



The SBA Loan Fund CRA bank survey results are now available. Thank you to all the banks that participated. To download a complete report of survey results, please visit [www.SolomonHess.com](http://www.SolomonHess.com).

## CRA Survey: Banks Face Most Challenges Satisfying Community Development Portion of Evaluation

The Solomon Hess SBA Loan Fund (the Fund) conducted a survey of CRA bank practitioners in June with the goal of gaining insight into the trends and challenges faced by banks in meeting CRA requirements under the current regulatory framework. One of the challenges that the survey results highlighted is that banks experience the most difficulty meeting the requirements for Community Development lending and investing.

**Sample set:** A total of 113 responses were received and consisted primarily of banks with assets between \$321 million and \$1.28 billion (43%) and banks with assets over \$1.28 billion (55%). 55% of responses came from FDIC-regulated banks with 26% coming from OCC-regulated banks and 19% from FRB-regulated banks. *(continued on page 2)*

## Inside

Community Banks Excluded from Volker Rule	1
CRA Modernization Progress	1-3
CRA Bank Practitioner Survey	1-2
SBA Loan Profiles	1-3

## Progress Being Made on CRA Modernization

Recent announcements from all three regulators relating to the Community Reinvestment Act (CRA) signal that progress is being made towards the highly anticipated interagency release of a notice of proposed rulemaking regarding the modernization of CRA which could come as early as the end of this summer.

On June 12, Senior Deputy Comptroller of the Currency for Supervision Grovetta Gardineer spoke at a Regulator Compliance Conference of the American Bankers Association (ABA) and said that the federal agencies expect to issue a notice of proposed rulemaking to revise CRA regulators by the end of summer. Gardineer mentioned that agency discussions are focused on three main

areas: 1. considering how they can provide greater clarity around CRA-qualifying activities, 2. redefining the assessment area definition, and 3. implementing an objective set of measurement metrics for CRA activities.

Several weeks earlier, the Federal Reserve (FRB) issued a report summarizing the feedback received from a series of roundtable discussions on the current state of, and potential revisions, to the CRA. In this report, the FRB stated that its staff had read and evaluated the 1500 comments received to the OCC's Advanced Notice of Proposed Rulemaking (ANPR) released in August 2018 and that hosting roundtables across the country was a second channel for obtaining nuanced *(continued on page 2)*

## Community Banks Now Exempt from Volker Rule

On July 5, five federal regulatory agencies adopted a final rule to exclude community banks from the Volker Rule.

Named after the former FRB president Paul Volker, the Volker Rule is a section of the Dodd-Frank Act which became effective in 2015. The rule placed limits on the ability of banking entities to acquire or retain ownership interests in hedge funds or private equity funds. However, public welfare investments such as the Solomon Hess SBA Loan Fund were exempted from the Volker Rule.

In 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA) amended the Volker Rule by modifying the definition of "banking entity" to exclude certain

community banks and their affiliates from the Volker Rule's restrictions. Sec 203 of EGRRCPA excluded from the Volker Rule banking institutions with \$10 billion or less in consolidated assets and total trading assets and trading liabilities that are 5% or less of total consolidated assets. The final rule was effective upon its publication in the Federal Register and was jointly agreed upon by the FRB, the FDIC, the OCC, the Commodities Futures Trading commission and the Securities and Exchange Commission. This rule change should allow community banks to pursue potentially profitable covered fund activities. While activities prohibited under the Volker Rule posed risks, it is not clear whether they posed greater risks to bank solvency and financial stability than "traditional" banking activities, such as mortgage lending. ■

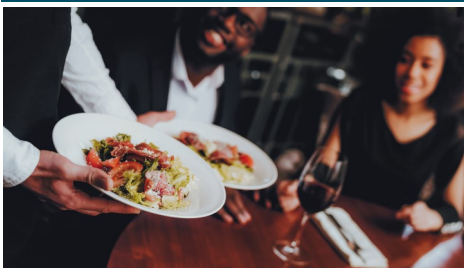
**CRA Modernization** (from page 1) perspectives on the challenges with current CRA regulators. The main issues highlighted in the report are the same three main areas highlighted by Gardineer at the ABA conference.

*Gardineer said of the comments received on the Office of the Comptroller of the Currency's (OCC) ANPR: 91% said the current regulations lacked objectivity, transparency and fairness, 98% think they are applied inconsistently and 88% said they have become harder to understand.*

Lastly, Jelena McWilliams of the Federal Deposit Insurance Corporation (FDIC) spoke at a meeting of community development bankers on June 4 and said that reform of CRA regulations was among several ongoing initiatives at the agency to strengthen the nation's community banks. McWilliams stressed that the reform will focus on ensuring that CRA investments will go to those most in need in the community.

Representatives of both the FRB and the FDIC have not put a timeframe on their progress but noted that meetings among the three regulators are taking place. ■

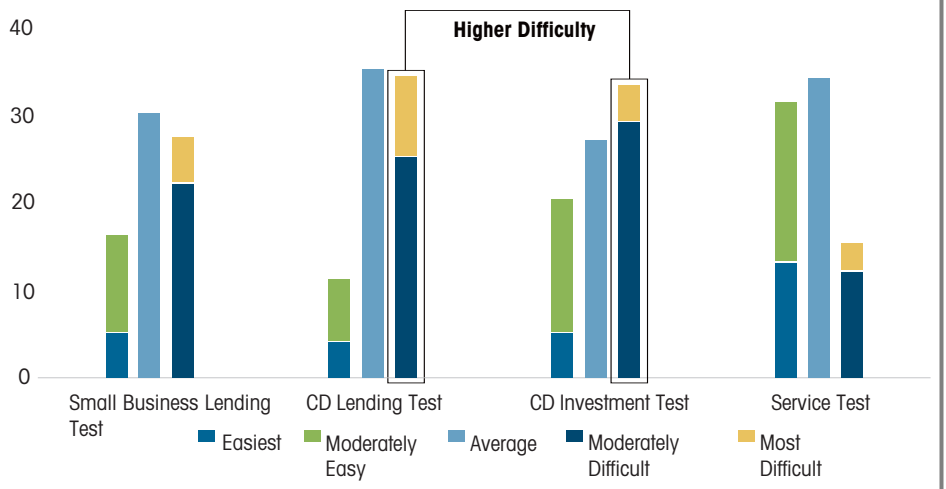
## SBA Loan Profile: Farm Provisions in Prescott, AZ



*Above, diners.*

**A**nother example of the types of loans the SBA Loan Fund buys on behalf of its investors is the loan to Farm Provisions, a woman co-owned full service restaurant located in a moderate income census tract and a CDFI Fund Qualified Investment census tract in Yavapai, County, AZ. Ryan and Brittany Peters opened the restaurant in May 2018, creating 13 jobs. Proceeds of the SBA 7 (a) loan were used to purchase equipment to open the business. ■

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



**Survey** (from page 1) Responses represented regions across the country with the majority of respondents reporting to have single region assessment areas.

**Community Development challenge:** CRA bank practitioners were asked to rate the difficulty they experience fulfilling different portions of the CRA exam, as applicable to their institution, from “easiest” to “most difficult.” Results reveal that banks experience more difficulty satisfying the Community Development portion of the exam with Community Development Lending being relatively more difficult to satisfy than Community Development Investing.

Banks have been advocating for greater guidance from the regulators on measurement metrics to assist with CRA investment planning and for greater clarity on what activities are considered eligible as Community Development Investments and Loans. These are among the critical issues currently under review as the regulators are working towards a modernization of the CRA.

The need for greater guidance on measurement metrics is reinforced by survey results that demonstrate a lack of consistency in measurement metrics used by banks today to plan CRA investments. Responses were all over the board when asked what measurement metric is currently being used to plan CRA investments though prior period investment amounts was the one metric

most often cited.

Digging deeper on the challenge of sourcing Community Development Investments, banks were asked to rank investment characteristics from “least important” to “most important” in evaluating CRA investments. CRA Targeting and Credit Risk emerged as what banks consider as the most important investment characteristics while Yield/Return, Term/Liquidity and Innovative or Complex were considered relatively unimportant.

**Solomon Hess SBA Loan Fund:** The SBA Loan Fund offers a targeted CRA solution for banks experiencing challenges sourcing Community Development Loans or Investments. The Fund is a Community Development Entity that has been supporting jobs growth in CRA-eligible geographies by acquiring the guaranteed portion of SBA 7(a) loans in the secondary market. Investment in the Fund qualifies for CRA under either the Community Development Lending or Investment test. The Fund is rated Aaa-bf (triple A) by Moody's Investor Services, the highest bond fund rating possible, reflecting the high credit quality of the Fund's assets. The Fund has over \$570 million in assets from 122 bank investors nationwide. ■

*To download a complete report of survey results, please visit [www.solomonhess.com](http://www.solomonhess.com) or contact Michelle Lai, Investor Services, at [mgolai@solomonhess.com](mailto:mgolai@solomonhess.com) or 703.466.0483.*

## SBA Loan Profile: See Us Now Staffing, Las Vegas, Nevada



*Proceeds of the SBA 7(a) loan to See Us Now Staffing were used to finance working capital needs. The loan was originated by Valley Economic Development Center (VEDC), a non-profit small business Community Development Financial Institution (CDFI) that provides credit and financial services to underserved markets and populations. Women and entrepreneurship are among the underserved markets targeted by VEDC. Left, a recruiter.*

See Us Now Staffing, Nowlan co-founded the Nevada Hispanic Business Group, a non-profit dedicated to bringing the Hispanic and non-Hispanic business community together through networking, business development and advocacy.

Proceeds of the SBA 7(a) loan were used to finance working capital needs of the company. By acquiring this SBA 7(a) loan, the SBA Loan Fund provides much needed capital to VEDC enabling further originations of mission-driven loans. VEDC's mission is to create jobs and promote small business development in underserved communities. It specializes in offering microloans and small business loans up to \$500,000 in eight states. ■



*Above, a recruiter.*

**W**hen portfolio managers at Solomon Hess invest in CRA-eligible loans on behalf of bank investors, they try to find loans that not only meet the technical requirements of the CRA program but also the spirit under which CRA was created. Part of the screening process involves research on the loan originator with the goal of supporting mission-driven lenders, where possible.

An examples of the types of loans that Solomon Hess acquires in the loan to See Us Now Staffing, a minority co-owned staffing agency located in a moderate income census tract and a CDFI Fund Qualified Investment census tract in Clark County, NV. The borrower self-reported that this SBA 7(a) loan supported the creation and/or retention of 9 jobs.

See Us Now Staffing is a temporary and permanent employment agency that specializes in staffing light industrial, skill trades, medical office support/billing and call center positions. The company was founded in 2014 by Laura Nowlan and her business partner Yadria Barbarin when Nowlan took out a personal loan of \$2,000. “The \$2,000 loan allowed us to get workmen’s compensation insurance in place,” Nowlan said. “That was the biggest hurdle for us before we could open the business.”

Since its establishment in 2014, See Us Now Staffing has placed over 1,000 individuals in over 700 companies.

Nowlan’s business drive is motivated by

a commitment to give back to the community and her staffing work is dedicated to making sure money stays in the community. She said, “I’m not here to serve the rich. I came out of poverty. I grew up in the projects.” One example of the way See Us Now Staffing is fulfilling Nowlan’s commitment to the community is its partnership with Hope for Prisoners whereby See Us Now Staffing connects ex-offenders with second-chance employers.

In addition to serving as the President

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[www.farmprovisions.com](http://www.farmprovisions.com)

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## SBA Loan Fund Maintains Preferred Return for Q3 2019

The SBA Loan Fund maintained its Preferred Return for Q3 2019. The Preferred Return is re-set each quarter and is annualized and NET of all expenses and fees (including management fee). For Q3 2019, the Preferred Return is set at 3.00% for targeted CRA investments and 3.10% for non-targeted CRA investments. This stability in the Preferred Return demonstrates the continued strong performance of the SBA Loan Fund's assets. The SBA Loan Fund has roughly \$570 million in assets and over 120 bank investors.

## 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 \$750 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.

## 2019 Conference Calendar

CRA & Fair Lending Colloquium

November 10-13, Orlando, FL

[www.cracolloquium.com](http://www.cracolloquium.com)

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*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.*