

## SBA Loan Profile: Red Angel Salon in La Quinta, California



Red Angel Salon owner Angelica Rojo attended business development and networking workshops at the Coachella Valley Women's Business Center, a non-profit organization in Riverside focused on counseling and inspiring women business owners. Above, women greeting.

When portfolio managers at the SBA Loan Fund acquire CRA-eligible loans on behalf of bank investors, they look for loans that not only meet the technical requirements of the Community Reinvestment Act (CRA) but also the spirit under which it was created. The SBA 7(a) loan to Red Angel Salon and Blow-Dry Bar is an example of the kinds of loans in the portfolio.

Red Angel Salon is an environmentally friendly full service salon. (continued on page 3)

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## New Impact Metrics Reported at the Solomon Hess SBA Loan Fund

The Solomon Hess SBA Loan Fund announced in April that four new impact metrics will be reported on a quarterly basis, namely loans in portfolio to businesses that are minority owned or co-owned, woman owned or co-owned, Veteran owned or co-owned and loans in portfolio that were originated by mission-driven lenders or Community Development Financial Institutions (CDFIs). These statistics will be reported

at the portfolio level in addition to the impact metrics already provided since inception, namely jobs supported and loans in portfolio to borrowers located in Low or Moderate Income (LMI) and otherwise economically distressed communities. It is noted that loan characteristics are not mutually exclusive. The reporting of quantifiable impact metrics is a measurement of the SBA Loan Fund's (continued on page 3)

### SBA Loan Fund Impact Metrics as of March 31, 2021



## Renewed Hope that Interagency Approach on CRA Modernization Attainable

Recent events have re-ignited optimism that the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Company (FDIC) and the Federal Reserve Board (FED), collectively the Agencies, will be able to agree on a unified approach to modernizing the CRA. On May 7, U.S. Treasury Secretary Janet Yellen announced her intention to appoint Michael Hsu as first deputy comptroller and acting Comptroller of the Currency. Currently

Hsu serves as Associate Director of the FED's Bank Supervision and Regulation Division. He would assume the role of Acting Comptroller on May 10 and serve in that role until the Biden Administration's nominee for the permanent Comptroller is installed. Current Acting Comptroller Blake Paulson is expected to remain at the OCC as a deputy comptroller and Chief Operating Officer. Industry reaction to has been positive (continued on page 2)

## Overview of Community Reinvestment Act Modernization Efforts

Treasury			
2017	<ul style="list-style-type: none"> <li>June 12: Commits to a comprehensive analysis of the CRA</li> </ul>		
2018	<ul style="list-style-type: none"> <li>April 3: Releases a report to the Agencies with findings and recommendations for modernizing the CRA</li> </ul>		
	OCC	FDIC	FED
	<ul style="list-style-type: none"> <li>August 28: Releases ANPR on CRA</li> <li>November 19: Comment Period on ANPR ends</li> </ul>		
2019	<ul style="list-style-type: none"> <li>December 12: Releases NPR on CRA as a joint OCC and FDIC effort</li> </ul>		
	<ul style="list-style-type: none"> <li>June 13: Issues report on CRA roundtables</li> </ul>		
2020	<ul style="list-style-type: none"> <li>February 25: Announces Extension of NPR Comment Period NPR by 30 days to April 8</li> <li>April 8: Comment Period on NPR ends</li> </ul>		
	OCC	FDIC	FED
	<ul style="list-style-type: none"> <li>May 20: Releases Final Rule on CRA</li> <li>May 21: Comptroller of the Currency Joseph Otting announces resignation</li> <li>May 29: Brian Brooks steps up as Acting Comptroller of the Currency</li> <li>October 1: Final Rule on CRA effective with mandatory compliance dates to be phased in beginning January 1, 2023</li> <li>November 9: Publishes additional guidance to final rule including FAQs</li> <li>November 24: Releases NPR to enhance the final rule focusing on evaluation benchmarks</li> </ul>	<ul style="list-style-type: none"> <li>May 20: Announces temporary pause on CRA modernization efforts to focus on pandemic response work</li> </ul>	<ul style="list-style-type: none"> <li>September 21: Releases ANPR on CRA</li> </ul>
2021	<ul style="list-style-type: none"> <li>January 13: Acting Comptroller of the Currency Brian Brooks announces resignation</li> <li>January 14: Blake Paulson steps up as Acting Comptroller of the Currency</li> <li>January 26: Suspends CRA Information Collection Survey</li> <li>February 2: Comment Period on NPR ends</li> </ul>		
			<ul style="list-style-type: none"> <li>February 16: Comment Period on ANPR ends</li> </ul>

Enacted in 1977 and last revised in 1995, the CRA affirms the obligation of federally insured deposit institutions to serve the needs of the communities they are in and to specifically ensure that low income borrowers have access to the financial system.

In April 2018, the U.S. Department of Treasury sent a memo to the Agencies stating that a modernization of CRA is long overdue. The memo outlined recommendations to better align CRA activity and investments with the organizational and technological changes that have reshaped the financial industry. This report was positively received in the industry and prompted the Agencies to increase efforts to modernize CRA which had been progressing slowly up until this point. Left, timeline of CRA modernization efforts.

**Renewed Hope** (from page 1) in the hope that Hsu's installation will make it easier for the Agencies to move forward on an interagency solution to CRA modernization. Hsu would be able to prepare policy action items that the Senate-confirmed Comptroller could implement shortly after taking office. This news comes on the heels of already positive signals sent by the OCC about possibly slowing down implementation of its final ruling which came into effect last October. In January, the industry welcomed the OCC's suspension of a CRA data collection survey in response to a request from a consortium of trade associations. Stakeholders have been consistent in advocating that an interagency approach is critical to success.

The OCC has been the most active in its efforts and has operated uncharacteristically throughout this undertaking. Joseph Otting prioritized CRA reform during his tenure as Comptroller and oversaw a fast-tracked process of issuing a single agency Final Rule on CRA which became effective for OCC-regulated banks on October 1 of last year. While there was strong support for some elements of the OCC's Final Rule, its overall reception was lukewarm primarily because it lacked interagency backing. The OCC appeared determined

to push forward with implementation of its Final Rule despite two changes at the Comptroller level, with both Brian Brooks and Blake Paulson demonstrating support for the Final Rule. The announcement by the OCC on January 26 regarding the suspension of the CRA data collection survey was seen as a huge signal that the OCC may be relenting in its position and may be willing to revisit the option of collaborating with the FDIC and the FED.

The FDIC had originally collaborated with the OCC in the joint release of the Notice of Proposed Rulemaking (NPR) in December 2019. However, to focus on pandemic-response work, the FDIC refrained from joining the OCC in the issuance of the Final Rule. Meanwhile, the FED has taken a much more deliberate approach and is looking to use the Advanced Notice of Proposed Rulemaking (ANPR) it released last September as a foundation for the Agencies to work together on a joint ruling. The public comment period to the FED's ANPR ended on February 16.

The leadership at the FDIC and the FED have consistently communicated a willingness to work with each other and with the OCC. Most recently, FED Chair Jerome Powell said at a conference hosted by the National Community Reinvestment Coalition on May 3 that "CRA will be

most effective if the agencies have identical or nearly identical rules." The Comptroller yet to be identified will likely be the deciding factor in whether an interagency approach will be achievable. The process of making this happen could mean discarding the OCC's Final Rule and starting over, resulting in what could be a lengthy delay. However, overwhelming stakeholder sentiment is that any interagency solution would be worth the wait. In fact, on May 4, the American Bankers Association and nine other financial trade groups called for the OCC to formally withdraw or delay the compliance date of its 2020 CRA rule. ■

### KEY THEMES FROM FED ANPR COMMENT LETTERS

Key themes from over 600 public comments received on the FED ANPR include

- Support from banks for a regulator approved list of CRA qualifying activities and for using incentives for innovative projects
- Community groups pushing for granularity in CRA scoring, citing how "low/high satisfactory" scores provide incentive to banks to perform better
- Overwhelming call for an interagency approach to CRA regulation as critical to its success

**New Impact Metrics** (from page 1) performance against its mission. For SBA Loan Fund investors, these statistics will be reported at the loan level and can be used both internally for management meetings and externally for regulator reporting. As a certified Community Development Entity (CDE), the SBA Loan Fund is dedicated to its mission of promoting job creation, retention and improvement for LMI persons who are employed by small business.



The SBA Loan Fund is committed to supporting minority-owned business owners who face systemic barriers to the access of financing and business resources. Black and brown entrepreneurs have experienced a disproportionate share of business failures owing to COVID-19. As of March 31, there were 249 small business loans to minority owned companies in the SBA Loan Fund. These loans were located in 32 states with the highest concentrations in California, Texas, New York, Nevada and Florida. Of these loans, 63% were located in LMI communities and 12% were located in otherwise economically distressed areas.

**Red Angel Salon** (from page 1) Owner Angelica Rojo wanted to open a business to fill the gap she noticed in the beauty services offered in her community. She attended workshops and learned about mission-driven lender CDC Small Business Finance Corporation at the Coachella Valley Women's Business Center. Rojo obtained an SBA 7(a) loan to finance equipment and inventory.

The borrower is located in a CDFI Fund Qualified Investment census tract. This loan supported the creation and/or retention of nine jobs and is to a minority and woman owned business that supports environmental sustainability. This loan was originated by the CDC Small Business Finance Corporation, a mission-driven lender dedicated to providing capital to small businesses, with a focus on enterprises owned by women, Veterans, and minorities in LMI areas in California, Nevada and Arizona. To date, over 600 small business owners have been assisted. ■



The SBA Loan Fund is equally committed to supporting women small business owners, who face gender disparities in obtaining commercial business loans. As of March 31, there were 287 small business loans to women owned companies in the SBA Loan Fund. These loans were located in 39 states with the highest concentration in California. Of these loans, 42% were located in LMI communities and 25% were located in otherwise economically distressed communities.

Investment by banks in the SBA Loan Fund qualifies for CRA credit under Community Development. The primary asset of the SBA Loan Fund is the federally guaranteed portion of adjustable rate loans made under the SBA 7(a) program. The 7(a) program was created to serve small business owners who do not have access or would not be eligible for conventional commercial debt. Since inception in 2004, the SBA Loan Fund has invested over \$2 billion in over 4,400 small business loans located in 47 states. To learn more, and view a 2020 Impact Report, visit [www.SolomonHess.com](http://www.SolomonHess.com). ■



*The SBA 7(a) loan to B-Natural Kitchen and Bar is another example of the kinds of loans in the SBA Loan Fund portfolio. This is a loan to a minority and woman owned small business that supports the environment. Nebyat Shewane from Ethiopia and his wife Gabi Merayo from Costa Rica opened B-Natural Kitchen and Bar to serve all-natural foods, drinks, smoothies and salads in New Haven, Connecticut. The restaurant is a local favorite known for using organic, unprocessed and locally sourced ingredients. Proceeds of the SBA 7(a) loan were used to finance equipment for business operations. The borrower reported that this loan supported the creation and/or retention of 16 jobs and is located in a CDFI Fund Qualified Investment census tract. This loan was originated by the Community Investment Corporation, an economic development lending company that is dedicated to providing financing and support to small businesses in Connecticut and Rhode Island. Above, workers at a restaurant.*

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

Since inception in 2004, the Solomon Hess SBA Loan Fund has invested over \$2.4 billion in small business loans. These loans, made to over 4,400 small businesses located in 47 states, have helped to create and/or retain over 65,000 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.*