

SBA 7(a) Loan Profile: Ciara Medical, Oklahoma City, OK

When portfolio managers at the Solomon Hess SBA Loan Fund (the SBA Loan Fund) acquire community development 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 Small Business Administration (SBA) 7(a) loan to Ciara Medical is an example of the kind of loans the Fund looks to acquire.

Ciara Medical is a woman-owned and Native-American owned medical supply store that carries durable medical equipment (DME) such as wheelchairs, walkers and positive airway pressure (PAP) devices and masks. The company provides services and support to long term care facilities, hospices and medical centers. Proceeds were used to purchase equipment for business operations. The borrower self-reported that this loan supported the creation and/or retention of 15 jobs. The borrower is located in a moderate-income census tract and a CDFI Fund Qualified Investment census tract. The SBA Loan Fund recently committed to acquire this loan on behalf of a bank investor targeting Oklahoma City for CRA under community development. ■

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Solomon Hess SBA Loan Fund: 2021 Year in Review



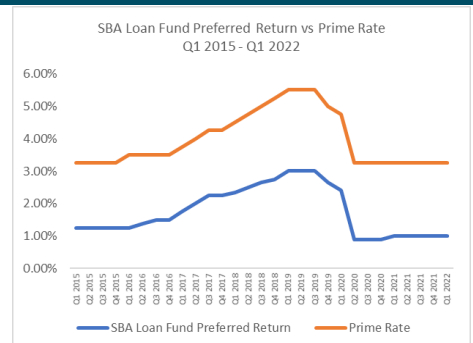
The Solomon Hess SBA Loan Fund is a community development loan fund certified as a Community Development Entity (CDE) with a primary mission of promoting job creation, retention, and/or improvement for low- or moderate-income (LMI) persons who are employed by small businesses by creating greater financial liquidity and a lower cost of capital within the Small Business Administration 7(a) loan secondary market. As of December 31, 2021, over 81% of the loans in the Fund's portfolio were located in LMI or otherwise economically distressed census tracts. *Left, a small business.*

2021 was a year of recovery and renewal and the SBA Loan Fund redoubled efforts to support investor banks as the front line financial responders in providing capital to those hardest hit by the realities of COVID-19's lasting impact, particularly those small businesses located in low- and moderate-income (LMI) or otherwise economically

distressed census tracts. In 2021, the SBA Loan Fund invested over \$200 million to acquire the guaranteed portion of roughly 230 SBA 7(a) loans in the secondary market. These loans supported the creation and/or retention of an estimated 3,900 jobs, the majority of which are to LMI persons or in LMI communities. Since inception in 2004 *(continued on page 2)*

SBA Loan Fund in a Rising Interest Rate Environment

On January 26, the Federal Reserve Board (FED) signaled that it is likely to raise U.S. interest rates in March. "With inflation well above 2% and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate," the FED's Open Market Committee said in a unanimous statement after the end of its two-day meeting in January. Industry experts widely expect the FED to raise its benchmark overnight interest rate from the current near zero level at the next meeting on March 15-16. It is also noteworthy that federal funds futures have priced in another three rate hikes in 2022, after the expected raise in March. Given the expectations around interest rate movements, it is timely to revisit how rising interest rates *(continued on page 3)*



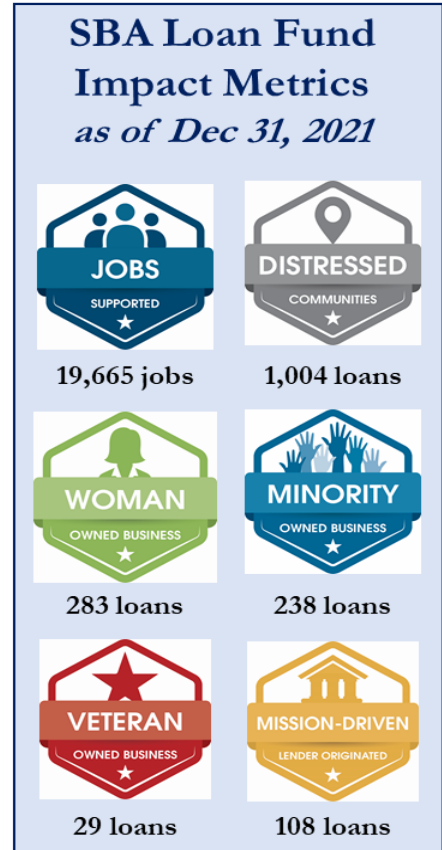
The vast majority of the SBA Loan Fund's assets are 7(a) loans that adjust quarterly and are indexed to the prime rate, which tends to move in tandem with adjustments to the federal funds rate. The SBA Loan Fund's Preferred Return is annualized and net of all fees and expenses and is the effective yield to investors. The SBA Loan Fund's Preferred Return has historically tracked movements in the federal funds rate. Past performance is no indicator of future success and future success is not guaranteed.

SBA Loan Fund Year in Review (from page 1) the Fund has invested over \$2.5 billion in over 4,600 7(a) loans that supported almost 70,000 jobs.

The SBA Loan Fund is a national community development investment fund that provides investor banks with targeted impact credit under the CRA, under the Community Development Investment or Lending Tests. The Fund primarily acquires the guaranteed portion of SBA 7(a) loans where the underlying small business borrower is located in a LMI or otherwise economically distressed census tract targeted for CRA credit by investor banks. The Fund was certified as a Community Development Entity (CDE) by the Community Development Financial Institutions (CDFI) Fund in 2005 and has maintained this designation ever since. As of December 31, 2021, the SBA Loan Fund had total gross assets of \$725 million, consisting of over 1,200 SBA 7(a) loans. Total equity was \$566 million and included paid in capital from 127 investors.

In 2021, the SBA Loan Fund initiated the quarterly reporting of critical impact metrics as further measurement of performance against its mission. These impact metrics center around the underserved, namely, businesses owned by people of color, women and veterans. The Fund also tracks loans in portfolio originated by mission-driven lenders. These loan characteristics are not mutually exclusive. It is widely accepted that the underserved population and LMI communities have disproportionately borne the brunt of the negative effects of the pandemic.

Looking to 2022, Solomon Hess remains committed to serving investor banks as partners to promote job creation, retention, and improvement for LMI persons who are employed by small businesses across America. Small businesses play a vital role in the economic development across the country. In partnership with investor banks, the SBA Loan Fund is dedicated to supporting this key driver of the nation's economy. ■



Agencies to Host National Interagency Community Reinvestment Conference Virtually March 15-17

The federal banking regulatory agencies are hosting the National Interagency Community Reinvestment Conference (NICRC) on March 15-17 in a virtual format. Cost to attend is \$100 for financial institutions and for-profit organizations, \$50 for government and regulatory agencies and \$25 for non-profit organizations. The NICRC is a biennial conference that is hosted by the agencies that has traditionally been very informative and well attended.

The last NICRC was scheduled to be in Denver on March 9-12, 2020 but was canceled due to the COVID-19 pandemic.

To view the agenda and register for the conference, [click here](#). ■

SBA 7(a) Loan Profile: Sir Owlverick's, Orange, CA



Proceeds of the SBA 7(a) loan to Sir Owlverick's were used to finance equipment purchased for business operations. The borrower is located in a moderate-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 five jobs. This 7(a) loan meets both the size and purpose tests of community development and should be eligible for CRA credit. Left, a coffee shop owner.

Another example of the type of loan the SBA Loan Fund tries to acquire for bank investors for community development is the loan to Sir Owlverick's, an independent artisanal coffee roaster and beverage maker that caters to retail and wholesale markets. Founder Amy Tang is a third generation artisanal coffee roaster, following in the tradition of her father and grandfather. Tang's grandfather first learned his craft

as a young boy growing up in Vietnam during the French occupation.

Sir Owlverick's roasts coffee beans in small batches to create a smooth and aromatic cup of coffee. All wholesale orders are roasted fresh to order and shipped within days of roasting. This is a Certified Organic, Non-GMO, woman-owned and minority-owned small business located in Anaheim, CA. ■

Rising Interest Rates (from page 1) impact SBA 7(a) loans, which is the primary asset in the SBA Loan Fund and which can be a CRA-eligible asset on many of the portfolios of banks across the country. The 7(a) program is the SBA's flagship program where it works with approved lenders and community development organizations to guarantee loans to small businesses that are unable to qualify for conventional financing.

The vast majority of 7(a) loans adjust quarterly or monthly and are indexed to the prime rate, which in turn, is tied to the Federal Funds Target Rate (FTTR). The obvious good news for 7(a) loan asset holders is the higher coupons associated with the loans with increases in the FTTR. The less obvious impact of rising interest rates is that the more sophisticated small business borrowers faced with rising loan costs may look to refinance their loans under fixed or fixed to float terms and thus prepay their 7(a) loans. The balance of the higher coupons against the management of prepayment risks is critical to assessing the benefits and risks of 7(a) loans in a bank's investment and CRA portfolio.

For banks looking for SBA 7(a) loans to form a part of their CRA strategy to take advantage of rising interest rates but also want to outsource the management of prepayment speeds and associated risks, the Solomon Hess SBA Loan Fund is a turnkey option to consider. The Fund acquires the guaranteed portion of CRA-eligible 7(a) loans in the target assessment areas of bank investors. Investment in the Fund qualifies for CRA under community development, either the lending or investment test. The economic benefit provided by the SBA Loan Fund is that investors are pro-rata shareholders of the Fund's "mega pool" of over 1000 7(a) loans, thereby diversifying the prepayment risks across all the loans in the portfolio. Solomon Hess has developed unique expertise in the management of 7(a) loans for CRA, having done so since inception in 2004. The Fund is rated triple A (Aaa-bf) by Moody's Investor Services for the highest credit quality of its assets. For more information, please visit our website at www.SolomonHess.com. ■

CRA Modernization: FDIC Acting Chair Reaffirms Priority to Strengthening the CRA



Martin J. Gruenberg stepped up as Acting Chairman of the FDIC effective February 5. Gruenberg is no stranger to being at the helm of the FDIC, as he served as its 20th Chairman from 2012 to 2018 and was Acting Chairman twice. He has served as a member of the FDIC Board since mid-2018. In a press release on February 7, Gruenberg reaffirmed the FDIC's commitment towards the modernization of the CRA and towards working collaboratively with the other agencies. "Action on a revision of the CRA will be the top priority of the FDIC," Gruenberg said in the statement. Left, Gruenberg.

When Acting Chairman of the Federal Deposit Insurance Corporation (FDIC) Martin Gruenberg released his agency's priorities for 2020, the strengthening of the CRA was first on his list. According to the press release, Gruenberg stated, "While there are many issues the FDIC will have to address this year, key priorities are the CRA, climate change, the Bank Merger Act, crypto-assets and the Basel III capital rule." Gruenberg stressed that all the priorities will require close collaboration among the federal banking agencies. On strengthening the CRA, Gruenberg further elaborated that "the agencies plan to act jointly on a notice of proposed rulemaking in the near future that would strengthen and enhance the CRA. Action on a revision of the CRA will be the top priority of the FDIC."

The Biden Administration is challenged to fill key vacancies at the highest levels of all three regulators that oversee the CRA. While President Joe Biden is presented with an opportunity to appoint persons

who will push forward his administration's economic agenda in these top roles, he has struggled to put forward nominees who can win enough support from both progressive and moderate Democrats to make it through to the Senate without substantial Republican support.

In the absence of key leadership, however, the agencies have largely been able to function effectively and fulfill their core missions. On December 14, the Office of the Comptroller of the Currency (OCC) issued a final rule to rescind the June 2020 CRA rule, paving the way for the agencies to work collaboratively towards an interagency ruling. It seems that interagency efforts to modernize the CRA will continue to move forward while the top vacancies are waiting to be filled. ■

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Acting chairman Martin J. Gruenberg announces FDIC priorities for 2022. FDIC. (n.d.). Retrieved February 7, 2022, from <https://www.fdic.gov/news/press-releases/2022/pr22015.html>

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Agencies Release Annual Asset-Size Thresholds

Asset thresholds became effective January 1, 2022. Small banks/savings associations have assets of less than \$1.384 billion as of December 31 or either of the prior two calendar years. Intermediate small banks/savings associations have assets of at least \$346 million as of December 31 or either of the prior two calendar years and less than \$1.384 billion as of December 31 or either of the prior two calendar years.

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SBA Loan Fund Impact: Supporting Community Development

Since inception in 2004, the Solomon Hess SBA Loan Fund has invested over \$2.5 billion in small business loans. These loans, made to over 4,600 small businesses located in 47 states, have helped to create and/or retain over 68,000 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 \$800 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.