

Testimony of Adam Zimmerman, President and CEO, Craft3

Before the Oregon State Legislature, Senate Committee on Environment and Natural Resources

Regarding the Performance of the Oregon Affordable Septic Loan Program

December 7, 2020

Thank you for inviting me to testify before you today. My name is Adam Zimmerman, and I am President and CEO of Craft3, 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 do not qualify for traditional financing. We have offices throughout the Pacific Northwest, including Oregon offices in Astoria, Portland, Bend, and Klamath Falls.

The primary purpose of my testimony is to provide you with a summary report on the performance of Oregon’s affordable loan program to help families replace failed septic systems (Program). As we reported to you in June, due to the lack of continued financial support from the State, in July we were forced to make the difficult decision to suspend the Program. This means that, during these uncertain times, many Oregon families no-longer have access to affordable financing to replace a failing or failed septic system. The reality is that this increases the risk that those families will lose their home, inadvertently contaminate waterways and/or risk public health, or be forced to make unsustainable financial decisions.

Oregon’s Affordable Septic Loan Program: A Successful Model

Over the course¹ of the Program, Craft3 has successfully:

- Served 186 families, which live in 104 cities and 28 counties throughout Oregon.
- Closed loans valued at over \$3.6 million.
- Approved an additional \$1.4 million in loans that never closed. This is the case for a variety of reasons, including changing financial circumstances, project scopes, or the simple fact that a borrower may change their mind on moving forward with a project.
- Matched the state’s \$1.68 million investment (via a grant from DEQ) with an additional \$2 million of philanthropic and Craft3 capital.
- Operated the program without requiring ongoing administrative support from the State.
- Reached low-income families that have, historically, struggled to access capital for septic replacement projects. One-third of families served fall below 80 percent of the area median income (AMI) and most of our other borrowers would not have been able to obtain a conventional loan.
- Managed our portfolio and, to date, only two loans have been charged off. Under the model we have established with DEQ, Craft3 absorbs those losses with our existing company Loan Loss Reserve.
- Eliminated 24 million gallons per year of untreated wastewater leaching into homes, yards, streams, and groundwater.

The following chart provides you with an easy-to-read Program summary:

Oregon’s Affordable Septic Loan Program

State Award	Philanthropic and Craft3 Match	Total Value of Closed Loans	Average Loan Amount	Number of Loans
\$1,680,500	\$1,952,751	\$3,633,251	\$19,534	186
Low-Income Families Served	Cities	Counties	Wastewater Treated Annually (gallons)	Number of Charge Offs
58 (31%)	104	28	24,000,000	2

¹ September 15, 2016 through September 14, 2020.

While the numbers report a highly successful and valuable program, what motivates my team members are the stories shared by the families they help in a time of crisis. Below are two stories of Oregon families that accessed Oregon's Affordable Septic Loan Program.

When their septic system stopped working, Scio homeowners Charles and Sharon had no idea that getting it repaired would be so complicated. Contractors hired to pump out the system kept digging deeper and deeper on the property, but found that the fiber conduit pipe used to construct the original septic system had simply rotted away.

Then it wasn't clear who could provide services to the homeowners' property, which lays within 300 feet of the city sewer lines, but outside the city's planned expansion plans. While the jurisdiction question remained in the air, Charles was searching on the internet and asking neighbors who'd had septic repairs for recommendations, without much luck.

Finally, a referral from a county employee pointed Charles and Sharon to Craft3 and the Clean Water Loan. A Craft3 lender worked with them and contractor, making sure the homeowners understood the process of securing the loan and installing a new system. Although the install was delayed because of a wet spring, Charles and Sharon now have a new septic system and peace of mind.

Floridalma has lived in her East Portland home for 13 years. She shares it with her son Anthony, his fiancé Shawna and their three children. The family loves their quiet neighborhood and surrounding natural wildlife.

They first found out there was a problem when the plumbing started backing up. Shawna arranged to have the septic pumped and thought it would be fixed. But it wasn't.

She wasn't sure how to proceed. They were in the middle of foreclosure and a loan modification. It didn't make sense to invest in a new septic system if they had to move. So they figured out a temporary fix, but knew it would only last so long. The mortgage came through just as the septic tank collapsed and left a sinkhole in the backyard.

Shawna contacted a local septic professional and received an estimate for replacement, about \$19,000. A web search revealed a few options. They could take out a second mortgage, but payments would have been about \$500 per month—more than they could afford. Then she found Craft3.

Knowing how important running water and flushing toilets are to a family of six, Craft3 worked quickly to get loan documents signed and the contractor replacing the septic.

The Pursuit of Sustained Funding

When we launched this program in late 2016, our goal was to create a program that relied upon loan repayments to serve future customers – a true revolving loan program. But affordable interest rates and 15-year repayment terms mean that our capital must be very patient – a loan issued in 2020 will not be fully repaid until 2035. We knew we needed to find a long-term, sustainable model to provide capital while we waited for the revolving fund to grow.

In 2019, working with this Committee we developed a long-term funding strategy that combined state grant dollars with long-term, low-cost capital acquired by borrowing from Oregon's Clean Water Revolving Loan Fund

(SRF). During that session, led by your efforts, the legislature passed, and Governor Brown signed legislation that enables the Program administrator to apply for SRF funds, which are administered by DEQ.

Earlier this fall, DEQ promulgated draft rules for comment. Unfortunately, we believe that the rules (as currently proposed) make the fund nearly impossible to access for any eligible community development financial institution. I shared this feedback during a public hearing on November 17th. I sincerely hope that the advice of Craft3 and our industry partners is heeded by DEQ so that this resource can be brought to bear to serve Oregon families.

As a reminder, in November 2019, in testimony before the House Committee on Water, I explained the importance of *both* long-term, low interest capital (as DEQ is currently considering through the SRF program) and grants to sustain the Program and provided flexible term loans to low income families. During the 2020 session, the Water Committee introduced and unanimously passed a bill to fund the program with the grant dollars necessary to enable us to continue serving Oregonians. Before the session ended prematurely, we had gathered 58 signatures from both Republicans and Democrats, in both the House and Senate. Unfortunately, the bill did not move through Joint Committee on Ways and Means as we had hoped. Given these circumstances, and the lack of access to either the SRF funds or grant support from the State, this spring, we were forced to suspend the Program. Craft3 can be creative and thoughtful in its partnerships; it cannot, however, operate partnerships at a loss (which is what, without public support, we were doing).

The Critical Need to Re-Start Oregon's Affordable Septic Loan Program

It is important to appreciate just how critical this Program is to your constituents. Before it was created, Oregonians had no real alternatives to pay the \$20,000 to \$35,000 it takes to replace a failed septic system. Especially in rural areas and lower-income communities, septic systems are the only practical way to manage and treat wastewater.

Failing septic systems leak raw sewage into homes and yards, local waterways and groundwater, causing a host of public health and water quality problems. DEQ reports that failing septic systems are known contributors to contamination of aquifers used for drinking water (Lower Umatilla basin), lakes and rivers used for recreation and habitat (Deschutes, Coos County), and marine waters used for recreation and shellfish production (Oregon coast).

Additionally, this is a time of great economic uncertainty. Many lower-income and rural families are shouldering a greater burden during the COVID-19 crisis than those more fortunate – and this is happening at a time when credit is more-uncertain and costly. To illustrate, we received more applications for Clean Water Loans in the first six months of 2020 than we did in all of 2019. Whether an increase in Program demand is due to the economic consequences of the pandemic or other factors is uncertain. What we do know is that, when people stay at home, they use their bathrooms much more often. We know that low-income families and people of color have been disproportionately hurt by the pandemic. We also know that traditional banks have largely stopped offering home equity loans, eliminating the path often taken when septic systems fail. Savings are depleted due to unemployment and, for many, the prospect of working with a conventional lender to pay for a septic system replacement is gone.

While this is a time of many competing priorities, I implore you to work together to find a way to secure the funding necessary in the upcoming session to re-start Oregon's Affordable Septic Loan Program. It is an example of the kind of partnership between government and non-government organizations that provides excellent service to all Oregonians, helps maintain naturally occurring affordable housing, saves the state money, and provides immense public health and environmental benefits. But we cannot re-start this Program alone; we need your help and continued support to enable us to access the capital we need to make the Program work. As the economic impact of COVID-19 continues to disproportionately impact our low-income families, ensuring people are able to affordably replace a failed septic system, remain in their homes, and live healthy and productive lives, is more

important now than ever before. Oregon's Affordable Septic Loan Program to help families replace failed septic systems can be one of the tools Oregonians use to get through the pandemic.

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