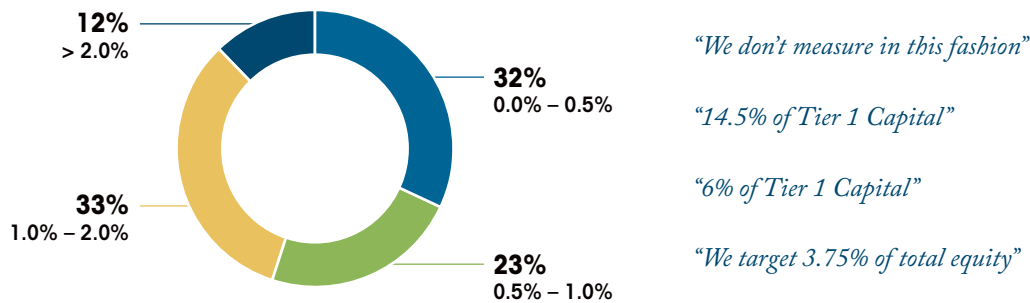
What measurement metric did your bank use to plan CRA investments? | 82 responses



*Other: % of Investments, % of loans, % of total securities, % of total equity, no metric, plus peer bank comparison, general assessment of CRA areas in all our existing markets

Banks were also asked how much were CRA investments as a % of total assets during their last exam. Responses were also pretty varied and the comments reflected even more inconsistency.

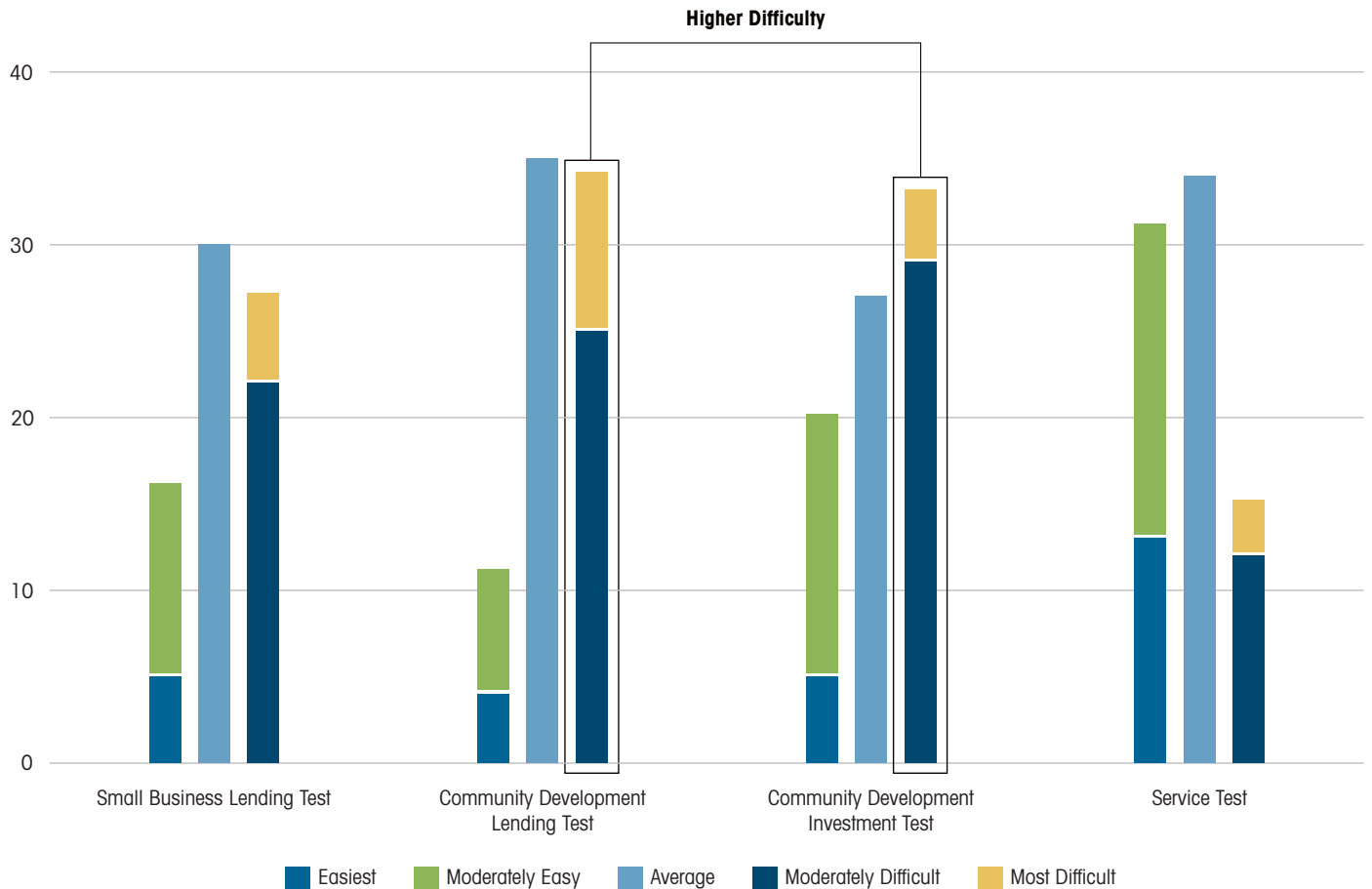
How much were your bank's CRA investments as a % of Assets? | 69 responses



Key Challenges Faced by Banks in meeting CRA Requirements (continued)

2 Banks seem to experience the most difficulty satisfying the **Community Development** portion of the CRA evaluation. Banks were asked to rate the difficulty they experience fulfilling the different portions of the CRA exam as applicable.

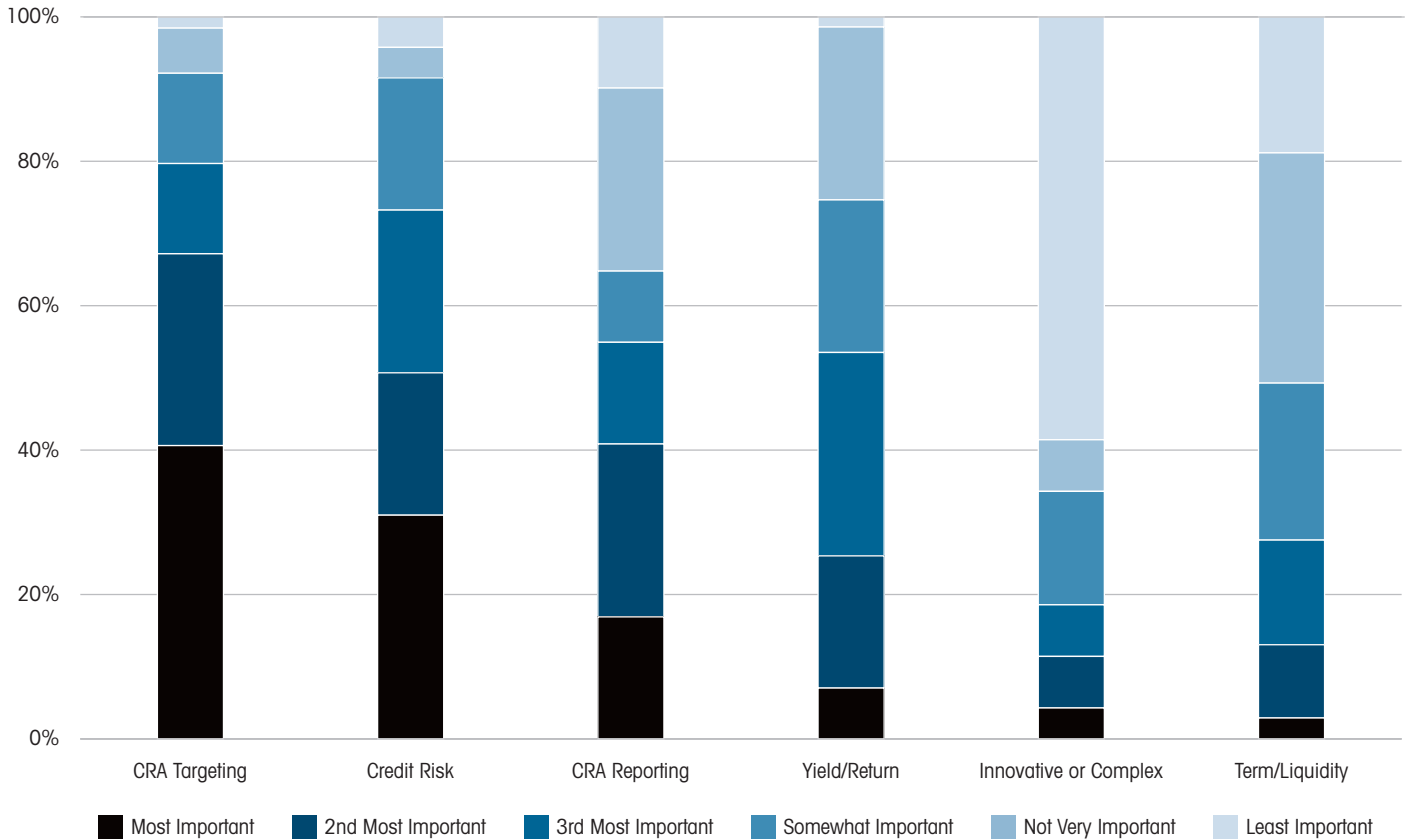
How do portions of the CRA exam rate in terms of difficulty to satisfy? | 73 – 80 responses



THE SBA LOAN FUND helps banks with the most difficult portion of the CRA evaluation. Investment in the SBA Loan Fund qualifies for CRA under either the Community Development Lending test or the Community Development investment test. The majority of investors use their investment for Community Development investment test but roughly 15% of investors use it under the Community Development lending test.

3 Addressing the challenge of sourcing Community Development investments, banks responded that CRA Targeting and Credit Risk are the most important investment factors considered. Banks were asked to rank investment characteristics from least important to most important when evaluating CRA investment decisions.

How do the following investment characteristics rank in terms of importance in CRA investment decisions? | Combined



THE SBA LOAN FUND directly meets the most important investment factors considered when evaluating CRA qualified investments. The fund provides 100% targeted CRA to bank investors with allocated CRA loans only within bank assessment areas. The SBA Loan Fund is rated Aaa-bf, the highest possible bond fund rating, by Moody's Investor Services, reflecting the high credit quality of the fund's assets.



ABOUT THE SOLOMON HESS SBA LOAN FUND

The Solomon Hess SBA Loan Fund is a CRA-eligible Community Development Entity that supports jobs growth in low- and moderate-income and otherwise distressed communities in our bank investors' assessment areas nationwide. The fund has invested over \$1.8 billion in over 3,700 small business loans that supported the creation and/or retention of over 50,000 jobs since inception in 2004. Our investors are banks seeking targeted CRA Community Development credit, either for lending or investment test. The fund has over \$570 million in assets and over 120 bank investors. All of our investors who have sought CRA credit for their investment have earned the expected consideration from their respective regulator.¹

SBA LOAN FUND FACTS

CRA: Yes, Community Development Investment or Lending Test within your target assessment areas. Customized reporting is provided on a regular basis and before regulator evaluations.

Credit Quality: Primary asset is the federally guaranteed portion of SBA 7(a) loans made to small businesses located in LMI or redevelopment areas. The fund is rated Aaa-bf by Moody's Investor Services, the highest possible credit quality rating.

Yield: Q3 Preferred Return of 3.0% annualized and net of all fees and expenses, re-set quarterly.

Safety: Designed to be NAV stable, 20% risk weight with monthly liquidity.

To learn more about Solomon Hess and the CRA-eligible Solomon Hess SBA Loan Fund, please visit our website at www.solomonhess.com or contact Michelle Lai, Investor Services, at mgolai@solomonhess.com or 703.466.0487.

This report was prepared using the results of a survey of 113 participants conducted by the SBA Loan Fund, of which 38% are current investors. This report is for informational purposes only and is not, and should not be assumed to be complete. The SBA Loan Fund wishes to caution the recipient that survey results may differ materially for each participant. In considering the results of the current investors surveyed, the reader should bear in mind that past experience or performance is not necessarily indicative of future results, and there can be no assurance that investment in the SBA Loan Fund will achieve comparable results.

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1. Past performance is no guarantee of future results and future results are not guaranteed. While every investor has received positive consideration from their regulator thus far, this is no guarantee of future results and future exam results are not guaranteed. The SBA Loan Fund has not been approved by any regulatory agency.

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