FUNDING ONSITE SEWAGE SYSTEM REPAIRS
A PROVEN APPROACH

NOWRA MEGA-CONFERENCE, OCTOBER 15, 2019

Terry Hull, Craft3
TODAY’S TOPICS

Failures and Obstacles
Craft3 & Clean Water Loan
Program Evolution
Performance Results
Lessons Learned & Best Practices
IMPORTANCE OF WATER QUALITY
FAILURES & OBSTACLES

Failing septic systems contaminate surface and groundwater with bacteria, nitrogen compounds, pharmaceutical and other products harmful to people, water areas.

Failures:
• State and National estimates number of onsite system failures

Obstacles:
• Owners fearful, lack knowledge and money
• Regulators reluctant to enforce
• Elected officials aversion to covering loan defaults
• Contractors need assurance of payment
• Discrepancy in Federal funds available for onsite systems vs sewer
CRAFT3, A LENDER THAT THINKS DIFFERENTLY

- Invested over $525 million to strengthen jobs, families and the environment
- Loans are available in the urban and rural communities of Oregon and Washington
- Capital from over 100 public/private grants and loans, including from banks, foundations, governments and individuals
SIMPLE PROCESS

1. Customer applies online
2. Craft3 provides pre-approval
3. Contractor works with homeowner on design and permitting
4. Loan documents signed electronically
5. Contractor receives deposit
6. Project completed to customer satisfaction
7. Contractor submits final invoice and county approval for payment
8. Loan payments, if required, made by automatic withdrawal
Onsite sewage system professionals and health agency partners are Craft3’s primary source of loan referrals.

Tools available to Contractors and Partners

- Brochures
- Photography
- Testimonials and quotes
- Partner and borrower stories
- Content for
  - Website
  - Brochure
  - Advertisement
  - Social media
  - Newsletter
CORE PROGRAM COMPONENTS

• Extensive stakeholder engagement
• Tailored loan product and workflow
• Reduced Bureaucracy: borrowers, industry, health agencies
• Robust program guidelines
• Forum for cross-collaboration
PROGRAM EVOLUTION

- 2003 Pacific County Shellfish 1A Priority
- 2007 Hood Canal
- 2011 Clallam Dungeness Bay Clean Water District
- 2012 Clallam County
- 2013 King County Quartermaster Harbor Marine Recovery Area
- 2014 Pierce County
- 2016 Oregon Statewide and Washington RLP
- 2017 RLP adds Island County
- 2018 RLP adds Clark, Cowlitz County

*September 2019 RLP adds Benton, Ferry, Franklin, Okanogan, Pend Oreille, Skagit, Stevens County
“It has been an incredible burden lifted off me to know that so many more of our citizens in need are being helped with their septic repairs.”

Island County Environmental Health
GROWTH FUELED BY NEW PARTNERS AND CAPITAL

- RLP adds Franklin, Benton, Ferry, Stevens, Pend Oreille, Okanogan, Skagit Counties
- RLP adds Clark & Cowlitz Counties
- RLP adds Island County
- Oregon Statewide Regional Loan Program
- Washington Regional Loan Program (RLP)
- Pierce County
- King County Quartermaster Harbor Marine Recovery Area
- Clallam County
- Clallam Dungeness Bay Clean Water District
- Hood Canal
- Pacific County Shellfish 1A Priority
CURRENT SERVICE AREA

Washington

Oregon
“I was in a critical situation that left me in a financial bind, then you stepped in. Having the opportunity to work with Craft3 didn’t just save me financially, it’s given me peace of mind. My home is safe and secure, that wouldn’t have happened without the Clean Water Loan. It is greatly appreciated.”

Chris P., Whatcom County Homeowner

PROGRAM RESULTS

2003 THROUGH Q2 2019

- 1,481 projects totaling $33.6 million completed
- 40% to low-income homeowners
- 194 million gallons of wastewater treated annually
- 3-year rolling losses < 1%
LESIONS LEARNED

WHY THE PROGRAM WORKS

• Addresses fear - a deterrent to remediation
• Loan structure meets constituent needs
• Capital sources enable low rates, deferred repayment
• Bureaucracy eliminated for most stakeholders
• More approvals than public agency or bank/credit union
• Fixing systems before regulatory involvement is cost effective, reduces health agency burden
• Creativity and dedication of partners, champions
LESSONS LEARNED

PROGRAM DESIGN

BEST PRACTICES

- Understands needs of diverse stakeholders
  meet needs, build trust, cultivate champions

- Serve a large geographic area

- Loan product
  cover project components, range of income and property types

- Low-cost, patient capital
  enable inclusive and flexible lending approached

- Marketing
  through industry professionals and pollution identification collection programs
“The biggest benefit of the Clean Water Loan is that it is affordable: the rate, payments and payback. We love that a portion of our loan also covers future maintenance costs. It is nice to know that the money is already set aside.”

Floridalma T., Multnomah County Homeowner
THANK YOU

THull@Craft3.org

www.Craft3.org/CleanWater
WATER QUALITY ISSUES

Puget Sound/Marine Waters
- Over 2,000 listings for bacteria
- 19% of shellfish growing beds closed due to fecal coliform bacteria
- 15% of marine swimming beaches did not meet the swimming criteria over the past 10 years

Onsite Sewage Systems
- 1.6 million in Oregon and Washington
- 600,000 in Puget Sound
- EPA estimate that 10% failing
# CLEAN WATER LOAN RATES AND TERM

<table>
<thead>
<tr>
<th>Annual Household Income</th>
<th>Interest Rate</th>
<th>Term Options</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $25,000 owner-occupied</td>
<td>2.49% (2.33% APR)</td>
<td>Deferred payment*&lt;br&gt;Interest-only payments**&lt;br&gt;Fully-Amortized payments</td>
<td>Deferred Payment Option:&lt;br&gt;$24,000 loan amount,&lt;br&gt;No monthly payments for 179 months,&lt;br&gt;Balloon payment of $33,873.10 due on 180th month based on 2.33% APR.</td>
</tr>
<tr>
<td>Up to $45,000 owner-occupied</td>
<td>4.49% (4.75% APR)</td>
<td>Interest-only payments**&lt;br&gt;Fully-Amortized payments</td>
<td>Interest-only Payment Option:&lt;br&gt;$24,000 loan amount,&lt;br&gt;$94.17 interest payment for 179 months,&lt;br&gt;Balloon payment of $24,094.17 due on 180th month based on 4.75% APR.</td>
</tr>
<tr>
<td>Greater than $45,000 or on-owner-occupied, secondary home</td>
<td>5.49% (5.93% APR)</td>
<td>Fully-Amortized payments</td>
<td>Fully-Amortized Repayment:&lt;br&gt;$24,000 loan amount&lt;br&gt;$201.70 for 180 months at 5.93% APR.</td>
</tr>
</tbody>
</table>

APR, Annual Percentage Rate. Loan availability, terms and conditions current as of 01/01/19 and are subject to change. Visit our website for latest terms and rates. Examples include financing of Craft3 $695 loan fee. All loan applications are subject to credit, property and project approval. Maximum loan amount and Loan to Value apply and are subject to equity value and underwriting requirements for all programs. Loans are secured by a UCC-1A filing recorded with the county. Subordination may be available with lender approval, fee may apply. Principal balance and interest (if applicable) is due on sale, transfer, refinance or maturity. Craft3 is an equal opportunity lender, provider and employer. NMLS ID 390159

*Deferred Repayment option maximum loan amount is $35,000 and maximum loan-to-value is 80%.
**Interest-only Repayment option maximum loan amount is $45,000 and maximum loan-to-value is 100%.
## INCLUSIVE APPROACH TO CREDIT

<table>
<thead>
<tr>
<th></th>
<th>Craft3*</th>
<th>Typical Lender</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Maximum Debt to Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of income for monthly fixed expenses</td>
<td>&gt;50%</td>
<td>45%</td>
</tr>
<tr>
<td><strong>Maximum Loan to Value (Equity)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount owed compared to value of home</td>
<td>≥120%</td>
<td>75-80%, some up to 90%</td>
</tr>
<tr>
<td><strong>Minimum Credit Score</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Craft3 uses highest score, not lowest or average</td>
<td>590</td>
<td>680 or 720, some 660</td>
</tr>
<tr>
<td><strong>Mortgage Payment History</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Up to 2 late payments in last 12 months</td>
<td></td>
<td>No late payments in last 24+ months</td>
</tr>
<tr>
<td><strong>Allowable Bankruptcy History</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ok if discharged/dismissed 12+ months</td>
<td></td>
<td>None in last 5-7 years, if ever</td>
</tr>
</tbody>
</table>

* General Guidelines may not represent all lenders. Craft3 may issue different credit determinations on a case-by-case basis after review of each application.
Income
• No income restrictions

Property Types
• Residential and commercial properties
• Owner- or non-owner occupied, includes second homes and rentals

Geography
• Oregon: Statewide
• Washington: Benton, Clallam, Ferry, Franklin, Grays Harbor, Island, Jefferson, King, Kitsap, Mason, Okanogan, Pacific, Pend Oreille, Pierce, Skagit, Snohomish, Stevens, Thurston, Wahkiakum, Whatcom

One of the following must apply:
• Septic system is at least 25 years old
• Septic system is failing
• Owner contacted by health officials
• Owner under orders to fix system
INELIGIBLE PROJECTS

- Temporary projects (e.g. jetting, terra lifting)
- Expansions beyond one-bedroom
- New construction
- Non-permitted projects
- Repairs to existing sewer connections (e.g. side sewer)
- Non-permanent structures/residences*
- DIY projects not completed by agency-approved contractors

*Exceptions can be considered on a case-by-case basis, upon consultation with the local health agency
## PARTNER ROLES IN WASHINGTON STATE

<table>
<thead>
<tr>
<th>State Agencies, Legislature</th>
<th>Craft3</th>
<th>Local Health Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>Matching capital</td>
<td>Design approval</td>
</tr>
<tr>
<td>Program guidelines</td>
<td>Lending and servicing</td>
<td>Permitting</td>
</tr>
<tr>
<td></td>
<td>Outreach and marketing</td>
<td>Regulation and enforcement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PIC and outreach</td>
</tr>
<tr>
<td>Approved OSS Professionals</td>
<td>Property Owner</td>
<td>Other Partners</td>
</tr>
<tr>
<td>Loan brochures to client</td>
<td>Pick and manage contractor</td>
<td>Educators</td>
</tr>
<tr>
<td>Recommendations to customer</td>
<td>Obtain permits and project approvals</td>
<td>Water quality agencies</td>
</tr>
<tr>
<td>Complete design and installation</td>
<td>Authorize disbursements</td>
<td>Community groups</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Regional organizations</td>
</tr>
</tbody>
</table>
DETAILED STEPS

1. **LOAN APPLICATION**
   Apply at [www.Craft3.org/CleanWaterWash](http://www.Craft3.org/CleanWaterWash). Craft3 is available to answer questions and help with the application process. Paper applications are available upon request.

2. **REVIEW & DECISION**
   Review application. Communicate credit decision to customer and contractor via e-mail within three business days. In some cases, additional information may be required to make a credit decision.

3. **PROJECT**
   1. Provide Designer invoice if loan funds are needed upfront to pay for design, or
   2. Provide permit approved by county, and the bid from septic installer.

4. **LOAN DOCUMENTS**
   - **Craft3**: Prepare loan documents and send to customer via DocuSign.
   - **Customer**: Sign electronically via DocuSign. Paper documents available upon request.
DETAILED STEPS

5 DEPOSIT TO CONTRACTOR
Notify contractor when loan documents are signed. Initial disbursements made to contractor.

6 PERFORM WORK
1. Designers: Create design and submit to county for approval.*
2. Installers: Repair or replace septic according to approved design and project proposal.
*Customers: If Craft3 provided an advance to pay for the design, you will need to submit a bid from a septic installer upon approval of the permit. Send installer bid to CleanWater@Craft3.org. Once received, Craft3 will send a deposit to the installer.

7 FINAL INVOICE
Submit customer signed invoice and health agency approval (i.e. ROC, COC, As Built) to CleanWater@Craft3.org to receive final payment.

8 FINAL PAYMENT
Disburse the remaining loan balance to the contractor.