



**IMPACT INVESTMENT
2018**

Solomon Hess SBA Loan Fund Assessed by Aeris for Impact Management

The Solomon Hess SBA Loan Fund (the Fund) is one of the first investment funds to undergo an Impact Management Assessment Certification by Aeris Insight (Aeris). A leading rating and information service, Aeris recently launched an assessment service to evaluate a fund’s impact management capacity by focusing on the quality of the systems, processes and oversight used by the fund manager to deliver and manage promised impact. Based on that assessment, Aeris certified that Solomon Hess Capital Management (Solomon Hess), fund manager to the SBA Loan Fund, has the appropriate impact management practices to deliver impact consistent with the Fund’s mission.

The SBA Loan Fund was established in 2004 as a community development investment fund for banks seeking targeted CRA credit. The Fund’s mission is to (continued on page 3)

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OCC to Release NPR Before Year-End. Will the Other Agencies Get on Board?

On November 12, Comptroller of the Currency Joseph Otting said that his agency “at least” will release a Notice of Proposed Rulemaking (NPR) to modernize regulations of the Community Reinvestment Act (CRA) “before the end of the year.” Two days later, according to an article in the *Wall Street Journal*, Otting reported the Federal Reserve Board’s (FED) reluctance to get on board. “At this point the FED is out. We just fundamentally can’t get to the same spot for the proposal.”

Then, on November 21, Federal Deposit Insurance Corporation (FDIC) Chairman Jelena McWilliams said that her agency would join the OCC in its proposal.

“You do have these situations where one agency, for whatever internal politics or substantive reasons, doesn’t want to move



Speaking at a regtech conference in New York co-hosted by American Banker, Otting said, “The OCC (Office of the Comptroller of the Currency) will lead and have an NPR out before the end of the year. And we’re dedicated to doing that.” Left, Otting.

forward,” McWilliams said. “It’s not about leaving the FED behind ... You can’t wait for a perfect solution. At some point you’ve got to move.”

After speaking at the Bank Policy Institute’s annual conference in New York this week, Otting said, “Not every rule among agencies is the same. Between the OCC and the (continued on page 2)

How to Write an Effective Comment Letter



The regulators have reiterated the importance of comment letters at every stage of the CRA rulemaking process.

Over 1,500 comment letters were received in response to the OCC’s ANPR and were carefully reviewed by all agencies. CRA stakeholders are encouraged to send in comment letters regardless of agency.

At the CRA & Fair Lending Colloquium hosted by Wolters Kluwer Nov 10-13, Stephen Cross, Senior Advisor at Alvarez & Marsal and a widely recognized authority on CRA and Fair Lending laws and regulations, provided tips on writing an effective comment letter.

1. Know that the agencies take notice of all the comments and take them seriously - each comment letter is read and reviewed by multiple individuals.
2. Stay away from “form letters” - take the time to craft a meaningful response.
3. Organize responses around the questions posed - it is easier for the agencies to catalog and evaluate responses that match up.
4. Be specific – provide thoughtful reasons and specific examples to support issues raised.
5. Provide alternative solutions - agencies are open to ideas and suggestions that are well presented. ■

OCC to Release NPR (from page 1) FDIC, we control about 85% of the CRA.³⁷

Otting reported that the breakdown in negotiations with the FED centered around whether to emphasize the number of CRA loans or the dollar amount of CRA activity in the measurement of a bank's CRA performance. Reportedly, the OCC's plan would place importance on both metrics. The FED, however, is inclined to place greater emphasis on the number of CRA loans as a measurement metric.

FED Chairman Jerome Powell had said at a hearing of the Joint Economic Committee on November 13 that a common answer to modernizing the CRA is the ideal outcome. "My hope is that we will ultimately be able to come together with a common answer, which I think would be better for everyone if we can do that," Powell said.

The notice of proposed rulemaking (NPR) is the proposed rule, an official document that announces and explains an agency's plan to address a problem or accomplish a goal. All proposed rules must be published in the Federal Register to notify the public and to provide an opportunity to submit comments. The proposed rule and the public comments received on it form the basis of the final rule.

Grovetta Gardineer, Senior Deputy Comptroller for Bank Supervision Policy at the OCC, spoke at the CRA & Fair Lending Colloquium hosted by Wolters Kluwer in Orlando on November 12. Gardineer said, "It is the hope that the agencies can come together on a NPR. But if it doesn't happen, know this is only step two in a three-step dance." She encouraged all stakeholders to send in comment letters regardless of agency author and reiterated that all three regulators would seriously review all comments received.

The OCC has communicated that it expects to release the NPR in mid-December, with the goal of having a final ruling released the following May. Asked whether the FED could theoretically sign onto a joint finalized rule without being included in the NPR, Otting was quoted as saying that he "hadn't gotten a legal opinion back on that yet."³⁷ ■

While it seems less and less likely that the three agencies can reach consensus to issue an inter-agency NPR before the end of the year, there is still the hope that they will be able to come together for a final ruling. Grovetta Gardineer, Senior Deputy Comptroller for Bank Supervision Policy at the OCC, stated that the three agencies have strong consensus in four major areas of reform:

- Clarifying bank activities that should receive CRA consideration, especially under Community Development
- Updating where CRA activities count—addressing how technology has impacted the branch banking model
- Creating more objective means to measure CRA activity
- (Assuming new rulemaking solves the above) Issuing a comprehensive annual report outlining what CRA has done to lift up low- and moderate-income (LMI) communities across America



Solomon Hess was a sponsor at the 23rd CRA & Fair Lending Colloquium hosted by Wolters Kluwer in Orlando, Florida, November 10-13. Over 600 bank practitioners, regulators, advocates and community group leaders gathered at this event to discuss relevant topics in CRA and Fair Lending. The 2020 CRA & Fair Lending will take place November 15-18 in Caesars Palace Las Vegas Hotel & Casino.

Left, Solomon Hess team at the Colloquium. Featured are Michelle Lai, Investor Services, Mike Fallon, Chief Investment Officer, and Salvador Hutira, Analyst.

Concern Raised Over Possible List of Qualified Community Development Activities

At the CRA & Fair Lending Colloquium, senior leaders of all the agencies acknowledged the need for greater consistency and predictability in what counts for CRA under community development. To address this need, the OCC has intimated that an illustrative list of qualifying CRA activities will be included in the NPR on CRA modernization. The prospect of a possible list has raised major concerns among community groups.

Race to the bottom: Concern was raised that a list of CRA-qualifying activities would enable banks to meet CRA requirements by undertaking the easiest available option which may not be the most impactful. This may lead to an erosion of credit services extended to those communities most in need. "We have a great fear about any such list," said Lisa Mensah, President and CEO of the Opportunity Finance Network. The concern is if all the elements on such a list would be weighted equally. "Banks will not be incentivized to do the deeper,

high impact work that takes more time and resources to execute if the same credit would be given for a less time consuming activity," Mensah said. Steve Cross, Senior Advisor at Alvarez & Marsal, suggested that any list should come with "multipliers" to give more weight to more impactful activities.

Limit innovation: Concern was also raised that a list of CRA-qualifying activities would inhibit innovation as banks would not be incentivized to develop new and creative ways to reach underserved communities.

It remains to be seen whether the regulators will unveil a list of qualifying CRA activities and what that list could look like. All three agencies have reiterated their commitment to preserving the goal of the CRA statute which is intended to encourage banks to meet the credit needs of the communities in which they operate, including LMI neighborhoods, consistent with safe and sound banking operations. ■

SBA Loan Fund Assessed by Aeris

(from page 1) “promote permanent job creation, retention and/or improvement for LMI persons who are employed by small businesses by creating greater financial liquidity and a lower cost of capital within the Small Business Administration 7(a) secondary market.” Investment in the SBA Loan Fund qualifies for CRA credit under the community development lending or investment test. As of September 30, 2019, the Fund had over \$400 million in equity from over 120 investors nationwide.

Paige Chapel, President and CEO of Aeris said, “In an increasingly crowded space, managers need to distinguish themselves by demonstrating their capacity to achieve positive social and environmental impact. Solomon Hess put their fund through our rigorous process to get an independent assessment of their policies, practices and approach.” As the market leader in assessing impact management performance of CDFI funds for the past 15 years, Aeris is applying its established methodology to a broader universe of impact investments with its Impact Management Assessment.

Solomon Hess Founding Partner and Chief Financial Officer Bill Einstein said, “We are proud to be one of the first companies to undergo an Impact Management Assessment. At Solomon Hess, we strive for excellence in providing our investors with impactful community development loans and investments in the communities they care about. This verification reinforces the commitment we have to our investors in living our mission to promote permanent job creation, retention and/or improvement through supporting small business loans.”

Aeris is a rating and information service built on the belief that capital will flow to good more quickly when investors have confidence in the accountability, standards and transparency of impact investments. Since 2004, Aeris’ due diligence and data have helped investors source, underwrite and monitor investments that meet their risk parameters and impact goals. Aeris’ clients range from large financial institutions with CRA obligations, mission-driven charitable foundations, government, private wealth managers and impact fund managers. ■

SBA Loan Profile: Jeb Foods, Union, New Jersey



Jeb Foods is located in Union, New Jersey, in a moderate-income census tract that also meets the New Market Tax Credit Low-Income Community criteria. Proceeds of the SBA 7(a) loan were used to purchase the property on which the business is established. The borrower self-reported to the SBA that this loan supported the creation and/or retention of four jobs. The borrower is a woman and minority co-owned business. Jeb Foods donates 10% of its proceeds to Save All Africa Kids, a 501 (c)(3) non-profit organization which provides care to women and orphaned children in Africa. Left, African food stall.

When portfolio managers at Solomon Hess invest in CRA-eligible loans on behalf of bank investors, they look for loans that not only meet the technical requirements of the CRA program but also the spirit under which CRA was created. An example of the types of loans that Solomon Hess acquires is the loan to Jeb Foods, a woman and minority owned business.

Jeb Foods is an online specialty food importer of African food products for retail groceries, restaurants and consumers. Joy Ero grew up in the mid-western part of Nigeria. She founded Jeb Foods with the

goal of providing fresh naturally grown foods, like she had growing up, in America.

Many of the products carried are staples in African cuisine and are often hard to find in American grocery stores such as cassava flour, ground melon seeds, plantain flour and powdered hibiscus.

Jeb Foods donates 10% of its profits to Save All Africa Kids (SAAK), a non-profit organization that serves women and orphaned children in Africa by providing clothing, medical supplies and food. SAAK also provides skills training and employment to local women. ■

Impact Record

Since inception in 2004, the Solomon Hess SBA Loan Fund has invested over \$2.06 billion in supporting over 3,950 Small Business Association 7(a) loans, many in LMI or otherwise economically distressed neighborhoods. These loans supported the creation and/or retention of over 56,000 jobs. The current portfolio consists of over 1,300 loans, 80% of which are located in LMI or otherwise economically distressed neighborhoods.

The Aeris Impact Management Assessment of the Solomon Hess SBA Loan Fund can be viewed at www.SolomonHess.com. For more information, please contact Michelle Go Lai, Investor Services, at mgolai@solomonhess.com or 703.466.0483.

Notes and Sources:

¹Pedersen, B. (2019, November 12). OCC’s Otting on CRA timeline, Camels and fintech legal battles. Retrieved November 12, 2019, from <https://www.americanbanker.com/list/occs-otting-on-cra-timeline-camels-and-fintech-legal-battles>

²Acerkman, A. (2019, November 14). Rewrite of Lower Income Lending Rules to Advance in December. *The Wall Street Journal*. Retrieved from www.wsj.com

³Pedersen, B. (2019, November 20). Fed won’t move on CRA reform this year: Otting. Retrieved November 21, 2019, from <https://www.americanbanker.com/news/federal-reserve-wont-move-on-cra-this-year-otting>

⁴Adler, J. (2019, November 13). Fed focused on drafting joint CRA plan with other agencies: Powell. Retrieved November 13, 2019, from <https://www.americanbanker.com/news/fed-focused-on-drafting-joint-cra-plan-with-other-agencies-powell>

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2020 Conference Calendar

National Interagency CRA Conference

March 9-12, Denver, CO

Sheraton Denver Downtown Hotel

CRA & Fair Lending Colloquium

November 15-18, Las Vegas, NV

Caesars Palace Las Vegas Hotel & Casino

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 \$650 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.

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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.