

SBA Loan Fund Portfolio Borrowers Create Positive Impact During COVID-19 Crisis



The coronavirus pandemic and the unprecedented economic toll on small businesses across the nation paint a bleak picture of current conditions, fraught with distress and hardship. Despite this environment, many small business owners continue to generate a positive impact in their communities, bringing hope to others. A number of small business borrowers in the SBA Loan Fund portfolio have found creative ways to support and contribute positively in their surrounding communities. We are proud to share their stories.

Atascadero, CA: **Wild Fields Brewhouse** donated and served 80 *(continued on page 3)*

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OCC Moves Forward with CRA Modernization

The Office of the Comptroller of the Currency (OCC) continues to move forward with Community Reinvestment Act (CRA) modernization efforts despite appeals from legislators, bankers and community groups to suspend non-COVID-19 related rulemaking efforts. The period for submitting comments to the Notice of Proposed Rulemaking (NPR) entitled “CRA Regulations” published in the *Federal Register* on January 9 was extended by 30 days to April 8 and has since closed. In an interview on May 8, Blake Paulson, the new chief national bank examiner with the OCC said that “the OCC will release a final rule on CRA this year.”

On May 20, Federal Deposit Insurance Corporation (FDIC) Chairman Jelena McWilliams released the following statement: “While the FDIC strongly supports the efforts to make the CRA

rules clearer, more transparent, and less subjective, the agency is not prepared to finalize the CRA proposal at this time.”

Multiple interest groups continue to urge regulators to suspend efforts to modernize the CRA as bankers and community advocates are focused on mitigating the immediate economic fallout from the public health crisis and are concerned about how the long-term effects of the pandemic could re-shape banking business models and community needs in the future. In addition, numerous appeals have been made for the regulators to present an inter-agency ruling.

In an article in *American Banker*, David Dworkin, president and CEO of the National Housing Conference said, “Moving forward on CRA modernization now, in light of this crisis, is breathtakingly irresponsible.” *(continued on page 3)*

Unprecedented Debt Relief for Small Business Administration Program Borrowers



Businesses across the country are facing extreme and unprecedented disruptions due to the COVID-19 outbreak. The \$2 trillion coronavirus response bill known as the CARES Act was signed into law on March 27. While most of the attention has focused on the \$670 billion authorized for the Paycheck Protection Program (PPP), the CARES Act did establish other key temporary programs

to specifically assist small businesses most in need.

Section 1112 of the CARES Act authorizes \$17 billion for the Small Business Administration (SBA) to pay six months of principal, interest, and any associated fees that borrowers owe for **all current** 7(a), 504 and Microloans in regular servicing status and **all new** 7(a), 504 and Microloans disbursed prior to September 27, 2020. Compared against the \$670 billion authorized for the PPP, the \$17 billion authorized for SBA debt relief may seem relatively immaterial. However, this level of support for SBA borrowers is unprecedented in scope and magnitude given that total authorized lending in FY 2019 for these programs was roughly \$28 billion. *(continued on page 2)*

Key Themes from CRA NPR Comment Letters

CRA Modernization (from page 1) : Dworkin added, “we have no idea what our communities are going to look like a year from now, or what needs they’ll have after this.” During a Zoom panel hosted by the Urban Institute on May 6, as reported by American Banker, Krista Shonk, Vice President of Regulatory Compliance Policy at the American Bankers Association said, “This is not the time to have different regulatory regimes in terms of how regulators may interpret the application of CRA data to COVID today. And it’s certainly not the time to have different regimes as it relates to modernization going forward.”



Comptroller of the Currency Joseph Otting has signaled that his agency is proceeding with their CRA modernization plans, despite the FRB’s refusal to back the framework.

Left, Otting.

In early April, Otting said that “the pandemic actually increased the urgency of his agency’s proposed reforms” and that “slowing the rulemaking would only delay relief and support that communities across the country need.”

The OCC has signaled that a final rule will be released this year though it is unclear whether McWilliam’s May 20 statement will impact this timeline. ■

SBA Loan Fund Portfolio Borrowers (from page 1) : meals to the ECHO Homeless Shelter and is offering food staples at cost to customers on a pick-up or delivery basis. This is a woman-owned business located in a moderate-income census tract that supports 14 jobs.

Wilmington, DE: **NerdITNow** purchases, repairs and resells computers. In March, the company received a \$75,000 grant to supply computers to 150 nonprofit organizations throughout the state in two-weeks’ time. NerdITNow donated laptops to organizations such as Girls INC of Delaware and the Latin American Community Center. The company has reached out to local schools to try to supply computers to students in underserved communities. This is a minority-owned business.

April 8 was the last day to submit comment letters to the NPR regarding CRA Regulations published by the OCC and FDIC. Almost 1,500 comment letters were submitted, roughly 200 of which were from financial institutions and roughly 500 from various community organizations. Key themes from the comment letters include:

- Significant concerns raised about **divided enforcement of CRA**, in which banks may be examined differently on the same law, depending on what charter they have. Notably, the FRB did not join the other agencies in authoring the NPR and is taking a more deliberate approach to CRA modernization.
- Banks are worried that the proposed rules would translate to **costly changes to their existing CRA compliance systems** to adhere to new data reporting requirements. The proposed framework would rely on a significant amount of new data to be reported, separate from Home Mortgage Disclosure Act (HMDA) data. New data requirements will be based on the bank’s Call Reporting data.
- The publicly available, **illustrative and non-exhaustive list of CRA-qualifying activities** is mainly viewed

positively, though some community groups raise concerns that there will be no incentive to undertake innovative projects.

- Changing the **banking size categories may cause unfairness** in CRA evaluations. Intermediate-sized banks must now be evaluated in the same category as much larger institutions. Banks appeal for a shift to more comparable “peer comparison” standards.
- Banks generally agree that **qualifying retail loans should count for CRA at full value** regardless of whether the loan is held on balance sheet or sold. The proposed rule could disproportionately affect lenders who originate mortgages in low-income communities.
- Many foresee the creation of **deposit-based assessment areas leading to a rise in “CRA hotspots”** in places such as New York City and Los Angeles due to corporate deposits.
- **Performance measures proposed focus too much on total dollar numbers and not enough quality of impact generated** which may lead to the funding of larger projects at the expense of smaller, more impactful and innovative projects. ■

Joliet, IL: **Tier 1 Solutions** provides enterprise IT services and solutions. In March, the company announced that it is providing free emergency remote work kits for health care providers, educational institutions, municipalities and non-profit organizations. Each kit includes secure remote access and secure meeting portals. This is a Veteran- and minority-owned business located in a CDFI Fund Qualified Investment census tract that supports 4 jobs.

These stories of creativity and compassion give hope in these dire and uncertain times. The SBA Loan Fund’s investment in the small business loans of these companies enables originating bank and non-bank lenders to make more small business loans to the companies that need them most. ■



Another example of a SBA Loan Fund portfolio borrower supporting the local community during this economic crisis is **Toppers Pizza of Alexandria**, a take-out restaurant located in a low-income census tract in Northern Virginia that supports 24 jobs. Toppers Pizza is offering free meals to service workers and their families who have been affected by restaurant closings in the area. Proceeds of the SBA 7(a) loan were used by the borrower to purchase equipment for business operations. Above, Toppers Pizza Alexandria.

Debt Relief (from page 1): The support is also immediate and automatic. SBA borrowers do not need to apply for this assistance and lenders have been instructed to refrain from collecting loan payments from borrowers. If a borrower's payment was collected after March 27, 2020, lenders were instructed to inform the borrower of the option to have the loan payment returned or have the loan payment applied to reduce the loan balance.

Small businesses, which account for about 48% of total employment in America, are among the hardest hit by the COVID-19 crisis. SBA loan borrowers are the most vulnerable of small businesses as they would not otherwise qualify for conventional financing under regular economic conditions.

7(a) loans are general purpose loans that are originated by authorized financial

institutions. In contrast, 504 loans can only be used for commercial real estate or long-term machinery purposes and are originated by Certified Development Companies. In FY 2019, the SBA approved more than 58,000 loans in the 7(a) and 504 loan programs, supporting approximately 550,000 jobs in the process. From combined 7(a) and 504 lending, minority business owners received \$8.8 billion, women-owned business owners received \$8.1 billion and Veteran business owners received \$1 billion.

The Solomon Hess SBA Loan Fund is an investment fund comprising the guaranteed portion of over 1200 SBA 7(a) loans that have been acquired on behalf of CRA-motivated bank investors. Banks receive targeted CRA for the investment under Community Development. For bank investors in the SBA Loan Fund, the SBA debt relief program means that prepayment

SBA Debt Relief provided as follows:

- SBA will begin making payments due on the loan and will make six monthly payments for loans not on deferment
- SBA will begin making payments with the next payment due after the deferment period has ended, and will make six monthly payments for loans currently on deferment
- SBA will begin making payments with the first payment due on the loan and will make six monthly payments for loans made after March 27, 2020 and fully disbursed prior to September 27, 2020

speeds of the loans in the portfolio should be lower than normal for the next six to eight months. The role of supporting loan origination in the 7(a) program is more important now than ever before, specifically in low- or moderate-income or otherwise economically distressed census tracts. The SBA Loan Fund is committed to facilitating liquidity in this market. ■

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SBA Loan Fund Borrower Profile: TIN Rx, San Francisco, California



When SBA Loan Fund portfolio managers screen loans to acquire on behalf of investors, they look for loans that not only comply with the technical requirements of the program but also the spirit under which CRA was created. The SBA Loan Fund's recent commitment to acquire this loan to TIN Rx Pharmacy exemplifies this philosophy. Dr. Christina Garcia established TIN Rx with her life partner Patricia Nachman. This is a woman- and minority-owned business that qualifies for CRA as a new business that supports economic development. Left, pharmacists.

One example of the types of loans that SBA Loan Fund portfolio managers look to acquire on behalf of bank investors is the SBA 7(a) loan to TIN Rx Pharmacy (TIN Rx). When TIN Rx opened in the Castro District of San Francisco in September 2019, it became the first independent pharmacy to operate in the neighborhood in decades. The business is a “stigma-free” pharmacy that serves the most vulnerable population groups, including LGBTQ+ and homeless patients.

TIN Rx has become a much-needed resource during the COVID-19 public health crisis. Daily calls to the pharmacy have doubled since the coronavirus outbreak and TIN Rx has reportedly

acquired 13,000 new patients and 164,000 online followers since California Governor Gavin Newsom issued a statewide Stay-at-Home order on March 19.

Proceeds of the SBA 7(a) loan were used to finance equipment. “This loan not only allows us to continue to run our business seven days a week, but we are also able to afford ancillary services that support our initiatives to minimize patient exposure, especially among our many elderly and high risk patients by offering mailing and contact-free delivery of medications. Equally, our staff can rest assured that their goals remain crucial in the care of our patients, and that ultimately their jobs are safe,” business owner Dr. Christina Garcia said in an interview. ■

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2020 Conference Calendar

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 \$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.