



craft3

**Annual
Investor
Report 2023**

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A Note from the Chief Development Officer

Whenever I describe Craft3's work, I find it useful to talk about both quantitative and qualitative information – the numbers and stories that allow us to demonstrate our financial health and impact. As always, you'll find both in this year's Annual Investor Report.

2023 was a great year by the numbers. We had record setting lending for both Commercial and Consumer and we made many impactful loans to diverse borrowers, underserved entrepreneurs, and essential community service providers. These loans supported robust mission-focused outputs and outcomes. As you will see, our balance sheet and income statement also show strong operating results.

2023 was the first year of our new strategic plan — [Capital, Relationships, and Voice: Investing in Communities and Change](#) — which guides our work and ensures that our lending makes a difference not just to our individual borrowers, but when it comes to fostering systems change across the Pacific Northwest.

We're focusing on three regional challenges — Systemic Racism, the Climate Crisis, and Rural and Tribal Economies — that, if unaddressed, threaten to hold our region back. To address these challenges, we're targeting our investments in the following areas: Small Business Assets and Growth; Housing; Essential Community Services; and Community Climate Adaptation.

In addition to providing an overview of the year's lending, we're sharing a handful of customer stories. There's a story behind each and every loan and these stories connect the individual significance of financing with the portfolio level outputs and outcomes.

We're always looking to build a stronger and more diverse community of supporters, partners and funders. Please share this report with your network. We appreciate your help!

I always enjoy and welcome hearing from you, whether it's to ask a question, offer an idea, or connect about a possible way we might engage more deeply. Thank you for your interest, your partnership, and your support. Be well!



Maggie Kirby Weiland
Chief Development Officer
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Lending and Outcomes 2023 At a Glance

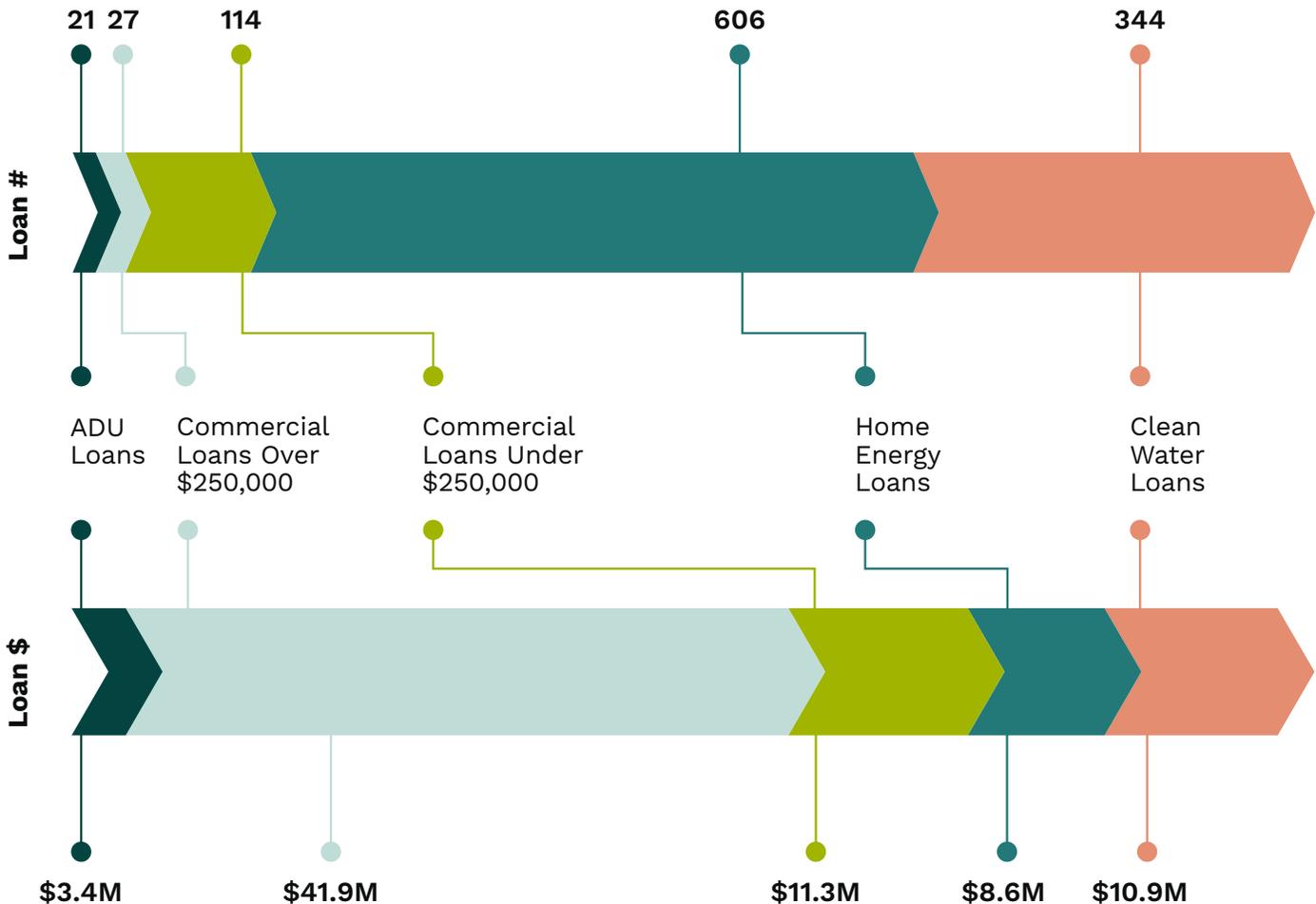
During 2023, Craft3 originated 1,114 loans totaling \$76.2 million. This is a 41 percent increase by number and 34 percent increase in dollars over 2022.

In 2023, we lent \$53.2 million, or 70 percent of this capital, to 141 businesses and nonprofit organizations across Oregon and Washington, of which 37 (26 percent) were start-ups and 114 (81 percent) were entrepreneurs of color-, women-, immigrant-, and veteran-owned businesses. These loans supported the creation or retention of 1,304 jobs, the preservation and creation of more than 90,000 community facility service slots, assistance for more than 140,000 low-income families,

strengthened nearly \$136 million in locally owned assets, and leveraged almost \$109 million in third-party investment.

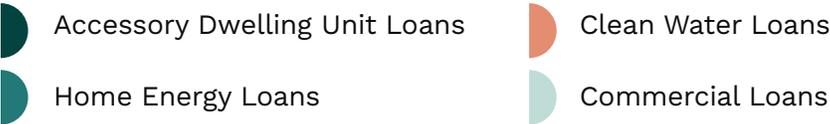
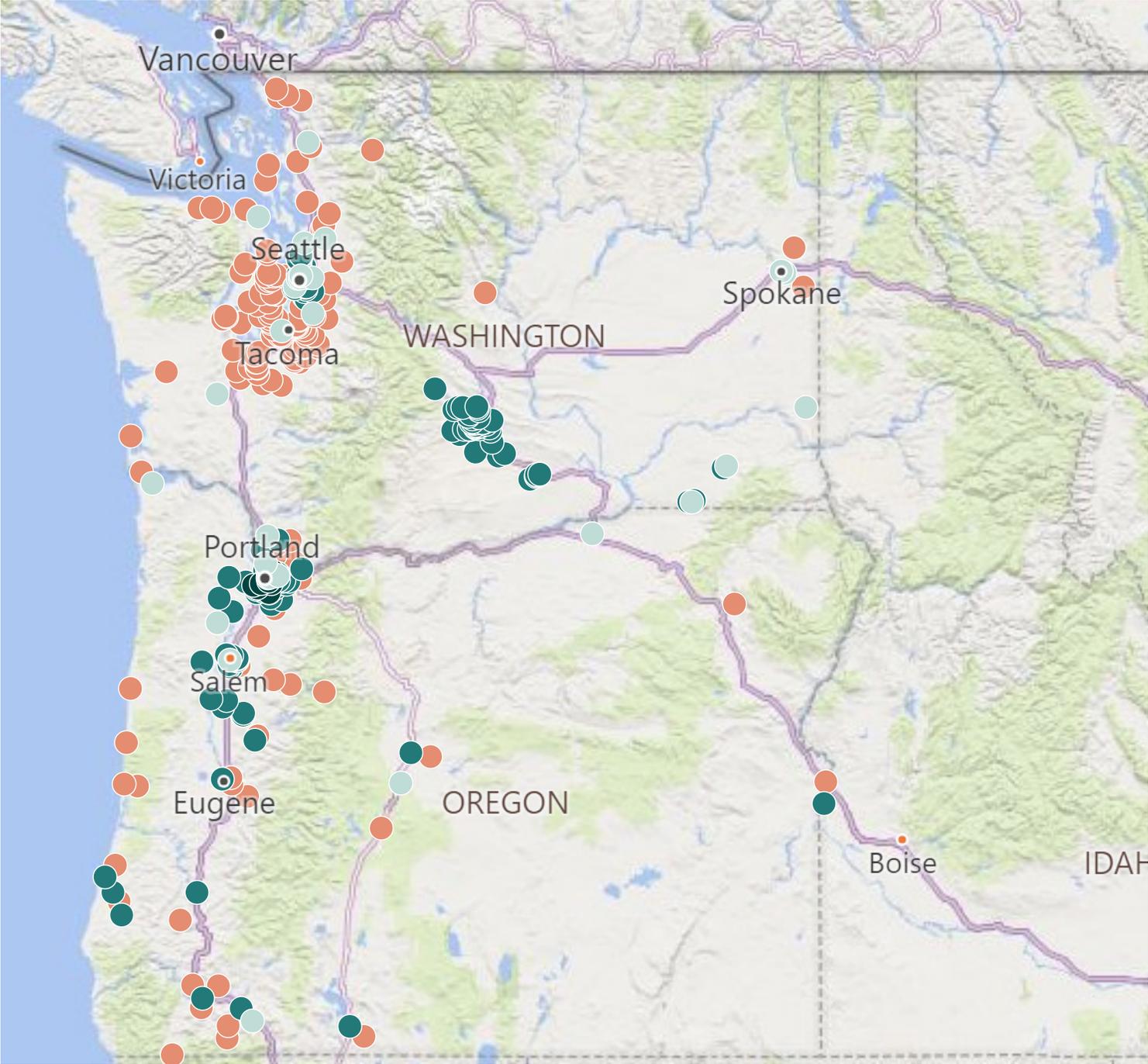
We originated 973 loans to consumer borrowers, providing \$23.1 million in capital to homeowners across the region to repair or replace septic systems, install energy efficiency measures, or build accessory dwelling units. These loans supported 267 low-income families (27 percent) and other moderate income or low-wealth borrowers, strengthened nearly \$414 million in locally owned real estate assets, averted 2,030 metric tons of greenhouse gas emissions, and treated over 47.5 million gallons of wastewater.

NOTE: The graphics below do not include 2023's 2 Manufactured Housing Replacement Loans so the totals are slightly different than what is listed above.



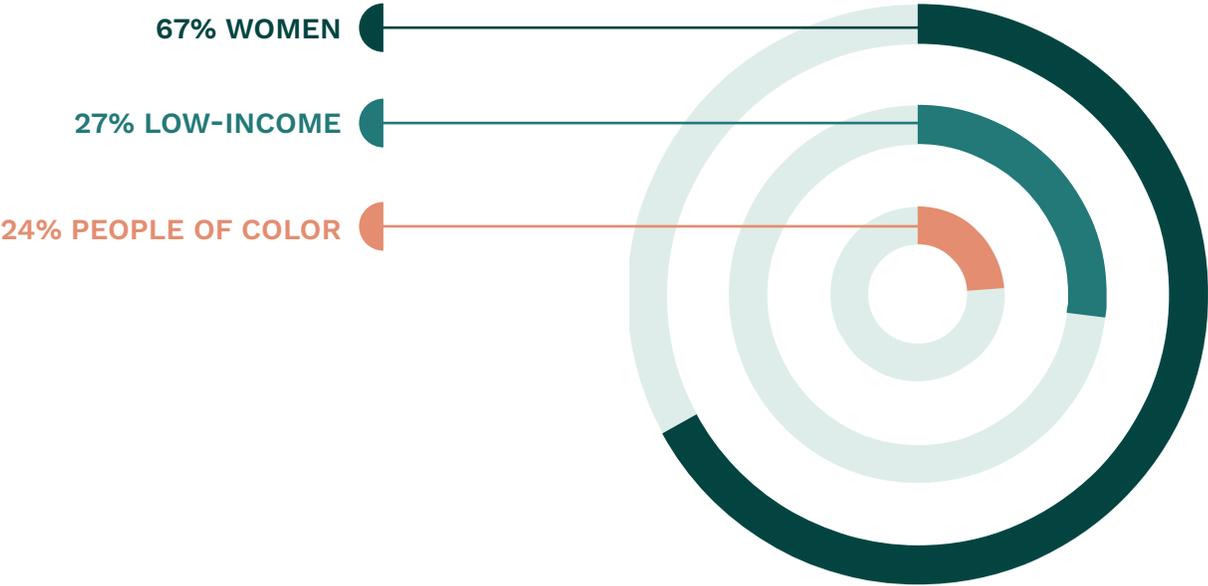
Lending and Outcomes

2023 Production Map

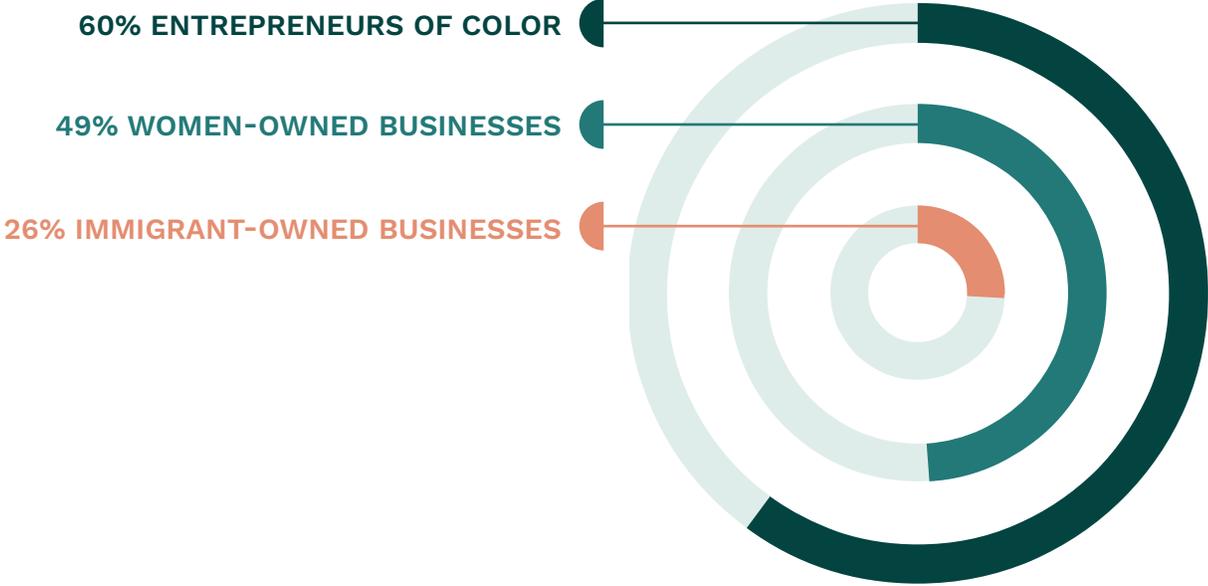


Lending and Outcomes

In 2023, Craft3 made \$23.1 million in loans to homeowners. Here's where those dollars went:



In 2023, Craft3 made \$53.2 million in commercial loans. Here's where those dollars went:



Lending and Outcomes

IN 2023, CRAFT3'S COMMERCIAL AND CONSUMER LENDING SUPPORTED THE FOLLOWING OUTPUTS AND OUTCOMES.



37 start-ups
financed



1,304 jobs created
and retained



\$110.5M third-party
investment leveraged



47.5 million gallons of
wastewater treated



90,217 community facility
service slots supported



142,733 low-income
households assisted



2,391 acres of working
landscapes and conservation
lands conserved



2,454 metric tons
of greenhouse gas
emissions averted



\$545 million
in locally-owned
assets strengthened



114 entrepreneurs of color
and woman-, immigrant-
and veteran-owned
businesses assisted

Making a Difference

CRAFT3 PROVIDES ACCESSIBLE CAPITAL TO ENTREPRENEURS AND COMMUNITY LEADERS.



COR DISPOSAL & RECYCLING

Portland, Oregon

COR Disposal & Recycling is a Black-owned family business and the only certified B-Corporation waste company in the United States with a mission to divert waste from landfills. In 2023, they approached Craft3 to finance the final stage of construction on a recycling and waste transfer station in Portland, OR. The project was nearly complete, but it was jeopardized by permitting delays, inflation, supply challenges, and increased fuel costs. A \$500,000 construction loan enabled them to complete property improvements and open their new facility.

Alonzo Simpson founded COR 27 years ago after working in the waste industry for a decade and witnessing its lack of diversity. A previous Craft3 loan helped COR grow their business. Alonzo has been training and working with his sons, Alando and AJ, since 2010, preparing them to take over the business. Alando is the Chair of the Portland Business Alliance and Chair of the Black Business Association of Oregon. AJ has a degree in accounting and as the COO he oversees financial planning and analytics.



THE NORTHWEST SCHOOL OF WOODEN BOATBUILDING

Port Hadlock, Washington

The Northwest School of Wooden Boatbuilding came to Craft3 seeking financing to install solar on their classroom buildings and join the clean energy transition. The financing covered the installation of two grid-tied solar photovoltaic (PV) systems totaling 80kW. The system will produce 88,000 kWh in year one, offsetting their entire usage and saving the school about \$10,000 per year.

The school attracts students from around the world and was a 2024 Center of Excellence for Domestic Maritime Workforce Training and Education (CoE) designee by the U.S. Department of Transportation, Maritime Administration. Two prior loans from Craft3 helped the school create a Marine Systems program and improve shops and classrooms at its now 8-acre campus, both of which help students gain valuable workforce skills.



LAKEVIEW REDI-MIX

Lakeview, Oregon

In highly rural Lake County, Oregon, Lakeview Redi-Mix was the only concrete supplier within 90 miles. It had been in business for 75 years, but the current owners were looking to sell. If the company went out of business, a wide range of construction projects in central southern Oregon would become more expensive, more difficult, or simply infeasible.

A Craft3 loan helped new owners acquire the business and provided additional working capital. Lake County is vast (8,358 square miles), sparsely populated (around 8,300 people) and it's a high poverty area. This loan retained 5 living wage jobs and is projected to create 1-2 more living wage jobs. It has also supported construction projects across the county.

“We are so happy that we were able to continue on with the Redi-Mix plant. This wouldn't have been possible without Craft3. Had we not been able to get this loan, the residents and contractors of Lakeview would have had to have concrete delivered from over 2 to 3 hours away from Lakeview, as the previous owners were going to piece out the plant and retire. This loan meant everything to Lakeview.” – Mark and Kristen Wells



HAPPY FEET ACADEMY

Ellensburg, Washington

A Craft3 early care and education facilities loan along with significant public investments enabled Happy Feet Academy to expand into a second licensed child care center planned to open in late 2024, creating an estimated 112 additional child care slots. Like much of the Pacific Northwest, Ellensburg, WA, a small town in the Kittitas Valley, is considered a “child care desert:” an area “where there are more than three children for every child care slot” (Mapping America's Child Care Deserts. Center for American Progress, 2017).

Happy Feet Academy serves low-to moderate income families and accepts subsidized tuition through the Working Connections Child Care (WCCC) program. In addition to Craft3's loan, this project leverages \$1.7 million in matching funds from the Washington State Department of Commerce Early Learning Facilities Grant Program.

Making a Difference

CRAFT3 SERVES HOMEOWNERS ACROSS OREGON AND WASHINGTON.



HOME ENERGY LOANS

With 606 Home Energy loans closed, totaling \$8.6 million, 2023 represented a year of significant year-over-year growth, with an increase of 108 percent by number of loans and 132 percent by dollars over 2022 production. While part of this was due to increased power rates levied by utilities and high interest rates available from banks and other regulated lenders, which led to more homeowners staying in their homes and improving them rather than selling, it also shows broad interest in energy efficiency improvements. Climate change is also an important factor as homeowners seek to make their homes more comfortable and efficient in the face of more extreme and uncertain weather.



CLEAN WATER LOANS

Craft3 provides simple and affordable septic financing for homeowners facing urgent and often expensive repairs or replacements. We are always looking for ways to make our financing more accessible to homeowners most in need.

In 2023 Craft3 closed 344 Clean Water loans, totaling \$10.9 million, representing the largest contributor of our Consumer Lending outputs. While only a modest increase over 2022's 318 loans, totaling \$9.6 million, 2023 represents our highest production year in the program's 21-year history. In 2023, we also expanded our Oregon Clean Water companion pass-through grant program. Previously grants had been for individuals affected in the 2020 wildfires. Starting in 2023, grants were available across the state of Oregon for low-income homeowners. This funding has enabled more vulnerable homeowners to carry out essential septic repair or replacement projects. In turn, this helps keep local waters clean and ensures that homeowners can stay in their homes.



PARTNERING WITH CONTRACTORS

Craft3 Home Energy and Clean Water lending depend on the advocacy from and partnerships with contractors. Contractors refer customers in need of financing to Craft3, especially those who are not able to qualify for bank financing. These partnerships help us better serve our customers and get connected to new customers and communities.



509 DUCTLESS

Selah, Washington

509 Ductless is a Latino family-owned business run by Javier and Lorena. Javier founded the company after working for another HVAC contractor; his business has been growing steadily. A native Spanish speaker, Javier is able to serve the growing Latino customer base around Yakima, WA. Javier has worked closely with non-profit organizations to help meet the community's needs. Before 509 Ductless, Lorena worked in the banking industry for 14 years.



HAPPY FACE FARMS

Burlington, Washington

Gary Lohman, owner of Happy Face Farms septic has a big heart and is eager to help his customers even when they need extra help. When Gary contacted Craft3 he had a customer in crisis: an elderly woman unfamiliar with their household finances, with no internet connection, and whose husband was in the hospital. With a very low income, she was eligible for a grant to offset much of the cost of the project. Gary and the Craft3 lender worked closely to make sure her project got funded promptly.

Financial and Portfolio Performance

BALANCE SHEET

Total assets were \$222 million at the end of 2023, representing 22 percent year-over-year (YOY) growth. Net assets, which comprised 37 percent of total assets, grew 16.7 percent in line with overall asset growth, to \$81.8 million. We had another strong year of loan production with total loans outstanding increasing 14.4 percent to \$162.6 million. Both loan portfolios grew during 2023 – moderately for commercial with a 4.5 percent increase in commercial loans outstanding to \$111.7 million and significantly for consumer with a 44.2 percent increase in consumer loans outstanding to \$50.9 million by year-end. The significant increase

in consumer loans was driven to the greatest extent by continued expansion of Clean Water Loans in Washington.

Unrestricted cash and investments were \$51.3 million at FYE. We grew Notes payable 25.2 percent to \$134.1 million to support increased loan production in 2023. Craft3's debt-to-net assets (leverage) ratio increased to 1.71:1 at year-end 2023 (up from 1.53:1 in the prior year) as notes payable increased at a higher rate than the growth of net assets. Still, Craft3's leverage remains conservative and well within management goals and investor covenants.



Financial and Portfolio Performance

Continued

INCOME STATEMENT

We ended 2023 with positive net income of \$11.8 million, which was nearly 2.5 times higher than budgeted, due significantly to the receipt of an unbudgeted \$10 million grant from the State of Oregon to seed a new early care and education facilities finance fund ([Build Up Oregon](#)).

Revenue totaled \$32.5 million in 2023, which exceeded budget by 5.5 percent. While interest income decreased moderately by 14 percent to \$9.4 million in 2023, this decrease can be largely attributed to loan recoveries of \$1.4 million in 2022 which elevated interest income in the year prior. Interest income in 2023 was materially consistent with prior year levels net of loan recoveries. Of this interest income, commercial interest income represented 78 percent of the total at \$7.3 million, which came in at 94 percent of budgeted interest income. Consumer interest totaled \$2.1 million, which was 12 percent over budget due to higher-than-planned Consumer loan originations in 2023. Net interest margins decreased from 6.17 percent in 2022 to 4.68 percent in 2023, primarily driven by loan recovery activity. To a lesser extent, net interest margins also decreased because of slightly lower loan yields due to modest increases in cost of funds and the growth of loan products with lower loan yields, particularly those serving entrepreneurs of color. Consolidated yields decreased from 7.57 percent in 2022 to 6.36 percent in 2023. Grants

and contributions in 2023 totaled \$19.4 million, which was 48 percent over budget due primarily to the unbudgeted \$10 million grant from the State of Oregon mentioned above.

Total expenses were \$20.6 million for the year, which was a nearly 30 percent increase over the previous year, to support investment in organizational infrastructure, personnel, and resumed meeting and conference activity following the height of the Covid-19 pandemic. Craft3 continued to invest in existing personnel and to build organizational capacity through the creation of new positions like an Enterprise Risk Manager, Public Affairs Analyst, and a new Business Services Coach. Despite the YOY increase in total expenses, we still ended the year \$1.1 million or 5.1 percent under budget.

Net interest margins improved from 5.28 percent to 6.17 percent due to the combination of improved yields and reduced cost of funds. Consolidated yields improved from 7.12 percent in 2021 to 7.57 percent in 2022, driven mostly by commercial lending, significantly the result of \$1.4 million in recoveries of interest on loans previously charged off.

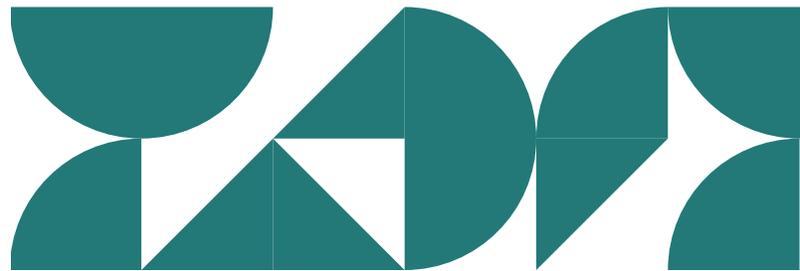
A copy of our full balance sheet and income statement results are linked on our website here: [Craft3's 2023 Audited Financial Statements](#).



Financial and Portfolio Performance Continued

ASSET QUALITY

Craft3's asset quality remained strong during 2023, with all performance measures significantly under management and investor covenant thresholds. Annual net charge offs (net of recoveries) increased from -0.72 percent in 2022 to 0.81 percent in 2023, with three-year rolling net losses of -0.06 percent of consolidated loans outstanding. At year-end our allowance for loan losses was \$8.3 million, or 5.1 percent of the consolidated portfolio. Craft3's total problem assets of \$5.9 million represented 3.6 percent of the loan portfolio at year-end, which was up from 2.84 percent in 2022, but far below our internal goal of less than eight percent of loans outstanding. Loans over 30 days past due remained low at 0.87 percent, and were within our internal goal of less than five percent of loans outstanding.



2023 Institutional Investors and Grantors

Annie E. Casey Foundation	KeyBank Community Development Corporation	State of Oregon Department of Environmental Quality
Banc of America Community Development Corporation	KeyBank, N.A.	State of Washington Department of Commerce
Bank of America, N.A.	Kitsap Bank	State of Washington Department of Ecology
Bank of the West	Kuni Foundation	Tacoma-Pierce County Health Department
Banner Bank	Laird Norton Family Foundation	The Chicago Community Trust
Beneficial State Bank	Lora L. and Martin N. Kelley Family Foundation	The Commerce Bank of Oregon
BMO Financial Group	M.J. Murdock Charitable Trust	The Oregon Community Foundation
Broetje Family Trust	Marguerite Casey Foundation	Titcomb Foundation
Cathay Bank	Meyer Memorial Trust	U.S. Bancorp Community Development Corporation
City of Astoria, Ore.	MUFG Union Bank, N.A.	U.S. Bank, N.A.
City of Portland, Ore.	Multnomah County, Ore.	U.S. Department of Agriculture
City of Seattle, Wash.	Northern Trust	U.S. Department of Treasury, CDFI Fund
CommonSpirit Health	Northwest Area Foundation	U.S. Small Business Administration
Energy Trust of Oregon	Opportunity Finance Network	Umpqua Bank
Episcopal Diocese of Oregon	Oregon Housing and Community Services	United Business Bank
Eric and Hannah Sach Foundation	Pacific County, Wash.	Washington County, Ore.
First Federal Savings and Loan	Pacific Premier Trust	Washington Federal, N.A.
Good to Grow CDFI Investment Fund, LLC	Portland Affordable Housing Preservation Trust	Washington Trust Bank
Greater Tacoma Community Foundation	Puget Consumers Co-op	Wells Fargo Bank, N.A.
Heritage Bank	Ronald W. Naito MD Foundation	Wells Fargo Community Investment Holdings
HSBC Bank USA, N.A.	Satterberg Foundation	Wells Fargo Foundation
ImpactAssets, Inc.	Sisters of the Holy Names of Jesus and Mary, U.S.-Ontario Province	Weyerhaeuser Family Foundation
Income & Impact Fund, New Summit Investments	Sound Community Bank	
Jim & Patty Rouse Charitable Foundation	Starbucks Corporation	
JPMorgan Chase Bank, N.A.		
JPMorgan Chase Foundation		

2023 Wealth Management Firms Advising Anonymous Investors

ALTi Tiedemann Global

Arc Advisers, LLC

Arjuna Capital

Balance Rock Investment Advisors

Baldwin Brothers, LLC

Becker Capital Management

Figure 8 Investment Strategies

Fresh Pond Capital, a division of Reynders,
McVeigh Capital Management, LLC

Humanize Wealth

Laird Norton Wealth Management

Natural Investments, LLC

New Outlook Financial, LLC

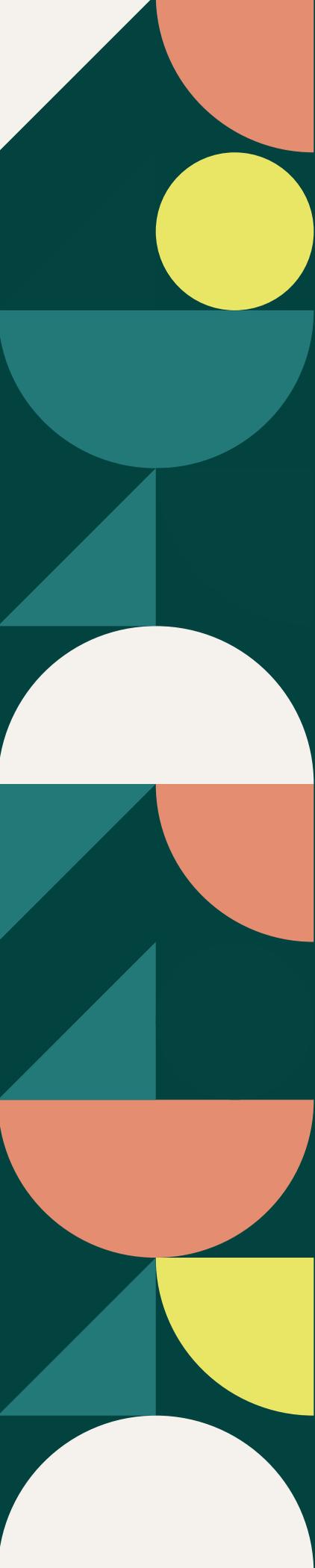
Progressive Investment Management

The Clarius Group

The Sustainability Group at Loring,
Wolcott & Coolidge

Trillium Asset Management





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