



**ANNUAL  
INVESTOR  
REPORT 2021**

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## A note from the Development Director



**MAGGIE KIRBY WEILAND**  
SVP, Development Director  
MKirby@Craft3.org

I am thrilled to share our 2021 Annual Investor Report. It provides a snapshot of our activities and priorities and highlights our year's work. In it you will find an overview of lending and outcomes as well as an assessment of financial and portfolio performance.

2021 was a great year for Craft3. We continued to make many impactful loans, we have a high-quality portfolio, and we generated large inflows of grant funding. This demonstrates the broad interest in our mission and our work and also puts us in a strong position to expand our lending and programs.

2021 was also the second full year of the COVID-19 pandemic and while we're thankfully no longer in an acute public health crisis, the pandemic continues to impact our economy and our lives. These impacts continue to hit people of color hardest, exacerbating preexisting inequalities around wealth, home ownership, and business ownership. Given the scope and urgency of these inequities, we've been accelerating our efforts to make our lending practices

more equitable, so that our loans better serve entrepreneurs of color.

As part of our Equitable Lending Initiative, we recently overhauled our business loans up to \$250,000. We changed our underwriting to use more equitable criteria and we also reduced loan fees and interest rates for entrepreneurs of color. You can read more about these ongoing efforts on page 7.

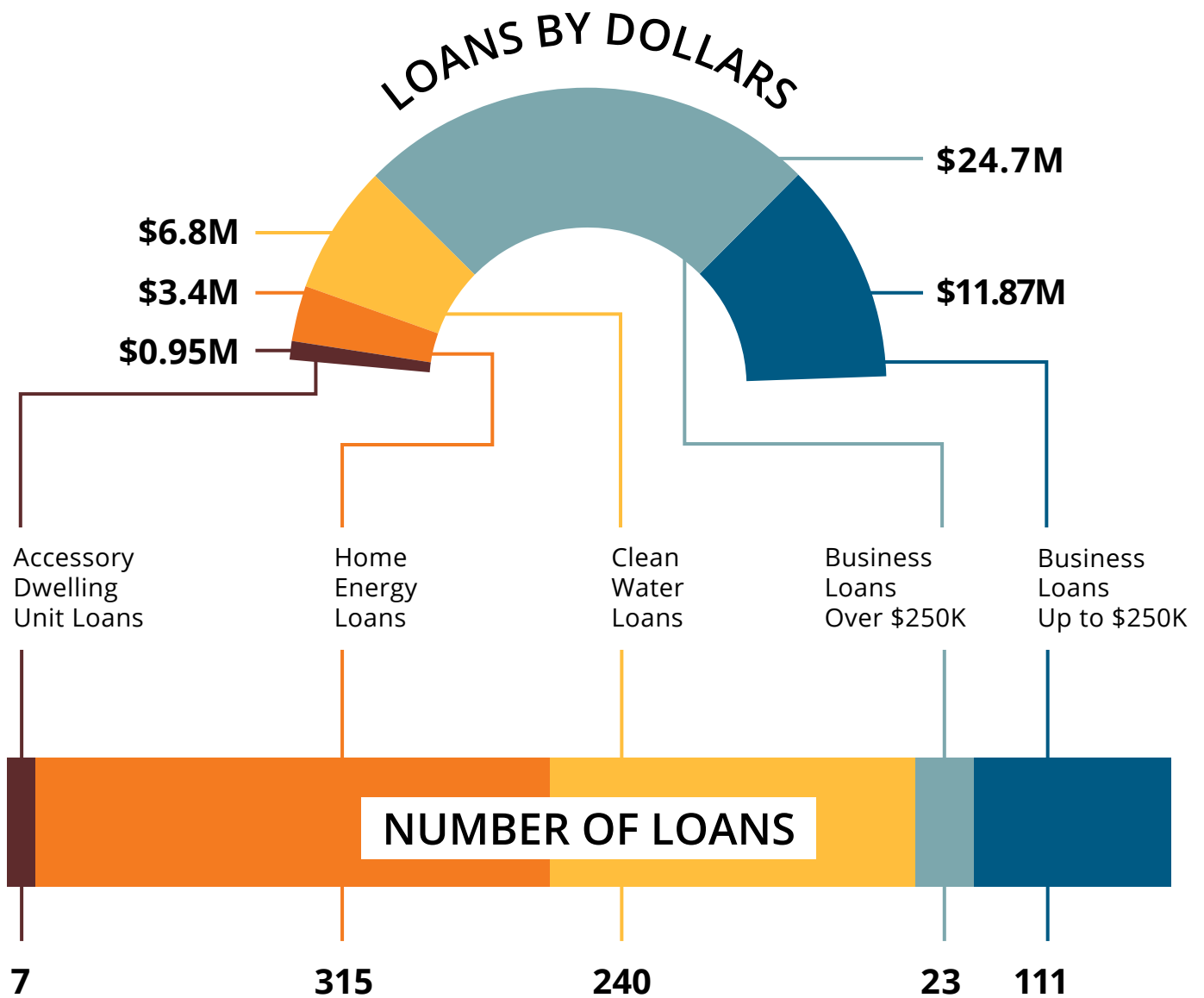
This report focuses on the numbers. Our Annual Report coming out a bit later in the year will dive into details and include lots of stories. The focus of that report will be racial equity.

Thanks for your ongoing interest in our work and for your support. We appreciate it! Feel free to share this report with those you think might be interested in it.

A handwritten signature in black ink, appearing to be 'Maggie Kirby Weiland', written in a cursive style.

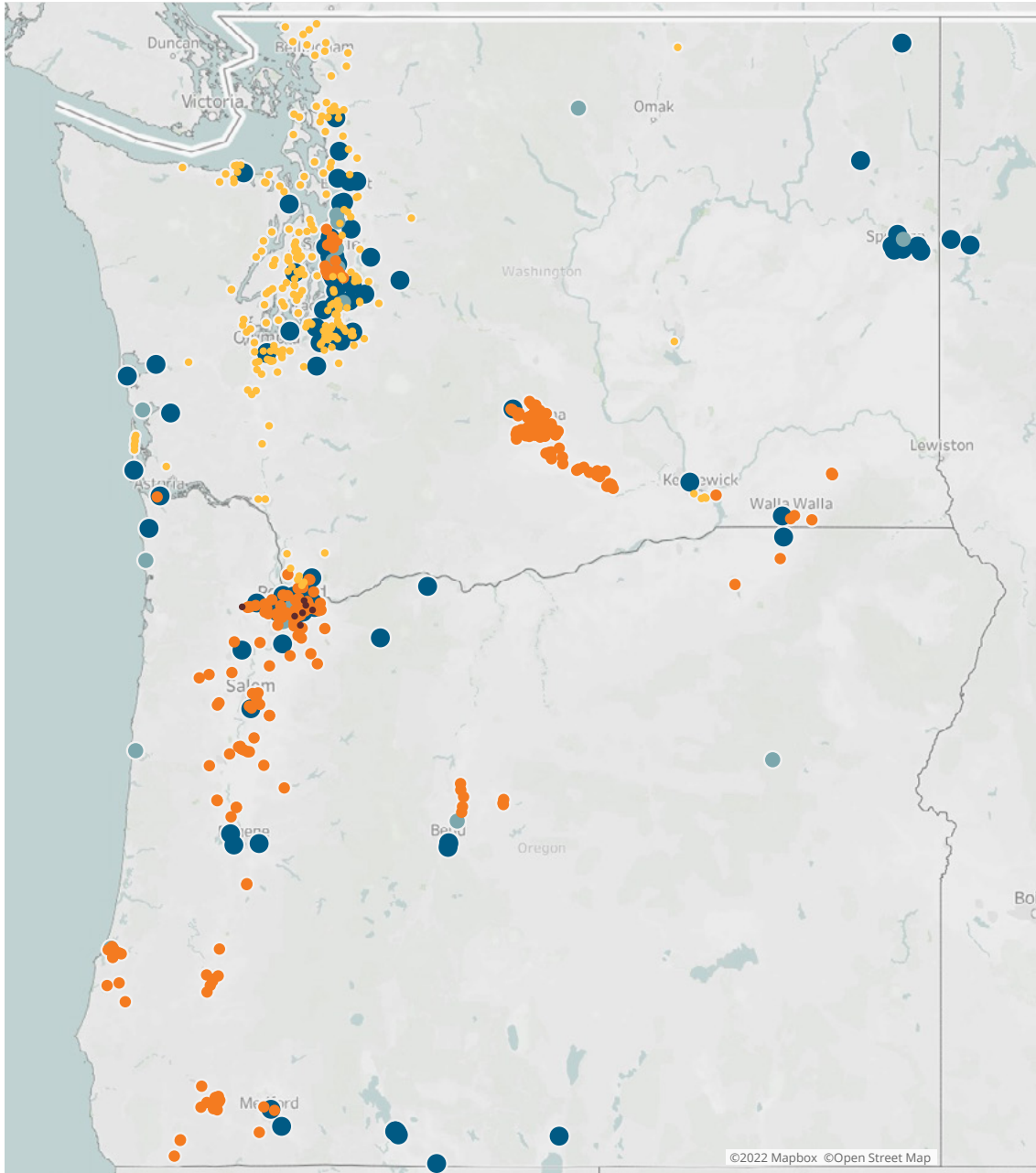
# LENDING AND OUTCOMES 2021 AT A GLANCE

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. By extending financing to those unserved conventional financing and left of the region's prosperity, Craft3 is strengthening the regional economy, investing in communities, and working to reduce the racial wealth gap.



# LENDING AND OUTCOMES

## 2021 PRODUCTION MAP



- ADU Loans
- Home Energy Loans
- Clean Water Loans
- Business Loans Over \$250K
- Business Loans Up to \$250K

## COMMERCIAL LENDING



134 loans



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



737 jobs created or retained



\$37 million in other project funds leveraged



27,800 education or training slots projected



\$36.6 million invested



\$42.8 million commercial real estate preserved/strengthened



6,315 low-income families assisted

## CONSUMER LENDING



567 loans



31.7 million gallons of wastewater treated



823 metric tons greenhouse gases averted



153 low-income families assisted



\$11.3 million invested



\$152 million residential real estate strengthened

## EQUITABLE LENDING INITIATIVE OVERVIEW

Craft3 began its Equitable Lending Initiative in 2019 with the goal of improving access to capital for entrepreneurs of color. We did this because of the profound and enduring racial inequities around wealth, income, and home ownership — to name just three. These inequities are the result of a long and painful history of economic exclusion, segregation, and policies and practices that have made it much harder for people of color to accumulate wealth.

We also understood that these inequities make it harder for entrepreneurs of color to access capital. Conventional underwriting criteria tend to see entrepreneurs of color as riskier borrowers because on average they have less wealth, which limits the equity contribution and collateral they have available. Historical barriers to accessing credit and income disparities also negatively impact people of color and their personal credit scores.

We realized that if we wanted to create broader change, we'd need to change our underwriting and make our loans more affordable and flexible. In 2021 we changed how we underwrite and process loans up to \$250,000 for entrepreneurs of color. These changes include:

- » lowering credit score requirements
- » allowing for higher personal debt-to-income ratios
- » not requiring any personal collateral for loans under \$150,000
- » reducing interest rates to 3-5% fixed
- » waiving loan fees, typically 2%, and reducing closing costs to a flat \$200 fee
- » allowing for up to three payment deferrals over the life of the loan



**Jackson's Catfish Corner.** Seattle, Washington

A working capital loan helped Terrell Jackson open his restaurant in Seattle's Central District.

# EQUITABLE LENDING INITIATIVE OVERVIEW

## CONTINUED

We believe these changes will let us work more deeply and strategically in communities of color across Oregon and Washington and create broader systemic change. In addition to changing how we lend, we've also expanded our education and coaching services. We hired a Spanish-speaking Business Services Program Lead to provide one-on-one coaching and loan readiness support. This position also coordinates business resources, including referrals to a network of culturally competent professional service providers we have developed and which we subsidize for low-income entrepreneurs.

We're proud of the initial results of our Equitable Lending Initiative and also realize there is much more work to be done to make access to credit more equitable and increase our lending to entrepreneurs of color.

## LENDING TO ENTREPRENEURS OF COLOR

In 2021 we provided 54 loans under \$250K to entrepreneurs of color. Totaling over \$6M this is more than double our annual average of lending from 2017-2019 for loans under \$250K to entrepreneurs of color.

In 2021, Business Services provided one-on-one business technical assistance to 12 clients. Technical assistance includes cash flow projection coaching, business plan review and feedback, goal setting and commercial loan application support.

## FUNDERS AND SUPPORTERS

The Equitable Lending Initiative would not be possible without the support and collaboration of our many partners. This essential support includes grants and capital. We'd like to thank the following organizations, banks, and foundations for their invaluable assistance and for their belief in this work.

Banner Bank

Community Foundation  
of Southwest Washington

Capital One

CDFI Fund

JPMorgan Chase

Murdock Charitable Trust

Opportunity Finance  
Network in partnership with Google

Oregon Metro

Pacific Premier Bank

Umpqua Bank

Wells Fargo



Soul Collective. Seattle, Washington





# FINANCIAL AND PORTFOLIO PERFORMANCE

## BALANCE SHEET

Total assets were \$178.3 million at the end of 2021, representing 0.8 percent year-over-year (YOY) growth. Net assets, which comprised 38 percent of total assets, grew 20 percent, to \$68 million. The single largest reason behind this growth was the inflow of substantial grant income in support of our mission. We also had a strong year of loan production with total loans outstanding increasing 8.5 percent to \$125.7 million. The consumer portfolio decreased slightly by \$0.6 million (2.1 percent YOY) to \$28 million due to unusually high prepayments.

Unrestricted cash and investments were \$43 million. In early 2021, we used \$15 million of excess cash to prepay debt. Our current cash reserve and available lines of credit still provide us with excess liquidity. Notes payable of \$107.2 million was \$10.6 million more than budget due to higher than planned investor demand for our Community Impact Investment Notes. Our leverage remains conservative, with our debt-to-net assets ratio decreasing to 1.57 at year-end 2021 from 2.05:1 at year-end 2020.

## INCOME STATEMENT

We ended 2021 with a positive net income of \$11.7 million. Revenue totaled \$22.7 million which was lower than the prior year's \$26.4 million. Much of this was a result of substantially lower "pass-through" grant income received from cities and counties during the early days of the pandemic.

Total revenue exceeded budget, but interest income decreased. Commercial interest income was \$7.3 million, slightly exceeding budget. Consumer interest was just shy of budget at \$1.4 million, due to lower disbursements (construction delays) and higher

prepayments (home sales and mortgage refinancing). Net interest margins improved to 5.28 percent due to the combination of improved yields and reduced cost of funds. Consolidated yields improved from 5.73 percent in 2020 to 7.12 percent in 2021, driven mostly by commercial lending.

Total expenses were \$14.4 million for the year, markedly under the \$18.6 million we had budgeted. This was due primarily to substantially lower provision for loan losses as both charge-offs and recoveries were better than expected.

If you'd like to see our full balance sheet and income statement results, you can view [Craft3's consolidated 2021 Audited Financial Statements](#).

# FINANCIAL AND PORTFOLIO PERFORMANCE

CONTINUED

## ASSET QUALITY

Asset quality improved substantially in 2021, consistent with the experience of other CDFIs and financial institutions, as the economy strengthened and businesses were supported by significant government stimulus, including PPP loans. Annual net charge-offs (net of recoveries) declined from 1.87 percent in 2020 to -0.34 percent in 2021, with three-year rolling net losses of 1.19 percent of loans outstanding. At

year-end, our allowance for loan losses was \$7.8 million, or 6 percent of the consolidated portfolio. Craft3's problem assets of \$1.7 million represented 1.37 percent of the loan portfolio at year-end, down from \$4 million or 3.4 percent in 2020. Loans over 30 days past due were low and relatively flat vs. the prior year at 0.18 percent and well below our internal goal of less than five percent of loans outstanding.



**SeaTac International Mall.** Seattle, Washington

A construction loan helped Somali community leaders find a new home for the Bakaro Mall which was displaced in 2019.



## 2021 Institutional Investors and Grantors

Ada Developers Academy  
Annie E. Casey Foundation  
Banc of America Community  
Development Corporation  
Bank of America, N.A.  
Bank of the West  
Banner Bank  
Beneficial State Bank  
Capital One  
Cathay Bank  
Columbia Bank  
CommonSpirit Health  
Community Foundation  
of Southwest Washington  
Energy Trust of Oregon  
Episcopal Diocese of Oregon  
Erich and Hannah Sachs Foundation  
First Dollar Foundation  
First Federal Savings and Loan  
Good to Grow CDFI Investment Fund, LLC  
Greater Tacoma Community Foundation  
Heritage Bank  
HSBC Bank USA, N.A.  
ImpactAssets, Inc.  
Income & Impact Fund, LLC  
Jim and Patty Rouse  
Charitable Foundation  
JPMorgan Chase Bank, N.A.  
JPMorgan Chase Foundation  
Key Bank, N.A.  
Kitsap Bank  
Laird Norton Family Foundation  
Local Fish Fund2, LLC  
Lora L. and Martin N. Kelley  
Family Foundation  
M.J. Murdock Charitable Trust  
Meyer Memorial Trust  
MUFG Union Bank Foundation  
MUFG Union Bank, N.A.  
Northern Trust Company  
Northwest Area Foundation  
Opportunity Finance Network  
Pacific Premier Bank  
Portland Affordable Housing  
Preservation Trust  
Puget Consumers Co-op  
Ronald W. Naito MD Foundation  
Satterberg Foundation  
Seattle Foundation  
Sisters of Providence,  
Mother Joseph Province  
Sisters of the Holy Names of Jesus  
and Mary, U.S.-Ontario Province  
Sound Community Bank  
The Chicago Community Trust  
The Commerce Bank of Oregon  
The Ford Family Foundation  
The Oregon Community Foundation  
The Russell Family Foundation  
Titcomb Foundation  
U.S. Bancorp Community  
Development Corporation  
U.S. Bank, N.A.  
Umpqua Bank  
Washington Community  
Reinvestment Association  
Washington Federal, N.A.  
Washington Trust Bank  
Wells Fargo Bank, N.A.  
Wells Fargo Community  
Lending and Investment  
Wells Fargo Foundation  
Weyerhaeuser Family Foundation

## 2021 Investors Advised by **Wealth Management Firms**

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



**888.231.2170**

[www.Craft3.org](http://www.Craft3.org)

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Craft3 is an equal opportunity lender,  
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