



**NEXT Fund**  
FOR INNOVATION



# **NEXT Fund for Innovation Information Session**

February 9, 1:00 – 2:00 PM ET



# Presenters

## **Beth Lipson**

Interim CFO & EVP, Strategic Initiative, OFN

## **Robin Odland**

EVP, Financial Services, OFN

## **Max Gritzuk**

Senior Associate, Financial Services, OFN

## **Megan Teare**

Senior Vice President, Wells Fargo



# Agenda

- Overview of 10 years of NEXT
- Pilot & goals of NEXT Fund for Innovation
- Fund investments
- Two stage application process
- Eligibility and selection criteria
- Questions

# Background NEXT Awards



- Awarded over \$75 million 2007-2016
  - Combination of senior secured debt & limited grant awards
- Goals
  - Take CDFIs to the next level of growth and impact
  - Increase visibility of CDFIs and the work they do
  - Support innovation
- NEXT Awards Partners
  - Wells Fargo; Prudential; Kresge Foundation; MacArthur Foundation; OFN



# NEXT Fund for Innovation

- Based on *CDFI Futures* research & other research
- Conversations with past Awardees and NEXT partners
- Innovative change best be funded through patient capital
  - Grant capital is the most patient, but it's limited in supply
  - Must attract new sources of capital and create new sustainable business models for growth

# Goals/Examples



- Encourage new business models, platforms, products, and/or process that drive transformational change and scale in the CDFI industry
- Examples:
  - Technology platform innovations
  - Organizational structure and capitalization innovations
  - Real estate investment innovations
  - New financing products

# Fund Investments



- Equity Investments
  - Debt with varying accrual/pay rates
  - Subordinated debt
  - Secondary capital (in CD credit unions)
  - Equity equivalent investments
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- Investments can be in applicant (CDFI) or in CDFI subsidiaries and/or affiliates
  - Must provide projected return on and of capital
  - Investment amounts range from \$500,000 to \$2 million



# Example Type of investments

- Start-up business
  - Establish a new business (e.g. mortgage company)
  - Business may project operating deficits for a period of time
  - Limiting the current pay component during start-up
- New Technology Platform
  - Invest in a new technology platform (e.g. an on-line business loan origination system)
  - May require up-front investment which may not generate a revenue growth curve that supports immediate debt service
  - Investment may be structured with a variable payment feature to accommodate the borrowers revenue growth



# Important Notes



- Do not need to be an OFN member to apply
- Do not need to be Aeris-rated to apply
- Can apply if won prior NEXT Awards
- All CDFI types are eligible

# NEXT Fund Eligibility Criteria



- 1) Charitable Purpose & Certified CDFI
  - Investee may be a subsidiary or affiliate of the applicant
- 2) Community Development Mission & Impact
- 3) Finance-Based Strategy
- 4) Three Years of Financing Experience
- 5) Audited Financial Statements for 3 Years
  - credit unions: can substitute 5300 & supervisory committee audit
- 6) Discipline and Performance
- 7) Total Assets More Than \$5 Million
- 8) Support OFN's Goals

# NEXT Fund Selection Criteria



1. Identify a problem
2. Propose an innovative solution
3. Articulate impact
4. Demonstrate readiness and viability
5. Demonstrate financial strength and performance
6. Identify compelling use of funds for innovative capital
7. Identify return of and on capital and explain why patient capital is required.

# Two Stage Application Process



- **Phase One: Strategy Articulation**
- **Phase Two: Due Diligence and Structuring**

[ofn.org/NEXT-Fund](https://ofn.org/NEXT-Fund)

# Application Materials: Phase One



- Organizational information & eligibility
- Narrative – NEXT Fund for Innovation strategy (word count limit)
- Current business or strategic plan
- Latest interim financials
- Optional (other information to help evaluate application)

Additional information to submit if not Aeris rated:

- Financial strength and performance statement
- Three years of audited financials
- Corporate entity chart
- Organizational chart
- Key staff
- Board of directors

# Application Materials: Phase Two



- Business plan for the NEXT Fund strategy
- 5-years financial projection for NEXT Fund strategy
- OFN staff conduct a site visit to underwrite and structure investment

# Timeline



- **Key dates:**

- Phase one application open: 2/2/17
- Applications accepted and reviewed on rolling basis
- Phase one application close: 6/30/17

- Please send e-mail to [blipson@ofn.org](mailto:blipson@ofn.org) if you plan to apply

# Selection Process



- Submit Phase One application (online)
- Reviews on rolling basis by OFN and NEXT Selection Committee
  - Selection Committee determines which organizations to move to Phase Two
- For Phase Two applicants: submit additional information
- OFN conduct additional due diligence and site visit
- OFN NEXT Structuring Committee approve investments
- Goal is to close all pilot investment in Q4 2017



# For More Information



- **ofn.org/NEXT-Fund**
  - Application guidelines
  - Online Application
  - Recording of information session
- Contact:
  - Beth Lipson - [blipson@ofn.org](mailto:blipson@ofn.org)
  - Robin Odland - [rodland@ofn.org](mailto:rodland@ofn.org)
  - Max Gritzuk – [mgritzuk@ofn.org](mailto:mgritzuk@ofn.org)

# NEXT Partners



MacArthur  
Foundation

THE KRESGE FOUNDATION

OPPORTUNITYFINANCE NETWORK 

# Q&A



Type your question into the GoToWebinar question box