



**Submitted testimony of
Adam Zimmerman, President and CEO
Craft3**

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

**Regarding
HB 4070, relating to on-site septic system financing**

February 4, 2020

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 and aging manufactured homes. Working from eight regional offices throughout the Pacific Northwest – with four in Oregon – Craft3 has invested more than \$500 million in people and their communities since we were founded in 1994.

I am here today to support HB 4070, which would continue funding for the Oregon Clean Water Loan program, which helps families repair failed septic systems or connect to sewer. I'm proud to report that, since its creation, 153 Oregon households have invested nearly \$3 million through Clean Water Loans. Those investments have many benefits. They support the treatment of over 19 million gallons of wastewater annually, an important contribution to the State's effort to promote a clean water supply. Equally important to us, those dollars support rural housing stability, provide business to local contractors, 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 AND OPERATIONS

According to the Oregon Department of Environmental Quality (DEQ), over 450,000 Oregonians use septic systems to manage wastewater. As many as ten percent – 45,000 systems – fail each year, and not all homeowners have the financial resources to make needed repairs. Depending on the circumstances, replacing a septic system or connecting to new sewer lines can cost more than \$20,000.

Recognizing this, in 2016 the Oregon legislature 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 DEQ and, in 2017, Craft3 was awarded the opportunity to administer the program and make Clean Water Loans statewide.

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, private and philanthropic capital sources to deliver the greatest possible benefit to Oregonians. Modeled after a program in place for over ten years in Washington, our septic loan program is a nationally recognized model and partnership.

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Here's how it works in Oregon. After being referred by a contractor, neighbor, 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. An overview of our performance thus-far is included below.

<p style="text-align: center;">Clean Water Loans <i>Program start through 12/31/19</i></p> <p style="text-align: center;">153 loans to families \$2,983,701 invested 19,159,500 gallons of wastewater treated annually 28% of borrowers are low-income Loans have been made in 83 cities and 27 counties 1% charge-off rate</p>

CAPITAL NEED

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

Our Clean Water Loan is structured to work for as many different family situations as possible. For borrowers that meet certain income thresholds, payments have the potential to be partially- or fully-deferred. Our ability to offer those 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. Until 2019, we had used previous grant dollars allocated by the state legislature to support this lending (as well as support our fully amortized lending). Unfortunately, when the money ran out last year, after conferring with DEQ we realized that we could no longer continue to offer the deferred principal and/or interest loans.

Continuing to serve those Oregonians that are most in-need through June 2021 is why Craft3 strongly supports HB 4070, which provides the grant dollars necessary for us to re-start partially- and fully-deferred lending. We are joined in our support by a diverse mix of organizations, including municipal and county governments, conservation and natural resource communities, Realtors, and housing advocates.

An appropriation of \$2 million in additional grant capital will solve half of the funding shortfall. We are optimistic that the other half can be met by borrowing from 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 program. Access to the CWSRF would allow Craft3 to borrow long-term, low-

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interest funds to complement the capital allocated by the state legislature. To be clear, to provide CWSRF loan dollars alone is not a solution that would allow Craft3 to offer partially-or-fully deferred lending to lower-income Oregonians. That is why an appropriation now is so important.

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 received, last year, a \$200,000 grant from the federal government – a total of \$650,000 in philanthropic and federal leverage. Foundation priorities are always shifting, and we do not believe that the program can anticipate significant funding from these sources going forward.

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.

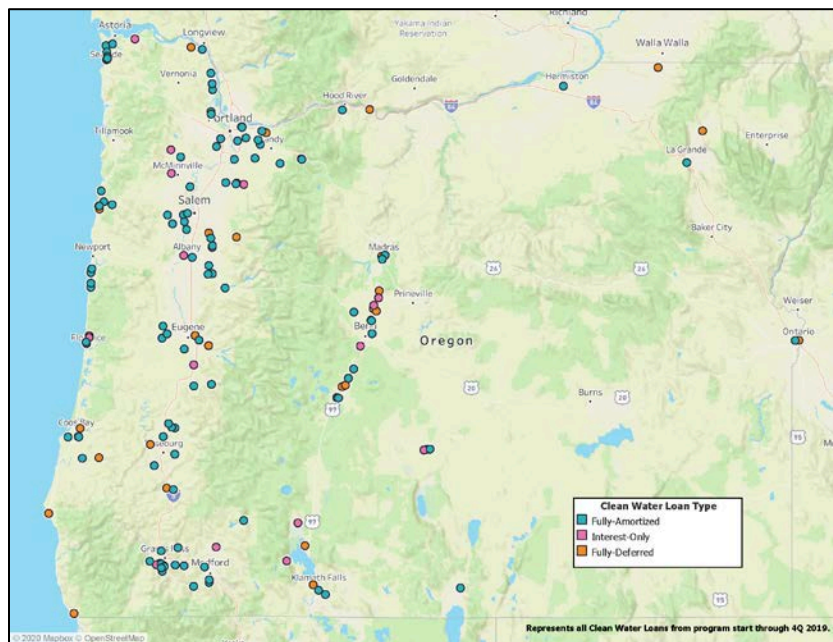
LOOKING TOWARD THE FUTURE

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-capitalize itself for as long as loans are repaid. Due to the length of loan terms, we are many years from realizing that goal.

Our fully amortized loans are competitively priced, and we work closely with homeowners to make sure the loan is designed to meet their needs. With a new grant of \$2 million provided by HB 4070, we can again offer our partially- and fully-deferred loans that help the Oregonians that need it the most through the end of the biennium.

Thank you for your time today and I am happy to answer any questions.

MAP OF CLEAN WATER LOANS



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