

## SBA Loan Fund 2020 Impact Report Now Available



SOLOMON HESS  
Capital Management

The SBA Loan Fund Impact Report 2020, now in its fifth edition, is now available at [SolomonHess.com](http://SolomonHess.com). This report highlights the quantifiable impact that the SBA Loan Fund (“the Fund”) has made in low- and moderate-income (“LMI”) communities and otherwise economically distressed geographies nationwide. The Fund was certified as a *(continued on page 3)*

## Inside

Supporting the Resilience of Small Businesses	1,3
SBA Loan Fund 2020 Impact Report	1,3
Colloquium Highlights	1-2
SBA Loan Profile	2

## Supporting the Resilience of Small Business in America

Small businesses have long been the growth engine of the American economy, accounting for the employment of roughly 47% of the U.S. private workforce and approximately 20% of gross job creation. At the start of 2020, the number of small businesses in the U.S. reached 31.7 million, representing sustained growth of the sector with a 3% increase from the previous year and a growth of 7% over the three-year period from 2017 to 2020. From 2015 to 2016, the number of Hispanic-owned businesses grew by 13.1% and African American-owned businesses grew by 12%.

Small business owners faced unexpected and unparalleled hardships in 2020 as a

### SCORE Fall Survey Results Show Resilience of Small Businesses

43% of respondents used PPP loans to keep employees  
34% of respondents permitted teleworking  
29% of respondents updated policies  
20% of respondents added new services  
41% of respondents expect to hire employees within the next year

result of the economic disruption caused by the COVID-19 pandemic, including forced shut downs, dramatic swings in household spending and new social distancing restrictions.

In December, SCORE, a non-profit dedicated to providing mentoring and education services to small businesses, released survey results which found that the majority of small *(continued on page 3)*

## Highlights from the CRA & Fair Lending Colloquium



Originally scheduled as an in-person event to be held in Las Vegas in November 2020, the CRA & Fair Lending Colloquium was presented in a virtual format over three sessions in October, November and December. The virtual conference consisted of an abbreviated agenda and was offered on a complimentary basis. Top U.S. regulators, CRA practitioners and leading compliance experts shared best practices and thought leadership positions on fair lending and CRA compliance issues. Left, a screenshot of a virtual conference.

Over 4,000 attendees registered for the 2020 CRA and Fair Lending Colloquium (“Colloquium”) hosted by Wolters Kluwer. In its 24<sup>th</sup> year, the Colloquium is an annual forum for U.S. regulators, CRA practitioners and compliance experts to discuss relevant issues and trends that affect fair lending and CRA compliance in banking.

Over the course of the three sessions,

several themes emerged that will continue to dominate conversations about CRA and fair lending regulations going forward:

**Increased awareness about racial injustice:** In the wake of protests and civil unrest that gripped the nation last summer, financial institutions are taking steps not only to address the inequities in access to financial services but also in social and economic *(continued on page 2)*

**Highlights from the Colloquium** (from page 1) inequities as well. For example, PNC Financial Services Group committed more than \$1 billion to local community causes to “help end systemic racism and support economic empowerment of African Americans and LMI communities” and US Bank announced a \$15 million fund to award grants “dedicated to addressing systemic economic and racial inequities in small business, affordable housing and workplace development.” As banks work to improve diversity, equity and inclusion, an increased focus has been placed on supporting minority-owned, specifically African American-owned, small businesses as it is widely recognized that these small businesses have been the most severely impacted by the COVID-19 restrictions. Financial regulators are expected to emphasize racial equity as they continue to work on consumer protection regulations.

**CRA modernization is at a crossroads :** Much has happened in the CRA modernization landscape over the past year, with disparate efforts from each of the three regulators. The Office of the Comptroller of the Currency (“OCC”) has been the most active, with the release of a Final Ruling on CRA last May that became effective in October. Brian Brooks’ resignation as Acting Comptroller of the Currency, and election of President Biden leaves open the question as to whether the new Comptroller will take the OCC in a new direction with regards to CRA modernization. It seems highly likely that whoever steps into the role of Comptroller will reexamine the work that the OCC has done. The current Final Rule implementation timeline provides a transition period of two to three years, during which time many changes can occur.

Industry stakeholders continue to advocate for the agencies to provide a consistent approach to the regulation of CRA. On February 16, the American Bankers Association urged the OCC and the FED to “craft a modern regulatory framework that can be adopted by all three agencies” and warned that “failure to act in coordination would yield

## SBA 7(a) Loan Profile: Emanuel’s Chapel Funeral Home in Cook, IL



*Emanuel’s Chapel Funeral Home is a full service funeral home that serves the Gage Park, New City and Englewood communities in Chicago. The business was established in 1991 by Emanuel Jones. Jones began working in funeral services as a high school student and has a degree in Mortuary Science from Southern Illinois University in Carbondale. Proceeds of the 7(a) loan were used to finance equipment. Left, couple in counseling.*

**O**ne example of the type of loan in the SBA Loan Fund portfolio is the 7(a) loan to Emanuel’s Chapel Funeral Home in Chicago, Illinois.

The borrower is an African American-owned business located in a low income census tract and a CDFI Fund Qualified Investment census tract. The borrower

undesirable results, including perpetuating confusion and inconsistency, which would be contrary to the objectives of the modernization effort.”

The Federal Deposit Insurance Corporation (“FDIC”), which declined to join the OCC in the issuance of the Final Rule, will re-visit CRA modernization at a time when banks are not so consumed with pandemic-response work and remains open to working with the other agencies. The FED is also hoping to work with the other agencies and hopes that its Advanced Notice for Proposed Rulemaking (“ANPR”) on CRA issued last October will provide a foundation for the agencies to work towards a consistent approach. The deadline to submit comments expired on February 16. It is expected that all three agencies will carefully review the comments. Whether the agencies can come together to provide meaningful improvement to CRA remains to be seen.

**Managing third party relationships will continue to be a focus for regulators:** Regulators are working to ensure that banks continue to operate in a safe and sound manner consistent with consumer protection requirements, while

reported that this loan supported the creation and/or retention of 2 jobs.

This SBA 7(a) loan was originated by the Community Reinvestment Fund Small Business Loan Company, a nonprofit lender that provides sustainable financing solutions for business owners that provide positive community impact. ■

supporting their evolution into new areas of business, particularly with the use of technology. Last July, the FDIC issued a Request For Information (“RFI”) to seek input on whether a standard-setting and voluntary-certification program could be established to support banks’ efforts to select and manage third party providers of technology and other services. Deadline to comment on the RFI expired last September and all three agencies are reviewing the comments. One noteworthy trend that the regulators are paying particular attention to is the increasing use of artificial intelligence and machine learning by banks in marketing and credit underwriting functions. Striking a balance that provides for adequate consumer safeguards while promoting innovation that can increase access to consumers is challenging and likely to remain a big focus for the regulators going forward.

Since inception in 1996, the Colloquium has grown to become a prominent annual event for fair lending and CRA practitioners. Wolters Kluwer is planning for an in-person Colloquium this year, from November 14 to 17 at the JW Marriott Orlando, Grande Lakes in Florida. For more information, please visit [www.cracolloquium.com](http://www.cracolloquium.com). ■

**Resilience of Small Businesses** (from page 1) businesses were not able to turn a profit in 2020. SCORE surveyed 3,500 diverse business owners and 65% of respondents reported unprofitable operations, compared with 45% the previous year. Almost 74% of black business owners and 71% of Hispanic business owners reported unprofitable operations, up from 60% and 49% the previous year. 50% of total respondents had to furlough employees and 12% had to permanently lay off staff. Businesses related to travel, arts and culture reported the biggest losses this year, with businesses related to construction, restaurant, professional and health services, and retail also reporting significant struggles.

Still, small business owners are demonstrating their resilience in their fight to stay open. According to the SCORE survey report, more than half of respondents report to feeling at least somewhat optimistic about the future.

In this environment, the role of banks and non-bank community lenders that provide financial capital to small businesses, particularly those located in LMI communities, is even more important. The implementation of the Coronavirus Aid, Relief and Economic Security (“CARES”) Act passed by Congress last March, led to a dramatic increase in loan volume guaranteed by the Small Business Administration (“SBA”). For 2020, the SBA reported to having guaranteed 5.2 million Paycheck Protection Program (“PPP”) loans totaling \$525 billion through 5,460 lenders. The CARES Act also 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 7(a), 504 and Microloans disbursed prior to September 27, 2020.

The Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act passed by Congress on December as part of the Consolidated Appropriations Act 2021, provides an additional \$325 billion in small business aid, including \$284.5 billion for a second round of PPP loans

and \$3.5 billion to extend the deferment of payments of principal and interest on new and existing 7(a), 504 and Microloans originated on or before September 30, 2021.

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 2020, the SBA approved more than 49,000 loans in the 7 (a) and 504 programs, providing over \$28 billion to small businesses, supporting over 500,000 jobs in the process.

The Solomon Hess SBA Loan Fund is a CRA-eligible investment fund that is dedicated to supporting economic development in LMI and other economically distressed communities by facilitating liquidity in the SBA 7(a) loan market. The Fund is nationwide and consists of the guaranteed portion of over 1,200 SBA 7(a) loans. Banks invest in the Fund to receive targeted CRA under Community Development. For investors in the Fund, the SBA debt relief programs mean that prepayment speeds of the loans in portfolio should be slower than normal for the next six to nine months. The role of supporting loan origination in the 7(a) program is more critical now than ever before, specifically in LMI geographies. The SBA Loan Fund is committed to the revitalization of small businesses and the communities they serve across America. ■

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**Impact Report** (from page 1) Community Development Entity (“CDE”) in 2005 and has since invested over **\$2.3 billion** in over **4,000 loans** that supported over **60,000 jobs**, mainly in LMI communities. Investment in the Fund is targeted in investor assessment areas and qualifies for CRA under Community Development.

One example of the type of loan in the SBA Loan Fund portfolio is the 7(a) loan to Dioji K-9 Resorts & Athletic Club, a provider of cage-free dog care and dog boarding services in California. Proceeds of the loan were used to finance the purchase of equipment to open a new location in Oxnard, in a moderate income census tract and a CDFI Fund Qualified Investment census tract. This is a woman-owned business and a new business that promotes economic development by the creation of 100 jobs.



Above, dogs playing.

This loan was originated by California Statewide Development Company, a non-profit lender that supports economic development. More loan profiles are included in the Impact Report. To access, please visit [SolomonHess.com](https://www.solomonhess.com). ■

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## *SBA Loan Fund Impact: Supporting Community Development*

Since inception in 2004, the Solomon Hess SBA Loan Fund has invested over \$2.3 billion in small business loans. These loans, made to over 4,300 small businesses located in 47 states, have helped to create and/or retain over 64,000 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 \$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.*