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## SBA Loan Fund Profile: Vidalia Industrial Facilities

*Vidalia Mills is a maker of environmentally sustainable, 100% traceable American-made denim, yarn and textiles located in Concordia Parish, LA. Above, a textile mill.*

**When portfolio managers at the Solomon Hess SBA Loan Fund** (the Fund) acquire CRA-eligible loans on behalf of 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 the SBA 7(a) loan to Vidalia Industrial Facilities (VIF).

VIF is a start-up textiles manufacturer located in Concordia Parish, LA, a CDFI Fund identified Persistent Poverty County in a rural community with high unemployment. Vidalia Mills opened in late 2019 and in doing so resurrected an abandoned 900,000 square foot distribution *(continued on page 3)*

## Inside



## OCC and FDIC Extend NPR Comment Period by 30 days to April 8

**On February 19, the Office of the Comptroller of the Currency** (OCC) and the Federal Deposit Insurance Corporation (FDIC) announced that they extended the comment period to the Notice of Proposed Rulemaking (NPR) entitled "Community Reinvestment Act (CRA) Regulations" by 30 days to April 8, 2020. The CRA NPR, which was published in the *Federal Register* on January 9, had provided for a 60-day comment period, which would have closed on March 9. Banks, community groups, trade associations and lawmakers had been advocating for more time to comment on the proposed regulations as it proposes sweeping changes on how banks will be evaluated for CRA. This 30-day extension of the comment period was supported and lauded by industry leaders and seen as a welcome concession from the OCC and FDIC.

*The announcement came as a surprise to the industry, given Comptroller of the Currency Joseph Otting's staunch opposition to multiple requests for comment period extensions during his testimony to the House Financial Services Committee on January 29. Left, Otting.*

The importance of comment letters at every stage of the rulemaking process has been stressed by all three agencies and CRA stakeholders are all encouraged to comment. At the CRA & Fair Lending Colloquium last November, Stephen Cross, Senior Advisor at Alvarez & Marsal and a widely regarded expert on CRA regulations, shared the following tips on writing an effective comment letter *(continued on page 3)*

## Solomon Hess SBA Loan Fund 2019 Impact Report Now Available for Download


**The Solomon Hess SBA Loan Fund 2019 Impact Report is now** available for download at www.SolomonHess.com. This report highlights the quantifiable impact the Fund has made in low– and moderate-income (LMI) and otherwise economically distressed communities nationwide. The Fund was certified as a Community Development Entity (CDE) in 2005 and has since invested more than $2.1 billion to fund over 4,100 small business loans that supported the creation and/or retention of over 59,000 jobs nationwide. Small business is a key driver of our nation's economy, generating the permanent jobs needed to promote economic development. Investment in the Fund qualifies for CRA credit under Community Development.■

## SBA Loan Fund Investor Reactions to CRA NPR

**CRA modernization efforts took a major step forward on December** 12, 2019 when the OCC and FDIC released a joint CRA ANPR. According to the announcement, the intent of the proposed rules is to increase bank activity in LMI communities where there is a need for credit, responsible lending, access to banking services and improvements to infrastructure. The proposed rules are further intended to clarify what qualifies for credit under the CRA and create an updated definition of "assessment areas." The CRA NPR was officially published in the *Federal Register* on January 9 and currently has a comment period closing on April 8.

Notably, the Federal Reserve Board (FRB) did not sign on to the NPR, opening up the possibility of divided enforcement of CRA, in which banks will be examined differently on the same law, depending on what charter they have.

*On January 8, FRB Governor Lael Brainard, the agency's lead person for CRA modernization, spoke critically of key elements of the OCC and FDIC's approach and plan. She presented alternative ideas on CRA modernization. Left, Brainard.*

Mike Fallon and Michelle Lai of the Solomon Hess SBA Loan Fund spoke with a cross section of the Fund's investors to garner reactions to the NPR. The Fund is a CDE with over $400 million in equity from 127 CRA-motivated bank investors nationwide, 84% of which are FDIC– and OCC-regulated and 15% are FRB-regulated. The investor comments can be organized around five major themes:

**Questionable Timing:** Banks expressed anxiety over the timing of the NPR's release at year-end and the 60-day comment period (75 days were given to comment on the OCC's ANPR published on September 5, 2018). Banks called for more time to craft meaningful comments, needing the time to fully understand the proposed rulemaking changes and perform analysis on how individual banks would fare. Concerns were also raised that the FDIC and OCC did not delay the NPR release until a compromise could be reached with the FRB despite an overwhelming majority of comments to the OCC's ANPR that urged the three agencies to act in tandem in these efforts.

**OCC/FDIC Rewrite vs. FRB Revision:** Comments regarding the different approaches taken by the regulators were discussed, with the OCC pushing forward a major overhaul of the evaluation framework, the FDIC's signing on to the OCC's plan with a carve out for banks with assets of $500 million or less to be able to opt out of the proposed changes, and the FRB's additive and cautionary approach which is slow-moving. Some banks preferred the FRB's transparent, data-driven approach that is looking to build upon the existing framework contrasting it to the OCC's approach of a major overhaul.

**Lack of Data:** Concerns were raised that the geocoding of deposit and consumer loan data needed to comply with the NPR's proposed framework is not readily available at most banks and that new systems to capture such data would be costly to set up. Banks mentioned that resources would be pulled from doing the groundwork of community development banking to instead manage data collection and reporting. Every bank commented that an unintended consequence of the NPR is increasing the burden on banks in terms of data collection and reporting.

**"Watering Down of CRA":** Community groups had been anxious that the proposed rulings would disincentivize banks from undertaking innovative and time-consuming deals that could potentially be more impactful to local communities in favor of large-scale "vanilla" investments. Banks also raised this as a potential issue. In addition, banks commented that the proposed framework does little to account for different banking business models. Moreover, concern was raised about the potential replication of CRA "hot zones" in metropolitan areas that will be geocoded as major sources of deposits instead of directing CRA investments into rural areas or CRA deserts.

**Lengthy and Bumpy Implementation Period:** Comments were shared about how the implementation period will be lengthy and require significant systems set up and user training. CRA examiners will also need to undergo significant training to adopt to the new proposed ruling.

Banks that shared reactions on the NPR are all waiting on the proposed rule to be finalized before making any changes to normal business operations. The extension of the comment period pushes back the OCC and FDIC timetable and no date has been set as to when the final rulemaking will be published and take effect. ■

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**Comment Period** *(from page 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.
- Stay away from form letters: take the time to craft a meaningful response as form letters are easily identified and given less weight.
- Organize responses around the questions posed: it is easier for the agencies to catalog and evaluate responses that match up to the questions posed.
- Be specific: provide thoughtful reasons and specific examples.
- Provide alternative solutions: agencies are open to ideas and want to hear solutions to problems or issues raised.

As of February 21, 491 public comments had been submitted in the *Federal Register* in response to the CRA NPR. ■

**Vidalia Mills** *(from page 1)* facility built and abandoned by Fruit of the Loom. In the early 2000's, right after construction of the facility was completed, Fruit of the Loom decided to relocate its operations to Mexico, and the facility sat vacant, a symbol of hard times in an area struggling with high unemployment, seasonal flooding and foreign competition.

A major reason founder and CEO Dan Feibus chose Vidalia as the location to open his mill was because 100% of its cotton could be sourced within 200 miles. VIF will only use 100% certified sustainable E3 cotton from farm-direct sourcing in its denim that is traceable back to the field. "Being transparent and sustainable is more than a slogan," Feibus said.[1] "It's a major commitment to process, from how the cotton is grown on the farm to how it's manufactured in the mill."

At full capacity, VIF expects to employ 600 individuals, paying an average wage of over $13 per hour. It will become the single largest employer in Concordia Parish.

Proceeds of the SBA 7(a) loan were used to finance equipment. The borrower self-reported that this loan supported the creation of 250 jobs. ■

## SBA Loan Profile: Hangtime TNT Gymnastics

*Hangtime TNT Gymnastics is located in a CDFI Fund Qualified Investment census tract. The CDFI Fund has identified specific geographic units that meet its criteria of economic distress and that should qualify as community development investments for CRA. One of the criteria that qualifies an investment as a community development investment is that it is one that supports permanent job creation, retention, and/or improvement in areas targeted for redevelopment by Federal, state, local or triable governments. The CDFI Fund is part of the US Treasury and thus qualifies as the Federal government. Left, a gymnast.*

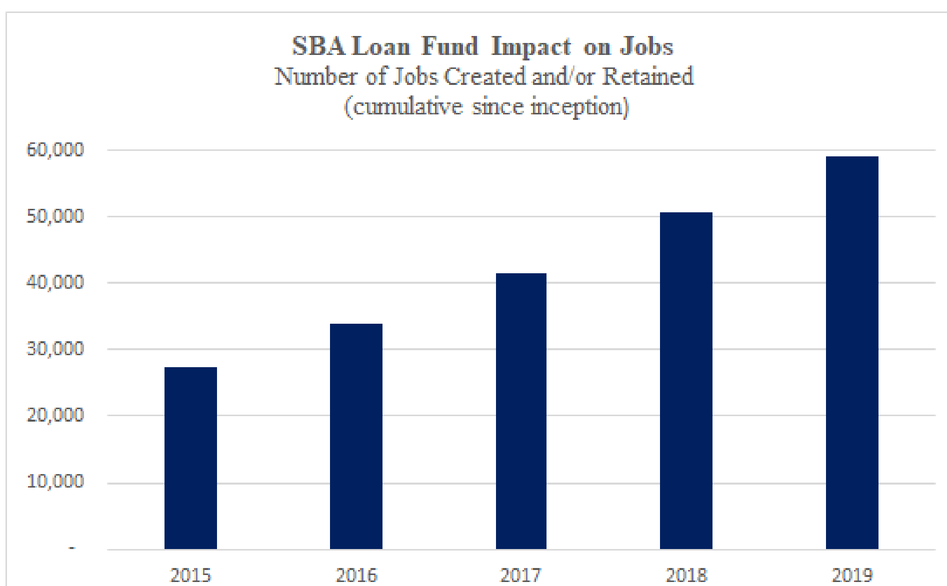
**Another example of the types of loans in the SBA Loan Fund** portfolio is the loan to Hangtime TNT Gymnastics (Hangtime), a woman-owned business located in a CDFI Fund Qualified Investment census tract in Lafayette Parish, LA.

Hangtime is a hands on gym that implements tailored lesson plans and evaluations to promote growth in independence, discipline and skillset. The gym offers recreational classes, competitive teams and summer camps for gymnasts of all ages and skill levels.

Hangtime was founded in May 2016 by Olympian trampolinist Savannah Vinsant Thompson. At the age of 19, she was the youngest Olympian to compete in the trampoline in London 2012 and finished sixth, the highest any American woman has ever placed in the sport. Following the Olympics, Thompson moved home to Acadiana and earned a degree from South Louisiana Community College. Proceeds from the SBA 7(a) loan were used to finance the property on which the business is established. This loan supported the creation and/or retention of 40 jobs. ■

## SBA Loan Fund Impact on Job Creation

**Permanent job creation is key to reducing poverty and promoting** economic development in LMI communities. As of December 31, 2019, approximately 80% of the portfolio's small business borrowers were located in LMI or otherwise economically distressed communities. ■



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## 2020 Conference Calendar

**<u>National Interagency CRA Conference</u>**
**March 9-12, Denver, CO**
**Sheraton Denver Downtown Hotel**

**<u>CRA & Fair Lending Colloquium</u>**
**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 $700 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.*