

FAQ | July 2020

Small Business Recovery Announcement

PPP figures, Donation of PPP processing fees to create Open for Business Fund, and Gallup/Small Business Index

Background

From the beginning of Paycheck Protection Program through June 30, Wells Fargo funded loans for more than 179,000 customers, with an average loan amount of \$56K totaling \$10.1 billion. 60% of those are for loan amounts of \$25,000 or less, and 90% of these applicants have \$2 million or less in annual revenue.

On July 9, Wells Fargo will announce an approximately \$400 million small business recovery effort called the Open for Business Fund, created by the donation of PPP processing fees received by the bank as a result of its participation in the program. The Open for Business Fund aims to help small businesses open, recover and rebuild, particularly racially and ethnically diverse-owned businesses. This major initiative will open a new avenue for nonprofits to deliver capital, training and long-term recovery efforts to diverse entrepreneurs who see a long road ahead.

According to Wells Fargo's most recent Gallup/Small Business Index, conducted in the beginning of June, diverse small business owners are optimistic but half of them lost more than 50% of their revenue and 52% see recovery taking a year or more.

Key messages

- Back in April, Wells Fargo CEO Charlie Scharf announced that Wells Fargo would donate all of its Paycheck Protection Program (PPP) processing fees back to nonprofits serving the small business community – an industry-leading commitment.
- To help accelerate the recovery of small businesses, today we announced that **Wells Fargo will donate all gross PPP processing fees - approximately \$400 million - to help small businesses keep their doors open, retain employees, and rebuild. Wells Fargo is not keeping any portion of the PPP processing fees.**
- Small businesses are the backbone of our nation's economy and the communities we call home – and just as importantly, they are the key to millions of jobs. They are also among the hardest hit by the COVID-19 pandemic.
- Wells Fargo has played a major role in helping provide small businesses with immediate resources during COVID-19, including processing 179,000 loans totaling \$10.1 billion through the Paycheck Protection Program (PPP) – 84% meet the near and long-term needs of the smallest business across America, Wells Fargo is launching today a more than \$400 million small business recovery effort called the Open for Business Fund, a donation all of PPP processing fees back to the small business community
- Wells Fargo's new Open for Business Fund will engage nonprofits to offer capital, training and long-term recovery support to nonprofits serving small businesses, with a focus on racially and ethnically diverse-owned businesses.
- The Open for Business Fund is starting with several grantees serving Black-owned small businesses, which are closing at twice the rate of the sector.
 - We know many diverse entrepreneurs see a long road ahead. According to the Wells Fargo Small Business Index, 52% see a year or more to recovery.

- To help, we are opening up applications for nonprofit and community lenders (known generally as Community Development Financial Institutions) who serve minority-owned businesses to apply now through August 7.
- We are committed to helping diverse small businesses reopen, rebuild and recover – and hope this \$400 million philanthropic small business recovery effort will have a lasting impact on communities who have been most impacted by COVID-19.
- Importantly, our funding is likely to grow to nearly \$1 billion in overall impact for small businesses and the communities they serve over the next few years because adding grant capital to the balance sheets of CDFIs allows them to leverage that capital – usually at a 3:1 return on our investment, effectively multiplying our impact. (according to Opportunity Finance Network, the trade association for CDFIs)

Questions and Answers

Paycheck Protection Program

Why did Wells Fargo decide to donate its processing fees?

Wells Fargo is committed to helping small businesses navigate the impacts of COVID-19. Small businesses are the backbone of our nation's economy and the communities we call home – and just as importantly, they are the key to millions of jobs. To support small business recovery, Wells Fargo is donating all gross Paycheck Protection Program (PPP) processing fees it will receive from the program to nonprofits that empower small businesses to re-open, stay open and rebuild, with a focus on racially and ethnically diverse-owned businesses. There's a long road ahead for our economy and Wells Fargo believes that the creation of the Open for Business Fund has the potential to bring meaningful societal impact at a time when entrepreneurs need it most.

As context, according to the latest Gallup/Small Business Index, since March 1, 67% of small businesses have reported a loss of revenue, with nearly half of that number reporting a loss of 50% or more. 52% of business owners said it would take them up to a year or more to recover from the economic impact of COVID-19. Diverse small businesses are struggling the most. According to the National Bureau of Economic Research, 41% of Black-owned businesses have closed since COVID-19, the highest of any diverse group and compared to 17% of white-owned businesses.

Were you required to give away the PPP fees?

On April 5, we voluntarily committed to donating all gross processing fees generated from the PPP to nonprofits that support small businesses impacted by the COVID-19 pandemic to help them keep their doors open, retain employees, and rebuild. Wells Fargo is not keeping **any** processing fees from the PPP.

How much lending was involved to generate these fees?

Through the PPP, Wells Fargo played a major role in helping provide small businesses with the resources they need to bridge the economic storm and help start the journey to drive the economy and employment levels back to their pre-COVID levels. (data as of 6/30/2020):

- 246,000 applications submitted to the U.S Small Business Administration. 183,000 SBA guaranties with a total loan amount of over \$10.2 billion
- 179,000 loans funded for a total loan amount of \$10.1 billion
- 60% of those are for loan amounts of \$25,000 or less, and average loan size is around \$56,000
- 84% of businesses receiving loans have less than 10 employees

Open For Business Fund

What is the Open for Business Fund and how will it work?

To support America's small businesses as they start the journey toward recovery, Wells Fargo is donating all gross PPP processing fees – approximately \$400 million - it will receive from the program to launch the Open for Business Fund, which will offer capital, training and long-term recovery support to small businesses with an emphasis on racially and ethnically diverse-owned businesses. The success of small businesses is essential to the health of our economy, to job creation and to the communities we call home. We see the Open for Business Fund as a way to help accelerate the recovery of these local diverse businesses and to create a meaningful avenue for access to capital and services. The new Open for Business Fund will focus on short and long-term recovery in three areas:

- **Access to capital** through nonprofit and community lenders, also called Community Development Financial Institutions, with an emphasis on racially and ethnically diverse-owned businesses, with an emphasis on Black and African American, Latino, Asian American and Native American, among others.
- **Training and services** from nonprofits that help diverse entrepreneurs adapt and build their business. Training focuses on strengthening their business model with business planning, marketing, supply chain management, budgeting and more.
- **Recovery and resiliency grants** that stimulate longer-term small business economic development and policy reforms.

What will the impact of the fund be?

We expect to reach thousands of diverse small businesses to help them stay open and sustain thousands of jobs across the country. We're going to work with each grantee to track impact. Also importantly, CDFIs can usually double or triple their impact with philanthropic capital like ours that enhances their balance sheet, so the Open for Business Fund can potentially have a \$1 billion in impact to the small business community.

How do nonprofits apply?

We are prioritizing the Open for Business Fund for nonprofits serving diverse entrepreneurs, with a focus racially and ethnically diverse-owned small businesses.

The open application process will happen in three cycles. On July 8, the first grant cycle will open for nonprofit Community Development Financial Institutions and community lenders and remain open through August 7, with up to \$250 million available in grants. Nonprofits can learn more about the application process and criteria to qualify at www.wellsfargo.com/about/corporate-responsibility/community-giving. The second grant cycle for nonprofits focused on technical assistance and training for diverse entrepreneurs is expected to open in September 2020. Additional grant cycles for long-term recovery efforts will open in 2021 and 2022.

Why are you not taking applications for all aspects of the Open for Business Fund given the need out there?

We are starting with the most pressing need first, which is access to payment relief and capital so small businesses can reopen, stay open and rebuild. We've heard from the small business community and national and local stakeholders that there is great urgency around additional avenues to capital since most small businesses have suffered significant loss in revenue and need critical support to retain staff and their own livelihood. We will be opening up the grant cycle around training and support services next in September.

What are the qualifications for nonprofits to receive Open for Business Fund grants?

To receive funding, organizations must:

- Be a U.S. Department of the Treasury-certified CDFI or an organization of Treasury-certified CDFIs.
- Have a tax-exempt status as a 501(c)(3) public charity as defined under the Internal Revenue Code.
- Have completed at least two consecutive years of lending to small businesses as of the date of the application. (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).

- Demonstrate a history of and an intention to lend to racially and ethnically diverse-owned businesses and located in low and moderate-income communities. Be located in and serving the U.S., including the territories of Puerto Rico and the U.S. Virgin Islands.

Additional information regarding qualifications can be found at www.wellsfargo.com/about/corporate-responsibility/community-giving.

Where do I go if I have questions about the Open for Business Fund?

Please visit www.wellsfargo.com/about/corporate-responsibility/community-giving first to learn more about the eligibility requirements, selection criteria and the application process. If they still have questions, they may reach out to smallbusinessphilanthropy@wellsfargo.com.

Can small businesses apply directly?

No. The Open for Business Fund is set up to work with nonprofits who serve entrepreneurs with a focus on racially and ethnically diverse small businesses. We will publish a list of grantees on our website as funding to nonprofits is deployed so that small business owners can find resources around the country to help with their situation. We also recommend that small business owners explore a Community Development Financial Institution in their area.

What size grants are available?

Grant size will be determined based on evaluation of the organization's capacity, geographic scope and alignment with the program's selection criteria, including focus on racially and ethnically diverse-owned businesses. Grants, generally ranging from \$250,000 up to \$5,000,000, may be awarded.

Why did you select Black and African American-owned grantees first? What about other racially and ethnically diverse-owned small businesses?

The first few grants are focused on stabilizing and accelerating the recovery of Black and African-owned small businesses, which have been closing at nearly double the rate of small businesses overall in the wake of the pandemic. But we know that many diverse small businesses are disproportionately impacted by COVID-19, so Wells Fargo is dedicating the Open for Business Fund for underserved businesses with an emphasis on racially and ethnically diverse owners. This approximately \$400 million small business recovery effort will be intentional about selecting nonprofits that can reach entrepreneurs struggling to re-open and rebuild.

How do you define diverse small businesses?

We want to intentionally reach small business owners most impacted by COVID-19. We plan to emphasize Black and African American, Latino, Asian American and Native American owned businesses. This does not exclude other diverse groups but we are emphasizing racially and ethnically diverse small business owners given the data around their closure rates and revenue challenges.

Beyond this new Open for Business Fund, what are other ways has Wells Fargo supported small businesses?

As part of COVID-19 relief, Wells Fargo through the Wells Fargo Foundation has already awarded over 400 grants to nonprofits serving small businesses, totaling more than \$25 million since March 2020. These grants support state/city small business relief funds, cash assistance and payment relief from Community Development Financial Institutions (CDFIs), support services and more for struggling entrepreneurs across the U.S.

For example, we recently announced an effort in collaboration with the County of Los Angeles and the City of Los Angeles to create the LA regional COVID-19 Recovery Fund which aims to support small businesses, nonprofits and micro-entrepreneurs that have been adversely impacted by the pandemic. The Wells Fargo Foundation contributed \$1.1 million to the fund which will be administrated by Local Initiatives Support Corporation (LISC), a CDFI which will work through local partners to reach businesses and nonprofits who may have been left behind by Federal relief funds.

Beyond COVID-19, Wells Fargo also has a history of supporting diverse small businesses:

- Wells Fargo has provided access to capital to the CDFI industry – which offers microfinance to entrepreneurs – for more than 20 years. Wells Fargo’s Community Lending & Investment team provides financing to approximately 150 CDFIs of all sizes across the country with patient capital and lines of credit that support small businesses as well as community development.
- Since 2015, the \$175 million Wells Fargo Diverse Community Capital program has enabled more than 90 CDFIs to finance \$1.6 billion in loans, deliver 1.8 million hours of training and services and empower diverse small business owners to maintain 195,000 jobs.
- Wells Fargo teamed up with the National Association of Latino Community Asset Builders (NALCAB) to start the nation’s largest loan fund for Latino-owned businesses, established just before COVID-19 with a \$10 million grant.
- In March, Wells Fargo announced plans to commit \$50 million to Minority Depository Institutions (MDIs) who can use this capital to create and support economic opportunities for in Black and African-American communities. MDIs play an important role in providing small business lending and other banking services to minority and LMI communities.

Small Business Index

Q2 2020 Index Observations

- The latest quarterly survey focused on business owner optimism regarding their own financial situations and expectations, highlighted by 65% saying they felt somewhat or very good about their current situation. This number was slightly higher than when they were asked the same question in April, but remained 18 points lower than when the same question was asked in January prior to the pandemic’s wider outbreak in the U.S.
 - Asked about their expectations for their financial situations 12 months from now, 73% of business owners said “somewhat” or “very” good, a 17% jump from April and 11% lower than January.
- This trend of moderate improvements since April but being well-below Q1 optimism also was observed in other key indicators.
 - When asked about their expectations for the coming 12 months regarding revenues, 47% said they expected them to increase a little or a lot, up 14% from April and down 17% from January.
 - 61% of owners expected their cash flow in the coming year to be somewhat or very good, a 15% increase since April and a 20% deficit compared to January.
 - While only 36% of owners expected credit to be somewhat or very easy to obtain in April, that number rose seven points to 43% in June, though still 11 points lower than in January at 54%.
 - While In January 80% of business owners saw their financial outlook for their business as more optimistic than pessimistic, that number fell to 47% in April and then rose back up to 67% in the latest survey in June.

Key Indicators

- 43% of business owners felt that the U.S. economy is in a recession, while 15% describe it as a depression. When asked how long it would take for the economy to recover from its current state, 32% said the rest of the year, while 44% said longer than a year.
- When asked how financially prepared they felt to handle the economic downturn resulting from COVID-19, half of business owners felt somewhat prepared, while 29% felt very prepared. In contrast, 21% indicated they were either not very or not at all prepared.
- Business owners also saw significant downturns in demand for their good or services resulting from COVID-19. 50% saw a decrease in demand, though this does mark a 10% decrease from when the same question was asked in April of this year.
- When asked about various effects on their businesses from the COVID-19 pandemic, 67% of owners noted a decrease in revenues or sales. Of those that reported a loss in revenue, 49% said they lost 50% or more of that revenue.

Pulse Check: Diverse Business Owners

- The fourth quarter survey also specifically over-sampled diverse business owners (specifically owners that are African American, Hispanic, Asian and women) to determine sentiment among this population in regards to the current climate.
- Optimism in a number of indicators among diverse business owners largely mirrored total business owners. For example:
 - Among both diverse business owners and all business owners surveyed, 65% felt their current financial situation was either somewhat or very good, while 73% of business owners felt the same applied to their expectations of their financial situation a year from now (compared to 72% of all owners).
 - Optimism regarding revenues in the coming year largely favored diverse business owners, with 56% estimated an increase, compared with 47% of total owners.
 - Estimates regarding the coming 12 month's cash flow were also comparable, with 58% of diverse owners and 61% of total owners anticipating it to be somewhat or very good.
- However, there were a number of indicators that showed variance in challenges for diverse business owners. For instance, while only 12% of total owners reported having a somewhat or very difficult time obtaining credit in the past twelve months, over a quarter (27%) of diverse business owners reported having difficulty.
 - The highest rate among this group was found with African American business owners, 35% of whom reported having somewhat or very difficult time obtaining credit.
- Diverse business owners reported higher rates of various impacts to the businesses due to the pandemic compared to all owners surveyed, including:
 - 13% reported impact on supply chain and availability of products resulting from the pandemic compared to total business owners
 - 14% more reported impacts to their employee's ability to work due to school and activity closures for their children
 - 10% more reported a temporary closure of their businesses
 - 19% more reported unplanned expenses due to items like personal protection equipment, cleaning supplies and updates to signage