



NEXT FUND FOR INNOVATION

I. OVERVIEW

From 2007-2016, the Wells Fargo NEXT Awards for Opportunity Finance, partnership among Wells Fargo, Opportunity Finance Network (OFN), Prudential, The John D. and Catherine T. MacArthur Foundation, and The Kresge Foundation, celebrated innovation by the nation's most promising CDFIs by awarding more than \$70 million through a competitive awards process over the last ten years. The Awards ended in 2016 but the partnership continues in a new NEXT program.

With support of our NEXT Awards partners, OFN is piloting the **NEXT Fund for Innovation** ("NEXT Fund") to encourage new business models, platforms, products, or processes that have the ability to drive transformational change and scale in the CDFI industry. The pilot will provide flexible capital to support these types of innovations.

CDFIs need "innovation" capital to achieve the 10x influence in markets and communities that the industry is striving to achieve. Our ten years of experience with the NEXT Awards coupled with other research, including [OFN's CDFI Futures](#), have confirmed that truly innovative change might best be funded not through current-pay debt capital but rather through much more patient capital. And while grant capital is the most patient, it is limited in supply, and the industry must attract new sources of capital and create new sustainable business models for growth. CDFIs need to think more creatively about their balance sheets, find new structures to capitalize, and/or reconsider the risk and return profile of their balance sheets and operations.

II. INVESTMENT PRODUCTS OFFERED THROUGH THE NEXT FUND FOR INNOVATION

Through the NEXT Fund, OFN will provide flexible capital for up to three CDFIs in amounts ranging from \$500,000 to \$2,000,000. The pilot program will offer capital products that are flexible, patient, and accommodating for innovative initiatives in the CDFI industry.

The NEXT Fund can utilize various debt and equity structures that provide financial flexibility for program investees including, but not limited to:

1. Equity investments with variable pay or performance-based dividend and redemption features.
2. Debt with varying accrual/pay rates.



THE KRESGE FOUNDATION

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Foundation

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3. Subordinate debt features.
4. Secondary capital in community development credit unions.
5. Equity equivalent investments.

The equity and debt investments will be available to CDFIs, CDFI subsidiaries, and entities that are affiliated with CDFIs to provide maximum flexibility to the CDFI sponsor. We understand that many innovations are happening with partners and by creating new entities. The NEXT Fund will consider the flexibility to fund those entities delivering the new approaches directly for maximum capital efficiency.

A challenge for the industry is to develop funding structures that foster revenue growth for investees and create exit opportunities for patient investors. The NEXT Fund program staff are eager to speak with prospective applicants about suitable financial structures for their potential proposals.

III. POTENTIAL TYPES OF INDUSTRY INNOVATIONS

While the NEXT Selection Committee will consider all types of industry innovations, we believe that the following types are most suited for NEXT Fund capital:

- **Technology platform innovations** that use new technology to transform how CDFIs do certain aspects of their business, improving efficiency, time, resources, and/or outreach. *(Example: A CDFI or group of CDFIs might develop an on-line application sourcing/processing/underwriting platform)*
- **Organizational structure and capitalization innovations** that change how CDFIs structure and capitalize. *(Example: A CDFI might develop a broker dealer platform to market to impact investors)*
- **Real estate investment innovations** that involve new entities that finance real estate transactions in a transformative way. *(Example: A CDFI might develop a business loan conduit to efficiently access money in the capital markets)*
- **New financing products** that expand access to capital for low-income and low-wealth individuals. *(Example: a CDFI might develop a scalable payday alternative product)*



IV. TIMELINE AND PROCESS

OFN will open the application process February 2, 2017. Applications will be accepted on a rolling basis until June 30, 2017. Applications will be reviewed as received. Applications will have two phases:

- **Phase One** (“Strategy Articulation”), wherein Applicants identify a problem to be solved, outline a proposed solution to the problem, identify the resources required to address the problem and provide a brief analysis of the solution’s viability.
- **Phase Two** (“Due Diligence and Structuring”), in which a short list applicants will provide additional documentation to confirm the viability of investment and identify a funding structure that works for both the Investee and the NEXT Fund for Innovation.

The selection process is as follows:

1. As received, an OFN internal review team will review each of the Phase One (Strategy Articulation) applications and provide information to review by the NEXT Selection Committee.
2. The NEXT Selection Committee will meet on an ongoing basis to review Phase One applications. Applications approved by the Selection Committee will move to the Phase Two of the application, Due Diligence and Structuring.
3. For approved applications by the Selection Committee, OFN will complete the Due Diligence and Structuring phase. As part of this phase, OFN NEXT Fund program staff will conduct a site visit with applicants.
4. OFN's NEXT Structuring Committee will have final approval of investments.

The NEXT Structuring Committee will include OFN’s Investment Committee, plus members of the NEXT Selection Committee.

The goal is to close all pilot investments in the NEXT Fund for Innovation between July – December 2017.

V. CONDITIONS

Awardees are required to sign OFN investment documents associated with the investment. Awardees will have certain reporting requirements associated with the investment, including submitting standard financial reporting, and regular progress reports on the strategy with respect to the business plan and financial projections submitted during underwriting.



Member(s) of the NEXT Fund program staff, the NEXT Selection Committee, or other experts may have an ongoing advisory role in the strategy over the life of the investment (e.g. role on advisory committee, board, or other informal advisory capacity).

Awardees must participate in publicity events and activities (e.g. success story submission) and education exchanges as requested by OFN and its NEXT partners in order to promote learning about and within the Opportunity Finance industry.

VI. ELIGIBILITY CRITERIA

To be eligible for the NEXT Fund for Innovation, applicants must satisfy each of the eight conditions specified below. Please note that the investee may be a subsidiary or affiliate of the applicant.

Note about applicants:

- CDFIs do *not* need to be a Member of OFN to apply for the NEXT Fund for Innovation.
- The CDFIs that have won NEXT Award in 2007-2016 *are* welcome to apply.
- All types of CDFIs—loans funds, credit unions, venture capital funds, banks—are welcome to apply.

1. Charitable Purpose & Certified CDFI

Applicant is a U.S. Treasury CDFI Fund certified CDFI that has a charitable purpose. As indicated above, the investee may be a subsidiary or affiliate of the applicant.

2. Community Development Mission & Impact

Applicant has a primary mission of community development and strives to have a positive impact on low-income, low-wealth, and other disinvested people and communities. If the institution is part of, or controlled by, another corporation(s), the other corporation(s) must also have a primary mission of community development.

3. Finance-based Strategy

Applicant is a private non-governmental financial intermediary that uses financing as an integral part of its community development strategy.

4. Three Years of Financing Experience

Applicant has been providing financing to achieve a community development mission for at least three years.

5. Audited Financial Statements

Applicant must upload its audited financial statements for at least three years. If the



applicant is a credit union, the credit union can substitute both a 5300 report and supervisory committee audit for audited financial statements.

6. Discipline and Performance

Applicant is currently in compliance with all financial covenants, reporting requirements and performance obligations stipulated by public, private, and philanthropic providers of capital and grant support.

7. Total Assets

Applicant reports more than \$5 million in total assets.

8. OFN's Goals

Applicant affirms Opportunity Finance Network's goal to ensure that low-income, low-wealth, and other disinvested people and communities have access to affordable, responsible financial products and services.

VII. SELECTION CRITERIA

Eligible applicants will be evaluated according to the seven selection criteria below.

1. Identify a Problem

Clearly articulate a problem to be solved or need to be met. Qualify with concise facts or quantitative data.

2. Propose an Innovative Solution

A compelling remedy to the problem identified. The applicant's solution could involve innovations in business models, product design, platforms, or processes. Solutions may allow the CDFI to scale their capitalization or financing.

3. Articulate Impact

A credible and compelling analysis of projected impact from applicant's innovative solution over a three to five-year time horizon, as well as a solid track record of tracking impact over the applicant's history.

4. Demonstrate Readiness and Viability

A strong management team and other resources in place or planned to execute applicant's strategy within a six-month timeframe of receiving an award. A strong grasp of internal and external challenges, financial management, sustainability, and risk to the organization.

5. Demonstrate Financial Strength and Performance

Strong financial performance and risk management and a sound business model that positions the organization for sustained growth, innovation, and success.



6. Identify Compelling Use of Funds for Innovation Capital

A compelling use of funds that demonstrates how the applicant will use the innovation capital to advance its solution in ways that otherwise would not be possible with 'traditional' CDFI capital sources. An applicant must specify the award amount and identify its proposed structure for the award capital.

7. Identify Return Of and On Innovation Capital

Identify the timing of, and way in which the return of and on the NEXT Fund capital will occur.

Note: If the applicant advances to the Phase Two (Underwriting and Deal Structuring), applicant will need to provide additional information, including a five year financial projection.

VIII. APPLICATION MATERIALS FOR THE NEXT FUND FOR INNOVATION

Intention to Apply: All CDFIs that intend to apply for the NEXT Fund for Innovation should send an email to blipson@ofn.org indicating interest in applying.

How to Apply:

The NEXT Fund for Innovation will engage in a two stage application process:

1. **Phase One: Strategic Articulation:** Review of strategy, concept, and applicant's organization.
2. **Phase Two: Due Diligence and Structuring** (for Applications selected to move on by the NEXT Selection Committee): Full underwriting and in depth feasibility analysis of the strategy.

Applicants for Phase One must submit applications electronically at OFN.org/Next-Fund. OFN will not accept hard copy documents.

Phase One: Strategic Articulation Phase

Applications are accepted on a rolling basis through June 30, 2017 for Phase One (Strategy Articulation). The following information is requested in the Phase One online application.

Eligibility Criteria: Indicate in online questionnaire that applicant meets all eight Eligibility Criteria.

Application Materials:



1. Organizational Information: The name of applicant, the name of the investee (if different than the applicant), contact information, organizational structure, amount and type of investment requested through the NEXT Fund, and limited financial information requested.

2. NEXT Fund for Innovation Strategy (Narrative)

Word document; max. 4,000 words

All applicants will submit a narrative which covers the following primary topics.

- a) Identify a Problem
 - i) Clearly articulate a problem to be solved or need to be met
 - ii) Why does the problem exist?
 - iii) Support with facts and data where relevant.
- b) Propose a Solution
 - i) Describe your organization's solution to the identified problem.
 - ii) Describe the innovation(s) in your strategy
 - iii) What are/were the motivating factors for your CDFI to consider the strategy
 - iv) How does the strategy tie to your CDFI's overall mission and/or complement your existing products and services?
 - v) How will your NEXT strategy benefit low-income communities and other underserved populations?
- c) Identify Use of Funds
 - i) Specify the amount of funds requested
 - ii) Identify the preferred structure of the award capital.
 - iii) Demonstrate how the applicant will use the innovation capital to advance its solution in ways that otherwise would not be possible with 'traditional' CDFI capital sources.
 - iv) What is the proposed timing on the return of the investment?
 - v) What is the proposed return on the investment?
- d) Articulate Impact
 - i) What outcome and impact measures will be the most relevant to your strategy?
 - ii) How do you plan to collect the data to track outcomes and impact?
 - iii) Please outline your projected production and outcome goals related to your strategy for the three to five years following an award.
- e) Demonstrate Readiness and Viability
 - i) Describe your organization's level of readiness to act on your strategy in a short period of time.
 - ii) Identify key staff who will lead the strategic undertaking with a summary of their



- experience and qualifications. What additional resources will you need, if any? What changes, if any, are needed at the staff or board level to implement your strategy?
- iii) Utilize an abbreviated SWOT analysis to underline the feasibility of your strategy
 - iv) Does your strategy depend on having other partners or community resources in place? Describe any agreements with significant partners, or where you are in the process with partners.
 - v) Does your strategy have replication potential in the CDFI industry, and if so, how?
 - vi) Has the organization been successful with other innovative initiatives in the past?
- 3) **Current Business or Strategic Plan:** PDF format preferred; Please provide a copy of the applicant's current business plan and/or strategic plan. This document should be updated within the last five years.
- 4) **Latest Interim Financial Statements:** PDF format preferred; Please provide interim financial statements for your most recently completed quarter or month.

Items 5–10: Required for all applicants without an Aeris rating. If you have an Aeris rating, then for each item only submit an update if material changes have occurred since the last Aeris report or you have additional information to report on that topic.

5. **Financial Strength and Performance Statement:** Word document; max. 3,000 words. Please provide a financial self-assessment that addresses the following questions or identify the pages of your business plan or strategic plan that address these questions.
- a. How does your current capital structure support your activities and manage investor risk?
 - b. Describe portfolio performance and trends over the past three years. Please address past due loans, write-offs, and impaired loans, and growth in loan originations. How do you manage the risk inherent in your lending activities?
 - c. Describe the appropriateness of your management, board, and staff's skills and experience relative to your organization's size, complexity, and risk profile.
 - d. Describe operating results (for nonprofits, focus on changes in unrestricted net assets) during the last three years?
 - e. How do you ensure the reliability of revenue needed to support your financing activities? How do you ensure adequate operating and loan fund liquidity?
6. **Three Years of Audited Financial Statements:** PDF format; Audited financial statements for the three most recently completed fiscal years. If the applicant is a credit union, the credit union can substitute both a 5300 report and supervisory



committee audit for an audited financial statement.

7. **Corporate Entity Chart:** PDF format preferred; A current corporate entity chart that clearly shows all related corporate entities, their tax status, and their relationship to the applicant organization.
8. **Organizational Chart:** PDF format preferred; A current organizational chart showing position titles and reporting relationships.
9. **Key Staff:** A document listing key staff (name and position) related to the implementation of the NEXT strategy with a summary of their experience and qualifications.
10. **Board of Directors:** PDF format preferred; A list of the members of the Board of Directors with institutional affiliations.
11. **Additional Information: Word document; Max. 800 words (Optional)** All applicants may provide additional information (maximum 800 words) that would be helpful in evaluating the applicant, its strategy, and its qualifications for the NEXT Fund for Innovation.

Due Diligence and Structuring Phase:

If an applicant advances to Phase Two (Due Diligence and Structuring), applicants will be required at a later date to submit the following additional information and other information requested. OFN staff will conduct a site visit to applicants to underwrite and structure the investment.

1. **Comprehensive Business Plan for the NEXT Strategy**
This should include a summary of the market/competition, strategy, management, product(s), timeline for implementation, and other relevant information related to applicant's NEXT strategy.
2. **5-Year Financial Projections**
Management should produce financial projections identifying revenue and expenses from the strategy as well as capital required, as well as returns to debt and/or equity investors as appropriate. Projections should be for a minimum of 5 years.



IX. QUESTIONS AND SUPPORT

If you have questions about the application process for the NEXT Fund for Innovation, we invite you to participate in an informational webinar scheduled for: **February 9, 1:00 PM – 2:00 PM ET**

The powerpoint and a recording of the information sessions will be available afterward at the NEXT Awards website OFN.org/Next-Fund.

We encourage potential applicants to reach out to any of the following NEXT Fund program staff to discuss the program or potential funding structures in greater detail.

NEXT Fund for Innovation Program Staff

Contact	Email	Phone
Beth Lipson Interim CFO & EVP, Strategic Initiatives	blipson@ofn.org	215.320.4315
Robin Odland EVP, Financial Services	rodland@ofn.org	215.320.4328
Max Gritzuk Senior Associate, Financial Services	mgritzuk@ofn.org	215.320.4305

CONFIDENTIALITY: Opportunity Finance Network will to the best of its ability, ensure the confidentiality of all application materials. Opportunity Finance Network staff and contractors, and members of the NEXT Selection Committee will review materials submitted, as necessary and appropriate. Committee members will execute a non-disclosure statement before reviewing materials submitted to them.

DISCLAIMER: OFN reserves the right to reject any and all applications, and no applicant has any rights to any investment unless and until granted in writing and applicant complies with all terms and conditions of the program.