

The SBA Loan Fund CRA Survey II 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.

CRA Survey: Impact of COVID-19 on Bank CRA CD Activities

The Solomon Hess SBA Loan Fund (the SBA Loan Fund) conducted a survey of CRA bank practitioners in June with the goal of gaining insight into the impact of the COVID-19 pandemic on bank CRA activities, particularly in the area of Community Development (CD). A majority of the banks reported increased CD lending, mainly related to the Paycheck Protection Program (PPP), and no change in CD investing. The banks that did report increases in CD investing noted increases in the area of donations/grants. In addition, the majority of banks scheduled to have CRA exams within 12 months reported no delays in exam dates as a result of COVID-19.

Sample set: A total of 64 responses were received and consisted primarily of banks with assets between \$326 million and \$1.3 billion (46%) and banks with assets over \$1.3 billion (51%). FDIC-regulated banks accounted for the majority (continued on page 2)

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OCC Releases Final Rule on CRA Modernization but Stops Short of Including Performance Benchmarks

On May 20, the Office of the Comptroller of the Currency (OCC) released the final version of a rule to modernize the Community Reinvestment Act (CRA) as a single-agency effort. While the rule is set to become effective on October 1, OCC-supervised banks will have two years before the new exam standards will be implemented. The rule includes a \$2.5 billion asset threshold below which most community banks will have the option whether to be evaluated under the new framework or continue to be evaluated under the existing framework. The Federal Deposit Insurance Corporation (FDIC), which did support the OCC's Notice for Proposed Rulemaking (NPR)

in December 2019, declined to sign on to the final rule. The Federal Reserve Board (FRB), which did not support the OCC's NPR in December 2019, also declined to sign on to the final rule. The lack of interagency support has raised questions about whether the ruling will be long lasting.

The final rule focused on broad changes to the enforcement of CRA in four key areas but does not include specific thresholds or targets for sufficient CRA activity, citing the need for additional data and input from banks. Acting Comptroller Brian Brooks said on July 30 that a follow up NPR specifically addressing (continued on page 3)

SBA 7(a) Loan Profile: Montrose Market in Cook, Illinois



One example of the types of loans that SBA Loan Fund portfolio managers look to acquire on behalf of bank investors is the 7(a) loan to Montrose Market, an independent full-service grocery located in a moderate-income census tract. Proceeds were used to purchase equipment for business operations. The borrower self-reported to the Small Business Administration (SBA) that this loan supported the creation and/or retention of 101 jobs. Left, worker at a market.

The SBA Loan Fund is a CRA-eligible Community Development Entity (CDE) that acquires the guaranteed portion of SBA 7(a) loans where the underlying small business borrower is located in a low- or moderate-income or otherwise economically distressed census tract. Investors are banks seeking targeted CRA credit and impact investors seeking place-based investments. SBA 7(a) loans are originated nationally, and the majority

of loans adjust monthly or quarterly, indexed to the Prime Rate.

Section 1112 of the \$2 trillion CARES Act that was signed into law on March 27 authorized \$17 billion for the 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 loans disbursed prior to (continued on page 2)

SBA Loan Profile (from page 1) September 27, 2020. This support went into effect automatically. Lenders were instructed to refrain from collecting loan payments from borrowers immediately.

When SBA Loan Fund portfolio managers screen SBA 7(a) 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 acquisition of the loan to Montrose Market exemplifies the execution of this investment thesis.

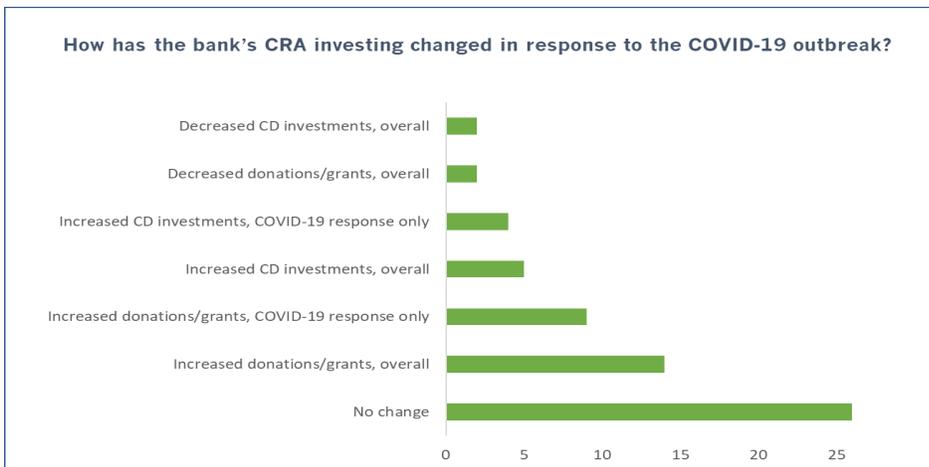
Montrose Market is a Polish-owned and operated independent grocery store located in Mount Pleasant, IL. The store carries a full range of fresh produce, seafood and meats and also a wide selection of Polish staples and delicacies.

According to Greg Ferrara, president of the National Grocer's Association, "small grocers have played a unique role in these trying times" and "are helping larger chains meet demand." In March, Montrose Market started offering "senior only" hours from 7 to 8 a.m. and grocery delivery services.

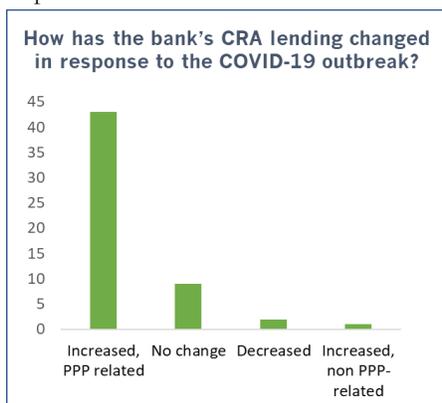


Small businesses, which account for about 48% of total employment in America, are among the hardest hit financially by the COVID-19 pandemic. Above, a small business storefront.

Montrose Market is located in a moderate-income census tract in Cook County. The borrower reported that proceeds of this loan were used to acquire equipment for business operations. The borrower self-reported that this loan supported the creation and/or retention of 101 jobs, mostly involving low- and moderate-income individuals. ■



Survey (from page 1) of responses (66%) but OCC-regulated (22%) and FRB-regulated (12%) banks were also represented.



Community Development Lending: Banks were asked how CD lending changed in response to the COVID-19 outbreak. A vast majority of responses indicated an increase in lending related to PPP loans. Roughly 38% of respondents reported that lending activity expanded beyond target Assessment Areas.

Newsletter Sources:

Ludwig, S. (2020, March 24). Coronavirus: Businesses That Are Succeeding During the Pandemic. Retrieved August 13, 2020, from <https://www.uschamber.com/co/start/strategy/coronavirus-successful-businesses>

Pedersen, B. (2020, July 30). CRA rule done, OCC set to unveil scoring proposal. Retrieved August 13, 2020, from <https://www.americanbanker.com/news/cra-rule-done-occ-set-to-unveil-scoring-proposal>

www.montrosedeli.com

Community Development Investing:

Banks were asked how CD investing changed in response to the COVID-19 outbreak. The majority of responses indicated there was no change in CD investing activities. The banks that did report increased CD investing noted the increase in the form of donations/grants. Roughly 10% of respondents reported that investing activity expanded beyond target AAs.

CRA Exam Scheduling:

Banks that had CRA exams scheduled to take place within 12 months were asked whether the exam was delayed because of COVID-19. Almost 90% of responses reported that the exams were not delayed. Of the four banks that reported delayed exams, three are regulated by the FDIC and one is regulated by the FRB. Two FDIC-regulated banks reported 90-day exam delays. ■

For a complete report of survey results, please visit www.SolomonHess.com.

Haggerty, N. (2020, June 30). House Democrats vote to reverse CRA rule. Retrieved August 13, 2020, from <https://www.americanbanker.com/news/house-democrats-vote-to-reverse-cra-rule>

Brooks: CRA Benchmarking Proposal Expected by End of Summer. (2020, July 30). Retrieved August 13, 2020, from <https://bankingjournal.aba.com/2020/07/brooks-cra-benchmarking-proposal-expected-by-end-of-summer/>

Read to Learn Academy, Inc. - Wilmington DE Licensed Child Care Center. (n.d.). Retrieved August 13, 2020, from https://childcarecenter.us/provider_detail/ribbons_and_bows_daycare_inc_wilmington_de

CRA modernization (from page 1) performance thresholds will be released “late this summer.” Brooks shared this timeline when he spoke at a virtual event hosted by the American Bankers Association.



Brooks said that the OCC is trying to set up a more objective system to evaluate banks. CRA performance and move “away from a world where bank performance scores are relativistic.” Left, Comptroller Brooks.

The OCC’s rulemaking process and the final rule itself have been met with mixed reviews and skepticism. Questions have been raised about whether this final rule can endure. On June 29, the U.S. House of Representatives passed a Congressional Review Act resolution of disapproval to nullify the final rule. It is noted that majority votes from both chambers of Congress as well as a presidential signature are required to effectively block the rule. It is unclear as to whether the Senate will back the resolution.

Final rule: The OCC’s final rule focused on broad changes to the agency’s enforcement of CRA in four key areas:

- Modifies the criteria used to determine which **activities qualify** for CRA credit. The OCC created and will maintain an illustrative list of qualifying activities.
- Updates how banks delineate their **Assessment Areas** to include geographies outside branch networks (applies only if a significant portion of deposits are sourced outside the branch network).
- Provides a new set of **CRA performance metrics** to be used to evaluate distribution of bank lending and CD activity.
- Includes new **data collection and reporting requirements**. Even small banks that do not opt-in to the new framework will be required to track and report location of deposits.

Impact on SBA Loan Fund Investors: The SBA Loan Fund has 127 bank investors, 31 of which are regulated by the OCC. The SBA Loan Fund is a Community Development Entity (CDE) as designated by the Community Development Financial Institutions Fund (CDFI Fund). To qualify as a CDE, a domestic entity: 1) should have a primary mission of serving or providing investment capital for low-income persons or communities (LICs), 2) maintain accountability to residents of LICs through their representation on a governing or an advisory board to the entity, and 3) have been certified as a CDE by the CDFI Fund. The SBA Loan Fund earned this designation from the CDFI Fund in July 2005 and has maintained it since that time. Being a CDE is central to the SBA Loan Fund’s mission and investment thesis. In the OCC’s new CRA evaluation framework, an investment in a CDE is a qualifying CRA activity. An investment in a CDE is on the OCC’s illustrative list of qualifying CRA activities. Moreover, under the new framework, investment in the SBA Loan Fund is eligible for the 2X multiplier,

assuming the bank is eligible for multipliers. The primary asset of the SBA Loan Fund is the guaranteed portion of SBA 7(a) loans. The SBA Loan Fund is a private fund and offers liquidity monthly, with 30 days’ notice. The fund has a rating of Aaa-bf from Moody’s Investor Services, the highest possible credit quality rating. In addition, the fund has been certified by Aeris Insight for impact management processes. For more information, please contact Michelle Lai, at mgolai@solomonhess.com. ■

KEY DATES OF OCC’S FINAL RULE ON CRA:

Published in the Federal Register: **June 5, 2020**

Effective date: **October 1, 2020**

Compliance dates:

- Banks with assets of \$2.5 billion or more, wholesale and limited purpose banks: **January 1, 2023**
- Banks with assets of less than \$2.5 billion: **January 1, 2024**

Final rule states that provisions of the current regulation will remain in effect during the period between effective and compliance dates.

SBA 7(a) Loan Profile: Read to Learn Academy in New Castle, Delaware



Proceeds of the SBA 7(a) loan to Read to Learn Academy were used to finance the property on which the business is established. The childcare center is located in a low-income and CDFI Fund Qualified Investment census tract in New Castle County. The facility has been open throughout the COVID-19 pandemic, initially serving families of essential workers and gradually serving families of parents who have returned to work.

Another example of the types of **loans in the SBA Loan Fund** portfolio is the 7(a) loan to Read to Learn Academy. Read to Learn Academy is a licensed childcare center dedicated to providing high quality, comprehensive educational and family services to children and their parents. Established in 2005, the business provides infant care through after school care for children, ranging in age

from six weeks to 12 years. The facility has a maximum capacity of 170 children.

Read to Learn Academy is located in a low-income census tract and a CDFI Fund Qualified Investment census tract. The borrower self-reported to the SBA that this loan supported the creation and/or retention of two jobs, presumably low-income individuals. ■

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SBA Loan Fund Impact: Supporting Community Development

Since inception in 2004, the Solomon Hess SBA Loan Fund has invested over \$2.2 billion in small business loans. These loans, made to over 4,200 small businesses located in 47 states, have helped to create and/or retain over 61,000 jobs. Over 70% of the loans in which we have invested are located in low- and moderate-income or otherwise economically distressed census tracts. The majority of these loans are made to under-served small businesses that do not have access to conventional commercial debt.

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.

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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.