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MESSAGE FROM THE **DEVELOPMENT DIRECTOR**

Last year saw a pandemic that disproportionately affected low-income communities and people of color, assaults on our country's longstanding democratic institutions, natural disasters and widespread protests against ongoing racism and racial inequities. For Craft3, those often painful circumstances meant our work was more urgent and important than ever. We responded swiftly with emergency lending and grants to small businesses struggling to stay afloat during COVID-19. We also engaged in the slower, but no less urgent, work of redressing racial inequities both by changing how we lend and by engaging in internal antiracism efforts.

Against the backdrop of these multiple and interconnected crises, Craft3 continued doing what we do best — delivering capital to underserved communities, businesses and individuals in need who would otherwise be unable to access financing. 2020 was a record year for loan production and in addition to many commercial and consumer loans we also closed three New Markets Tax Credit (NMTC) investments totaling \$27 million invested into critical, impactful projects.

Since our founding in 1994, Craft3 has invested more than \$657 million across Washington and Oregon. These investments support important economic, ecological, and family resilience outcomes in the region. Additionally, we've continued our long history of achieving positive operating results and have maintained 100 percent repayment history with our investors.

This Annual Investor Report is part of our commitment to transparency, to sharing successes and to keeping you informed about our work. It summarizes the year's lending and our impact, financial and portfolio performance, and other programmatic activities.

We greatly appreciate your ongoing confidence and support. None of this work would be possible without investors like you. If you have any questions or would like to further support Craft3's work, please reach out. We'd love to hear from you! And please share this report with those you think might be interested in it!

Sincerely,

A handwritten signature in black ink, appearing to read 'Maggie Kirby Weiland'. The signature is fluid and cursive, with a large loop at the end.

Maggie Kirby Weiland
SVP, Development Director
mkirby@craft3.org

LENDING AND IMPACT

LENDING

2020 was our highest production year on record. We originated:

\$74M

On- and off-balance sheet loans, including:

878

Commercial and consumer loans totaling \$45.9 million

9

Off-balance sheet investments, including:

\$27.2M

New Markets Tax Credit investments

\$1.2M

Fund management contract loans



“

Craft3 was able to give us a loan when we'd exhausted other options. It means a lot to us. We're focused on building a little nest egg and we worked hard to make this project happen.

– Sean & Marisol, ADU owners



COMMERCIAL LENDING

Commercial lending remained focused on key industries and historically underserved populations, with \$62 million invested through 170 loans comprising important investments in [clean technology](#), [food and agriculture](#), and [community facilities](#). We made loans to nearly 100 small businesses owned by people of color, women, immigrants, and veterans. To read about our most-recent investments, you can visit the [stories section of our website](#) – where we post new stories throughout the year.



CONSUMER LENDING

Consumer loan production remained strong. We invested \$12 million through 717 [Home Energy](#), [Clean Water](#), [Accessory Dwelling Unit](#), and [Ada Developer Academy](#) Loans. It is notable that:

- Clean Water Loans continue to represent the greatest proportion of our consumer production by dollars at \$7.3 million (61 percent), allowing homeowners to repair or replace failing septic systems that preserve home values, protect public health and water quality, and support septic designers and installers.
- Home Energy Loans represented the largest proportion of loans by number at 371 (52 percent), enabling homeowners to finance upgrades that save money and energy, improve home values, and support energy efficiency contractors.



IMPACT

Craft3’s lending is aligned with our mission and focused on contributing to inclusive and equitable community and economic development outcomes in the Pacific Northwest. We acknowledge that many people and places in our region are not able to enjoy the benefits of broader economic progress and in some cases, are unable to access basic goods and services. We invest in businesses, individuals and communities — especially those unable to access traditional financing — to strengthen economic, ecological and family resilience across Washington and Oregon. These investments make our communities more resilient by increasing entrepreneurship particularly for traditionally underserved small businesses, supporting economic opportunity through quality employment in high-poverty areas, strengthening low-income people’s access to essential services, and conserving natural resources that support ecosystems and industries.

We originated 887 loans across our two states.

2020 LOAN PRODUCTION

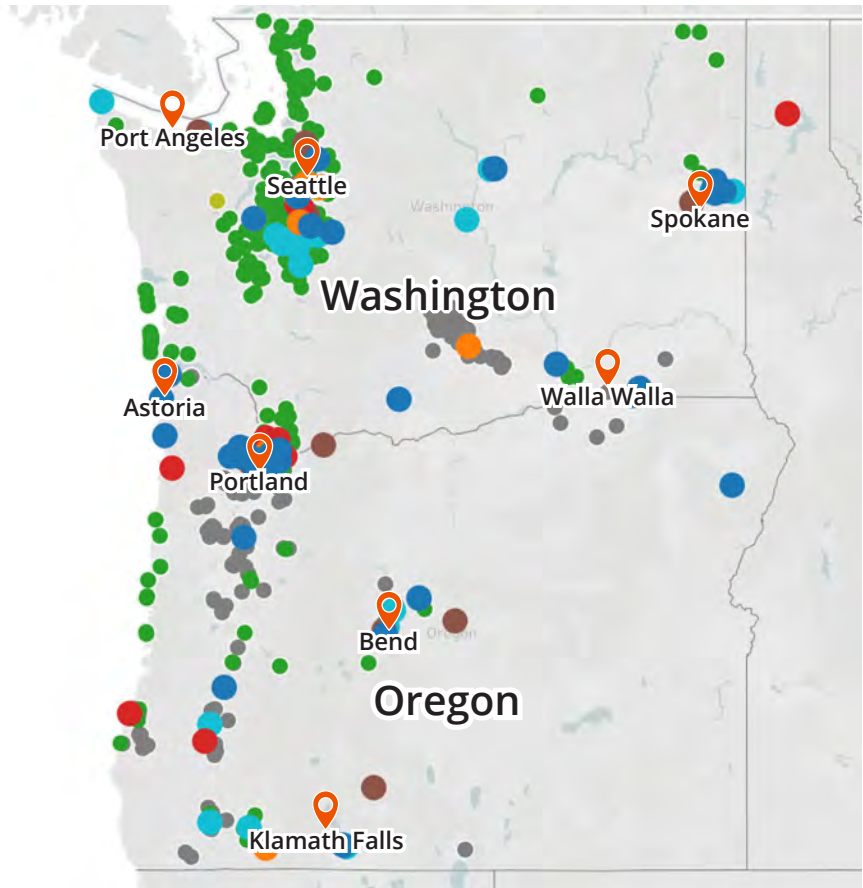
Commercial Loans

- General Business
- Clean Technology
- Community Facilities
- Food and Agriculture

Consumer Loans

- Underserved Communities
- Clean Water
- Home Energy
- Ada Developers and ADU

📍 Craft3 Office Locations





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



1,236 jobs created or retained



14,609 education or training slots created

OUTCOMES OF OUR LENDING ACTIVITIES



\$77.8 million in third-party investment leveraged



17,995 low-income families assisted



315 million gallons of water treated, conserved or developed



23,443 metric tons of greenhouse gas emissions averted or sequestered



\$258.6 million in local ownership strengthened

For more information, you can view our [2020 and cumulative \(1994-2020\) lending outcomes](#).

FINANCIAL AND PORTFOLIO PERFORMANCE

BALANCE SHEET

Total assets were \$176.9 million at the end of 2020, representing 10 percent year-over-year (YOY) growth. Net assets, which comprised 32 percent of total assets, grew 16 percent, to \$56.7 million. While we had another strong year of loan production, total loans outstanding decreased seven percent to \$119.1 million, the result of scheduled repayments and pre-payments — mostly of commercial borrowers “graduating” from the portfolio. Yet the consumer portfolio grew by \$2.3 million (9 percent YOY) to \$28.8 million, which was still net of historic prepays of \$6.8 million driven by low rates in the home mortgage market. The number of loans in our portfolio also grew (8 percent) to 2,713 in 2020, which was driven by a 7 percent increase in commercial loans (materially through our Business Resilience Loans) and a 10% increase in consumer Clean Water Loans.

Unrestricted cash and investments increased 106 percent, to \$50.3 million, by year-end. This was the result of increased fundraising in 2020 and the build-up of liquidity to flexibly respond to the needs of our borrowers in an uncertain time. Notes payable increased six percent to \$116.2 million as we closed new debt facilities. Our leverage remains conservative, with a debt-to-net assets ratio of 2.05:1 at year-end 2020.

INCOME STATEMENT

With all 2020's uncertainties, we were pleased to have ended the year with positive net income of \$7.9 million. Revenue totaled an unprecedented \$27.3 million, which was 32 percent above budget. While some of our forecasted grant revenue for the year was delayed until 2021, total grant income during 2020 was significantly higher than budget at \$16.2 million, net of pass-through grants disbursed through our Small Business Resilience Fund. This was the result of significant generosity and engagement from many new and existing grantors, including an unrestricted \$10 million grant from MacKenzie Scott.

While total revenue exceeded budget, interest income was down 37 percent, due to a \$1.6 million interest income reversal¹ and a decrease in commercial portfolio yields, due to the Federal Reserve cutting interest rates affecting floating rate loans, our issuance of Business Resilience Loans at lower interest rates, and an increase in non-accruals. This resulted in a drop in our net interest margin to 4.1 percent and an earned income ratio of 48 percent at year-end, which was down from 74 percent in the prior year. However, we expect these

¹ The \$1.6 million interest income reversal is for a 90% USDA guaranteed loan that was related to a New Markets Tax Credit investment, which unwinds in 2022. The interest income is subject to recovery by Craft3 after the transaction unwinds.

important measures to rebound as non-accruals go down, Business Resilience Loans mature, and new loans are originated.

Total expenses were \$19.7 million for the year, which was eight percent over budget, primarily the result of unbudgeted pass-through Business Resilience Grants. We otherwise managed to stay under or near budget on nearly all expense categories, with the exception of loan costs, which exceeded budget by 24 percent as we incurred higher than usual legal expenses related to loan restructures and problem loan resolutions.

If you'd like to see our full balance sheet and income statement results, you can view [Craft3's consolidated 2020 Audited Financial Statements](#).

ASSET QUALITY

Annual net charge-offs (net of recoveries) declined from 2.10 percent in 2019 to 1.87 percent in 2020, resulting in three-year rolling net losses of 2.18 percent of loans outstanding. At year-end, our allowance for loan losses was \$8.1 million, or 6.8 percent of the consolidated portfolio. Craft3's problem assets of nearly \$4 million represented 3.3 percent of the loan portfolio at year-end, down from \$9.2 million or 7.4 percent in 2019, which was the result of two charge-offs, four refinances, payoffs or paydowns, and three upgrades from problem loan status. Loans over 30 days past due decreased significantly from 5.95 percent to 0.07 percent throughout the year, bringing past dues within our internal goal of less than five percent of loans outstanding. This was significantly the result of a change in our loan policy to remove delinquent, non-accruing loans from those classified as past due, consistent with GAAP and bank accounting. Had this change not been made, past dues would have been 5.04 percent, just outside our internal goal, but still down from the prior year.

OTHER ACTIVITIES & ACCOMPLISHMENTS

DEPLOYMENT OF NEW MARKETS TAX CREDIT ALLOCATION

During 2020 we closed three New Markets Tax Credit (NMTC) investments totaling \$27 million, completing deployment of the \$50 million NMTC allocation we received in 2019. In total, we deployed 68 percent of the allocation in non-metropolitan counties in Oregon and Washington and 44 percent on federally recognized Native American reservations and off-reservation trust lands. These investments supported large, catalytic projects that created high-quality jobs, delivered essential community goods and services, and promoted economic opportunity for disadvantaged communities across our region. In addition to the brief profiles below, you can [subscribe](#) to receive deeper dives focusing on these and other NMTC projects and the communities they serve.

New Markets Tax Credits (NMTCs) are an important tool in Craft3's community financing toolbox. Established in 2000, NMTCs incentivize investment in low-income communities. Investors provide capital to community development entities (CDEs) in exchange for significant federal tax credits: 5 percent of the investment for each of the first three years and 6 percent for the remaining four years for a total of 39 percent.

If you'd like more information, please read the article in the [Stanford Social Innovation Review](#).

Photo right

Coquille Indian Tribe Chief Don Ivy at the Ko-Kwel Wellness Center blessing ceremony.

Photo opposite

Floor plan of the Ko-Kwel Wellness Center, which will provide holistic health care, including primary care, behavioral health, dentistry, and a pharmacy.





KO-KWEL WELLNESS CENTER

The Coquille Indian Tribe is constructing a \$11.4 million 22,000 square foot community health center on Tribal lands in Coos Bay, Oregon. The Ko-Kwel Wellness Center will replace the current Community Health Center and Pharmacy and dramatically increase access to affordable holistic healthcare for Native patients. Key outcomes of this project include support to a Native-controlled enterprise, creation and retention of 14,420 healthcare slots, creation and retention of 57 jobs, (48 of which are living wage), creation of 66 construction jobs, \$8.4 million in additional leveraged funds, 375,000 gallons of water conserved annually, and \$12.4 million in local ownership strengthened. This investment was made possible with capital provided by Wells Fargo and \$12 million of Craft3's NMTC authority.

Read more about the Ko-Kwel Wellness Center at <https://blog.craft3.org/blog/ko-kwel>.



Photo top

The Odessa Brown Children's Clinic will provide medical, dental, mental health and nutritional services.

Photo right

The Rockwood Market Hall will build community, catalyze entrepreneurial activity and increase access to healthy food.

Photo opposite

The Odessa Brown Children's Clinic is located near the Othello Link light rail station in Seattle's Rainier Valley.



ROCKWOOD MARKET HALL

Rockwood Market Hall, Inc. in partnership with the City of Gresham, Oregon, is developing a \$14 million, two-story, 36,000 square foot fresh food marketplace with micro-restaurants, grocery stores, and food stalls. The project will increase the availability of healthy and ethnically-diverse food options; provide commercial kitchen, cold storage, retail and meeting spaces for entrepreneurs and the community; create 60 prevailing wage construction jobs, and create 102 permanent jobs, which will all be accessible to low-income community residents. This investment was made possible with capital and NMTC authority from Capital One and \$7 million of our own NMTC authority. We also provided a \$3.5 million leverage loan to the project.

ODESSA BROWN CHILDREN'S CLINIC

The Seattle Children's Hospital at Othello Square is constructing a new \$53 million, 35,000 square foot second location of the Odessa Brown Children's Clinic (OBCC) to provide medical, dental, and mental health care for low-income children in the Rainier Valley of South Seattle, a federally-designated medically-underserved area, that will serve 50,000 children and families annually. This project will create 6,000 square feet of below-market rent commercial space to be leased out to a childcare provider that serves low-income families and provide an additional 84 childcare slots to the neighborhood. The project will also create 45 new quality jobs. This investment was made possible with capital and NMTC authority from JPMorgan Chase, \$9 million of Craft3's own NMTC authority, plus additional allocation from two other CDEs.



SMALL BUSINESS RESILIENCE FUND

In Spring 2020, after offering loan deferments to our existing borrowers, we sought to support additional Pacific Northwest businesses suffering the deleterious economic impacts of COVID-19. In response, Craft3 created the Small Business Resilience Fund. In partnership with local governments across Oregon and Washington, and a diverse group of corporate and philanthropic entities, Craft3 deployed \$12.7 million in emergency economic relief (pass-through grants and low-interest loans) to 1,481 small businesses across our region between April and December of 2020.

Public Sector Partners: Prosper Portland, Cities of Kent, Spokane, and Walla Walla, Wash., and Tigard, Ore., Clallam County, Wash., Walla Walla County, Wash., and Washington County, Ore.

Private Sector Partners: JPMorgan Chase, Wells Fargo, Goldman Sachs Foundation, Bank of the West, Capital One, U.S. Bank, Columbia Bank, Benjamin N. Phillips Memorial Fund, and Oregon Community Foundation.

INCREASING LENDING TO ENTREPRENEURS OF COLOR

During 2020, Craft3 continued our research and development efforts to expand our lending to entrepreneurs of color by reducing credit barriers and increasing access to business support services through our internal Equitable Lending Initiative. We also made a Black Lives Matter commitment to triple our lending to Black-owned businesses and double our lending to entrepreneurs of color. This work will culminate in the 2021 launch of a new commercial loan product that will feature a low-barrier credit box and alternative underwriting criteria to the 5 Cs of Credit; reduced fees and low interest rates; and additional business services and coaching capacity for BIPOC-owned small businesses.



“*Business Resilience Loan gave us courage and hope to show up and fight to save our business and our team. We believe that by showing up to make chicken and rice, we gave hope to others during this difficult time. We are grateful everyday for the opportunity and hope to survive this crisis.*

– Nong Poonsukwattana, Nong's Khao Man Gai

INTERNAL ANTI-RACISM EFFORTS

In the summer of 2020, Craft3 formed a staff-led Anti-Racism Committee to provide resources, facilitate dialogue, model a commitment to anti-racism, and advocate for more equitable policies and practices. An important initial goal was to build our skills and confidence in anti-racist principles and practices. We hired Paradigm Shift Seattle to guide us through this important work and lead all-staff trainings and coaching sessions on topics including grounding and framing racial equity work; identity, impact and power; race as a system of power; and white dominant culture norms and Craft3 culture. This work is continuing through 2021 and is separate but parallel to work within commercial and consumer lending business units to increase lending to BIPOC communities.



MACKENZIE SCOTT AWARD

Craft3 was honored to be one of 384 recipients in MacKenzie Scott's December 2020 round of [\\$4.1 billion in donations](#) to CDFIs, food banks, emergency relief funds and other groups delivering assistance to vulnerable and underserved populations. As indicated in our [announcement](#), this \$10 million unrestricted grant was an unprecedented award for our organization and will catalyze investments in BIPOC communities, climate action and more. In part due to this generous gift, we have initiated our next strategic planning process a year ahead of schedule. We will be refining and rearticulating our mission, priorities, and tactics as a part of this effort and look forward to sharing our new plan with you in 2022.

JPMORGAN CHASE *ADVANCINGCITIES* AWARD

Craft3, with collaborative members and fellow CDFIs – Network for Oregon Affordable Housing and Community Housing Fund – was proud to receive a 2020 *AdvancingCities* grant from JPMorgan Chase. As indicated in coverage by the [Portland Business Journal](#), this \$5 million grant will support investments in equitable development, including real estate acquisition and rehab and new construction of affordable housing, mixed use and commercial properties, accessory dwelling unit construction, and financing for small businesses in neighborhoods experiencing growth and gentrification including Northeast Portland and the Southwest Corridor. Over the next three years, our organizations will utilize this grant funding to leverage \$40 million in additional resources and engage with community-based partners to:

- increase entrepreneurship and strengthen the small business community (particularly underserved enterprises owned by people of color, women, immigrants, and veterans)
- increase employment opportunities
- create more affordable housing choices for low and moderate income households
- create wealth building opportunities for low and moderate income homeowners
- and increase local control of affordable housing, commercial, and mixed use real estate.

IN CLOSING

Even though 2020 was an incredibly challenging year and our communities are still struggling to recover, I hope you are encouraged by the important work that you are enabling. There are more challenges and opportunities ahead, but with your investment, support and confidence, we can continue to make progress in strengthening the resilience of Pacific Northwest communities and building a more equitable economy. Thank you again for your partnership and engagement.

2020 INSTITUTIONAL INVESTORS AND GRANTORS

- Bank of the West
- Banner Bank
- Benjamin N. Phillips Memorial Fund
- Capital One
- City of Kent, WA
- City of Spokane, WA
- City of Tigard, OR
- City of Walla Walla, WA
- Clallam County, WA
- Columbia Bank
- Episcopal Diocese of Oregon
- Erich and Hannah Sachs Foundation
- First Dollar Foundation
- Goldman Sachs Foundation
- Greater Tacoma Community Foundation
- ImpactAssets, Inc.
- Income & Impact Fund, LLC
- JPMorgan Chase Bank, N.A.
- JPMorgan Chase Foundation
- Northwest Area Foundation
- Opportunity Finance Network
- Oregon Community Foundation
- Pacific Premier Bank
- Portland Affordable Housing Preservation Trust
- Prosper Portland
- Satterberg Foundation
- Seattle Foundation
- The Chicago Community Trust
- Titcomb Foundation
- U.S. Bancorp Community Development Corporation
- U.S. Bank, N.A.
- Walla Walla County, WA
- Washington County, OR
- Wells Fargo
- Weyerhaeuser Family Foundation

WEALTH MANAGEMENT FIRMS OF 2020 INVESTORS

- Arc Advisers, LLC
- Balanced Rock Investment Advisors
- 45North Partners
- Baldwin Brothers, Inc.
- Figure 8 Investment Strategies
- Fresh Pond Capital, a division of Reynders, McVeigh Capital Management, LLC
- Laird Norton Wealth Management
- Natural Investments, LLC
- New Outlook Financial, LLC
- Progressive Investment Management
- The Sustainability Group at Loring, Wolcott & Coolidge
- Tiedemann Advisors
- Trillium Asset Management



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