



Program guidelines

Wells Fargo Works for Small Business[®]: Diverse Community Capital

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Background and overview

In May 2015, Gallup released a [study](#) commissioned by Wells Fargo on lending to diverse-owned small businesses. The national study was commissioned to gain deeper insight into the attitudes, needs, and motivations of diverse small business owners related to their use of credit. Gallup conducted more than 3,000 telephone interviews covering six segments: African American, Asian, Hispanic, LGBT, veterans, and women-owned businesses. Among the study's findings was that diverse small business owners were more likely than their counterparts in the general small business population to:

- Report having personal credit challenges and be declined for business credit, with African Americans being more likely to not reapply for credit after being declined
- Have annual business revenues of less than \$50,000 and to have a business in the startup and growing stages. As a result, they may not qualify for many conventional bank loan products
- Be extremely or very interested in learning how to build a strong business credit application

The Wells Fargo Works for Small Business: **Diverse Community Capital (DCC)** program was developed to respond to the needs identified by survey participants. DCC focused on distributing \$75 million in capital over three years (2016–2018) to **Community Development Financial Institutions (CDFIs)** that serve diverse small businesses. Awardees also participated in social capital activities offered through Opportunity Finance Network. While the original \$75 million commitment was met in 2018, Wells Fargo committed an additional \$100 million in grant capital from the Wells Fargo Foundation, to continue and expand the program through 2020.

- To increase lending of CDFIs to diverse small businesses
- To build the capacity of CDFIs to lend to and provide development services to small businesses
- To strengthen the readiness of diverse small businesses to access capital
- To improve and transform systems for how diverse small businesses access capital and development services

For purposes of the DCC program, we define diverse small businesses as being owned by someone who is Black or African American, Asian, American Indian or Alaska Native, Native Hawaiian or other Pacific Islander, Multiracial, Hispanic, Latino, female, a veteran, or LGBT. Small businesses refer to businesses, including nonprofits, ranging in size from microenterprises, with five or fewer employees (including proprietor), to small businesses with up to 500 employees (as defined by the SBA).

Program components

In 2020, the DCC program will offer two unique funding opportunities during one submission period.

Capacity Building grants: The purpose of this grant funding is to build CDFI capacity (capital, resources, and knowledge) with flexible grant capital to increase and strengthen lending and technical assistance offerings to diverse small businesses. This opportunity represents a continuation of the original DCC program commitment.

Size of grants will depend on the organization's capacity, geographic scope, and strength of proposal.

Between 15 to 20 Capacity Building grants, generally ranging from \$150,000 to \$500,000 may be awarded.

Activator grants: The purpose of this grant funding is to support CDFIs working on and ready to make active or implement or expand a strategy with the potential for industry or market replication. Examples of strategies include, but are not limited to the following:

- **Collaboration with anchor institutions** — for CDFIs working with universities and other educational institutions, hospitals, large corporations, and/or government entities to grow their procurement relationships with diverse entrepreneurs in their local communities
- **Innovative technologies or product(s)** — for CDFIs working on a technology or product(s) serving diverse entrepreneurs with the potential for successful scaling or replication across a region or across organizations or across an industry
- **Local food economies** — for CDFIs working to increase the participation of diverse entrepreneurs, including farmers, in local food systems along all points of the production and distribution chain
- **Environmentally beneficial businesses** — for CDFIs working with diverse entrepreneurs with businesses focused on clean technology and/or environmentally beneficial processes or products

Activator grants are open exclusively to CDFIs that exhibit an acceptable degree of financial strength, stability, and a high level of readiness to implement their plan. CDFIs must have at least \$10 million in assets and can apply for an award up to 10% of their assets subject to the parameters below.

Size of grants will depend on the organization's capacity, geographic scope, and strength of proposal.

Between five to seven Activator grants, generally ranging from \$500,000 to \$3,000,000 may be awarded. Grant awards may be funded over one to three years.

All awardees will be offered activities to build support networks and social infrastructure (Social Capital) among CDFIs for the purpose of increasing lending to diverse small businesses. Social Capital activities may include mentorship programs, an online learning community, and other collaborative efforts to improve and increase the capacity of CDFIs to lend to diverse business owners. Wells Fargo will offer the Social Capital activities through Opportunity Finance Network (OFN).

Funding for Capacity Building and Activator grants will be provided by the Wells Fargo Foundation. Wells Fargo Bank's Community Lending and Investment group may also offer alternative programs providing additional funding opportunities.

Parameters and guidelines

Potential Grant Capital uses

The grant funds for both funding opportunities can be used very flexibly by eligible CDFIs. Proposed uses include:

- Equity capital to increase lending capacity and manage risk, including additions to loan loss reserves
- Marketing, communications, and business outreach strategies and materials (including the development of online applications) targeting diverse small businesses
- Actions and programs to create trust and establish CDFI presence in racially diverse communities
- Development and delivery of technical assistance and business and financial counseling for diverse small business owners
- Market research and new product development targeted at increasing lending to diverse small businesses
- Creation of support networks for diverse small business owners for peer learning, business partnership, and business development opportunities
- Recruitment and training (internal and external) of staff
- Creation of credit underwriting policies and criteria for diverse small business borrowers
- Formation of business relationships that work to expand CDFI capacity to increase capital access to diverse small businesses. Such partnerships or collaborations could involve other CDFIs, small business development centers, workforce training and development agencies, diverse chambers of commerce, and/or other local partners committed to increasing capital access for diverse business owners
- Programs to build the resiliency of small businesses to prepare for or respond to catastrophic events
- Impact measurement
- Replication or expansion of existing diverse small business lending strategies or programs
- Other operational support projects or programs designed to increase lending to diverse small businesses

Program eligibility requirements

These requirements apply to both the **Capacity Building** and **Activator** grant opportunity. Additional requirements for the **Activator grants** are noted above.

- Organizations must be a U.S. Department of the Treasury-certified CDFI.
- Organizations with tax-exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code.
- Organizations must have completed at least two consecutive years of small business lending as of the date of the Interest Form.
- Located in and serving the U.S., including the territories of Puerto Rico and the U.S. Virgin Islands.

For both **Capacity Building** and **Activator grants**, we are able to consider Interest Forms from CDFIs:

- That have never received a DCC award.
- That have not received a Capacity Building or Activator grant in 2018 or 2019.

If you have any questions about your organization's eligibility, send an email to diversecommunitycapital@wellsfargo.com.

Program selection criteria

CDFIs meeting the eligibility criteria may indicate interest in either of the grant opportunities. All Interest Forms will be evaluated using the following selection criteria:

- A compelling strategy to increase lending to diverse small businesses. Compelling strategies will be comprehensive, leverage other resources, and result in meaningful and measurable impact and change. Compelling strategies may have elements of innovation (in delivery of financing, technical assistance, outreach, marketing, etc.), scalability, and replicability. Strategies should include specific and credible projected outcomes and an articulation of overall community impact over a three-year period.
- Acceptable CDFI financial performance in terms of capital adequacy, assets, management capability, earnings, and liquidity. CDFIs will provide current interim financial statements and the last three audits. Financial analysis will cover trends in topics, such as (but not limited to):
 - Change in net assets or change in unrestricted net assets
 - Self-sufficiency
 - Net asset ratio or unrestricted net asset ratio
 - Pledged or unencumbered assets
 - Liquidity (unrestricted cash, months of operating cash)
 - Asset-liability matching
 - Portfolio performance (past dues, nonaccruals, TDRs, charge-offs, and loan loss reserve levels)
 - Portfolio management (policies for risk rating, borrower, and overall portfolio reviews, etc.)
 - Projections and strategic plan (especially as they relate to proposed portfolio growth)
 - AERIS rating (if available)

Interest Forms submitted for the Activator grants will be evaluated for demonstrated preparation, progress, and readiness to implement a strategy with the potential for industry or market replication.

We will consider Interest Forms from CDFIs serving all segments of diversity (as defined in these guidelines).

We will give priority consideration to strategies that increase lending to African American- and Hispanic- or Latino-owned businesses and to Interest Forms submitted by CDFIs led by people of color.

Program application process

Interest Form

CDFIs that are interested in the DCC program will submit an Interest Form located at <https://www.cybergrants.com/wellsfargo/DCC/interestform>.

CDFIs will select which of the two grant opportunities that they are interested in.

Interest Forms for both opportunities will solicit responses to:

- The unmet needs of diverse small businesses in a CDFI market
- The CDFI's strategy to increase lending and other services to diverse small business, how DCC resources would support the strategy, and the projected outcomes of the proposed strategy
- The proposed use of DCC funds and how the strategy will be sustained after the resources are exhausted
- The dollar and number of loans to diverse small businesses in the past three fiscal years and the projected dollar and number of loans for the next three fiscal years
- A breakdown of lending to diverse borrowers
- Portfolio performance information for three fiscal years, including past dues, nonaccruals, restructures, and charge-offs
- Other financial metrics for three fiscal years, including self-sufficiency ratio, operating cash on hand, net asset ratio, and unrestricted net asset ratio

Interest Forms for the Activator grants will also solicit responses to:

- Details of a strategy, product, or program with the potential for industry or market replication, including collaborative relationships established
- Other potential funders
- An implementation plan and timeline

All CDFIs will also be asked to upload a copy of the last three years of audited financial statements and the most recent interim financial statements.

Wells Fargo Bank's Community Lending and Investment group may also offer alternative programs providing additional funding opportunities. A separate, independent application with additional documentation will be required of interested organizations, in order to support an expanded financial analysis for credit underwriting.

Invitation to apply

After reviewing the Interest Forms, Wells Fargo will invite selected CDFIs to apply for a Capacity Building or Activator. Wells Fargo will inform all applicants of one of the following:

- The applicant is invited to apply for grant capital or
- The applicant is declined for grant capital

Social Capital activities will be determined and organized based on needs identified by Wells Fargo and OFN and levels of interest by program participants.

Grant application process

All CDFIs that have been invited to apply for a grant will be directed to submit an online application. The online application will include, but not be limited to:

- An opportunity to fully explain the organization's strategy for serving diverse small businesses with DCC resources
- Form 990
- A detailed budget for the requested grant funds
- A list of board members with affiliations
- Demographics of the individuals or businesses served

Interest Forms and applications are submitted electronically. No paper or email submissions will be accepted.

Evaluation and reporting

The program evaluation will measure how well the program has accomplished the DCC program goals:

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CDFIs will need to provide an annual report for three years after receiving an award that includes data on lending and technical assistance provided to diverse small businesses.

Activator grant awardees may have additional reporting requirements and may be asked to participate in interviews or focus groups as part of Wells Fargo's third-party **Activator** grant program evaluation.

Questions and additional information

Dates and other terms may be subject to change. Submitting an Interest Form is voluntary and will not affect consideration of other future grant opportunities with Wells Fargo. CDFIs can send an email with questions to diversecommunitycapital@wellsfargo.com.