



**Testimony of  
Adam Zimmerman, President and CEO  
Craft3**

**Before  
The House Committee on Water  
Oregon Legislature**

**Regarding  
Performance and needs of the Oregon septic system replacement loan fund**

**November 19, 2019**

My name is Adam Zimmerman, President and CEO of Craft3. Craft3 is a regional nonprofit Community Development Financial Institution (CDFI) that makes loans to strengthen economic, ecological, and family resilience in Oregon and Washington. We lend to established nonprofits and growing and start-up businesses – including those that don't qualify for traditional financing. We also help families finance energy upgrades to their homes, construct accessory dwelling units, and replace failed septic systems. From eight regional offices, Craft3 has invested more than \$534 million since we were founded in 1994.

**I am here today to discuss the importance of continuing funding for the Oregon Clean Water Loan program.** Since its creation, that program has helped more than 145 families invest a total of \$2.8 million in new systems or sewer hook-ups. Those dollars support rural housing stability, improve water quality, and reduce threats to public health. On behalf of those families and the many septic contractors that we work with, I want to thank you and your colleagues for creating and supporting this program.

**HISTORY & OPERATIONS**

According to DEQ, over 450,000 Oregonians use septic systems to manage wastewater. As many as 10 percent – 45,000 systems – fail each year, and not all homeowners have the resources to make needed repairs. Depending on the circumstances, replacing a septic system can cost more than \$20,000.

Recognizing this, in 2016 legislators created a flexible loan program intended to help Oregonians afford repairs to failed septic systems across our state. That action led to a competitive bidding process conducted by the Department of Environmental Quality (DEQ) and, in 2017, my company was awarded the opportunity to administer the program and make Clean Water Loans statewide in Oregon.

As a third-party administrator, we offer the state the ability to reduce agency overhead, limit financial risk, and match state funds with other federal and philanthropic capital sources to deliver the greatest-possible benefit to Oregonians. This is a national-recognized model and partnership, and one that we are very proud of.

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Here's how it works for your constituents. After being referred by a contractor or public health professional, Oregonians apply for a Clean Water Loan through our [website](#) or by mail. We process the application and, generally within 72 hours, can make a credit decision. Once we confirm the project is properly permitted and approved by the health agency, we can start disbursing funds to the contractor. After the project is complete, we make the final disbursements after the homeowner and health agencies approve the project. Our clients make payments, if required, to us over the course of the term, and we manage the portfolio, delinquencies, and carry any risk associated with loan non-performance.

## PERFORMANCE

In just over two years, Craft3 has helped more than 145 families across Oregon access affordable loans to help them replace their failing septic systems. Our loan is structured to work for as many different family situations as possible. For borrowers that meet certain income thresholds, payments are partially- or fully-deferred and, as a result, nearly one-third of the families we serve are under eighty percent of their county's Area Median Income. We've financed projects in twenty-seven Oregon counties, eighty cities, and more than eighteen million gallons of wastewater are now treated annually, a sustained commitment to healthier communities and natural systems. The portfolio is highly performing, with low default rates.

## CAPITAL NEED

**But to support additional Clean Water Loan program lending in Oregon through June 2021, we estimate a capital need of \$4 million dollars. We believe that this amount will be enough to sustain lending, meet community needs, and maximize benefits to low-income households.**

Before I go further, it is important to understand that our ability to offer partially- and fully-deferred loans – which help Oregonians with extremely limited financial means – requires exceptionally patient capital, since principal balances won't repay until 2033 (and beyond). To date, we have used previous grant dollars allocated by the state legislature to support this lending (as well as support our fully-amortized lending). Unfortunately, money has run out and, earlier this year, we were forced to stop serving those Oregonians that face the most-significant financial hardships.

**Continuing to serve those Oregonians that are most in-need through June 2021 is why Craft3 strongly supports an appropriation of \$2 million in additional grant capital during the upcoming short session. We are joined in our support by a diverse mix of organizations, including municipal and county governments, conservation and natural resource communities, and housing advocates.**

An appropriation of \$2 million in additional grant capital will solve half of the funding shortfall. We hope that the other half can be met with the state's Clean Water Revolving Loan Fund (CWSRF), which is partially capitalized by the federal government. The CWSRF offers low-interest, long-term loans for water projects, and the program has capital available to lend.

DEQ is currently undertaking a rulemaking that would open this resource, as it is open in Washington State, to help fund the Clean Water Loan program. Access to the CWSRF would allow Craft3 to borrow long-term, low-interest capital to complement the capital that is allocated by the state legislature. But to be clear: CWSRF loan dollars *alone* are not a solution that would allow Craft3 to offer partially- or fully-deferred lending to lower-income Oregonians. That is why an appropriation during the short session is so important.

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I should also note that, when we first began administering this loan program, we were able to leverage state funds and attract \$450,000 in capital from philanthropy. We also recently received an additional \$200,000 grant from the federal government – a total of \$650,000 in philanthropic and federal leverage. Foundation priorities are always shifting, though. Long-term, we do not believe that the program can anticipate significant funding from these sources.

## **MOVING FORWARD**

Our long-term vision is to have this program operate as a revolving loan fund that requires limited, if any, ongoing public investment and re-capitalizes itself for as long as loans are repaid. Due to the length of loan terms, though, we are many years from realizing that goal.

**To continue offering partially- and fully-deferred loans to lower-income Oregonians over the next ten years, we believe that the Clean Water Loan program will require up to \$9 million in grant funding. (This amount includes the \$2 million appropriation that you will consider during the short session.)**

We've based this estimate on an analysis of our current portfolio, the market, and our experience in Washington, where we've made nearly \$30 million in Clean Water Loans with funds from state grants and that state's Clean Water Revolving Loan Fund. As I mentioned earlier, if those grants are appropriated by the legislature, we would hope to complement them with long-term, low-interest Clean Water State Revolving Fund loans from DEQ.

**Together, those grants and loans should allow us to provide financial assistance to over 800 Oregon households seeking to repair their septic systems between now and 2030.**

Lastly, I should note that Craft3 does not receive any operating dollars from the state for this program. We use every appropriated grant dollar as loan capital for in-need borrowers.

Without new grant capital in 2020, we can continue offering our fully-amortizing product, hopefully capitalized by the Clean Water State Revolving Loan Fund. But we will be unable to re-start our partially- and fully-deferred lending, which supports Oregonians with the most-limited financial means. We can't cover our costs on those loans, and so it would be irresponsible for my nonprofit to re-start offering them.

That is why, earlier this year, we supported a proposal – similar to the legislative concept currently submitted by this Committee for drafting – to appropriate \$2 million in additional grant dollars. While the bill passed out of the Senate Committee on Environment and Natural Resources, it was never heard in Ways and Means.

**In the 2020 session, I strongly encourage you to revive the \$2 million grant proposed by LC34 and move it forward expeditiously towards passage.** That appropriation will build on our momentum, allow us to re-start partially- and fully-deferred lending, and ensure help for the Oregonians that need it most.

In closing, I thank you for your time, and want to reiterate that we are proud to be your, and the state's, partner in supporting rural housing stability, improving water quality, and reducing threats to public health.

I am happy to answer any questions.

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