



craft3

**Annual
Investor
Report 2022**

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A Note from the Development Director

I am pleased to present our 2022 Annual Investor Report. As you will see, it was another strong year for loan production, portfolio growth, and mission-related outcomes.

In 2022, we continued to focus on equitable lending, which led to an increase in entrepreneurs of color served through our commercial loan products. In this report we tell just a few of the many stories of the entrepreneurs and community leaders of color we have been able to serve.

We also launched a new \$100M offering of the [Community Impact Investment Note](#) (follow the link to learn more). This replaces our 2013 \$35M offering, substantially increasing our capacity to partner with new and existing impact investors. These investments provide essential support to our lending activities.

More so than most years, a lot of important work took place behind the scenes. This work helped us create an even stronger foundation. Two key examples:

- We completed a thorough brand refresh, launching a new website with better functionality and richer resources for investors, customers, and partners. We also unveiled a new logo, visual identity, and refined messaging — all of which will help us better connect with our key audiences.
- We completed and recently published our 2023-2027 Strategic Plan, “Capital, Relationships, and Voice: Investing in Communities and Change.” The product of a year-long collaborative process, this plan will be our compass and our map as we work towards a thriving, just, and empowered Pacific Northwest. If you haven’t already done so, I hope you take a look at the [full Strategic Plan](#) or the [Strategic Plan overview](#).

As always, my heartfelt thanks to you for your engagement and support. Looking ahead and considering the ambitious goals in our new strategic plan, I am very conscious that we will need to grow our base of investors, grantors, and partners. If you have any questions or are interested in discussing how you might get involved or deepen your engagement, I’d love to connect.

Lastly, please share this report with others. We are looking to get the word out about what we’re doing and to connect with those who share our vision for the future.



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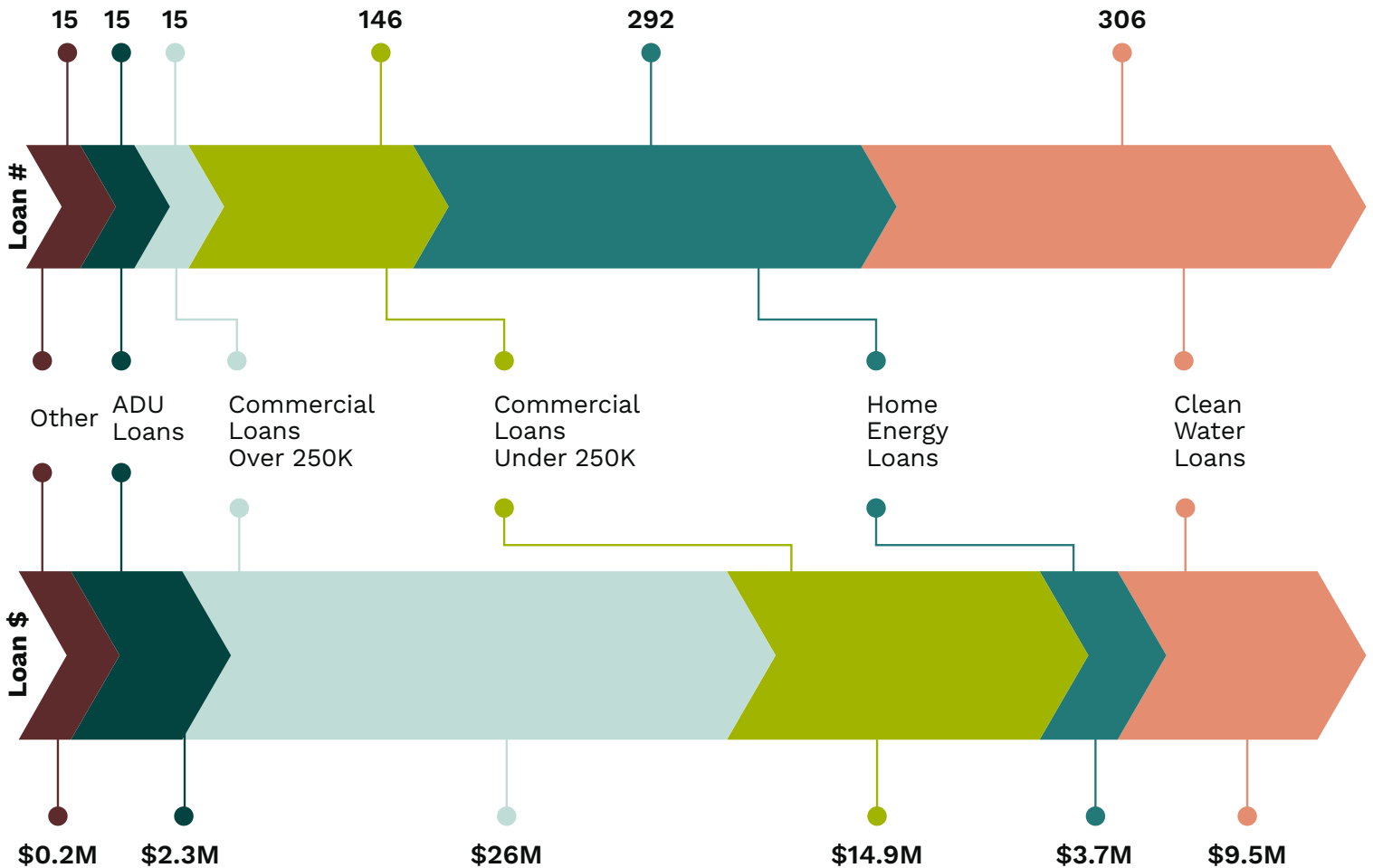
Lending and Outcomes 2022 At a Glance

During 2022, Craft3 originated 789 loans totaling \$56.9 million. This is a 12.6 percent increase by number and 18.8 percent increase in dollars over 2021.

In 2022, we lent \$41 million, or 72 percent of this capital, to 160 businesses and nonprofit organizations across Oregon and Washington, of which 42 (26 percent) were start-ups and 130 (81 percent) were entrepreneurs of color, women-, immigrant-, and veteran-owned businesses. These loans supported the creation or retention of 955 jobs, the preservation and creation of nearly 137,000 community facility service slots, assistance for more

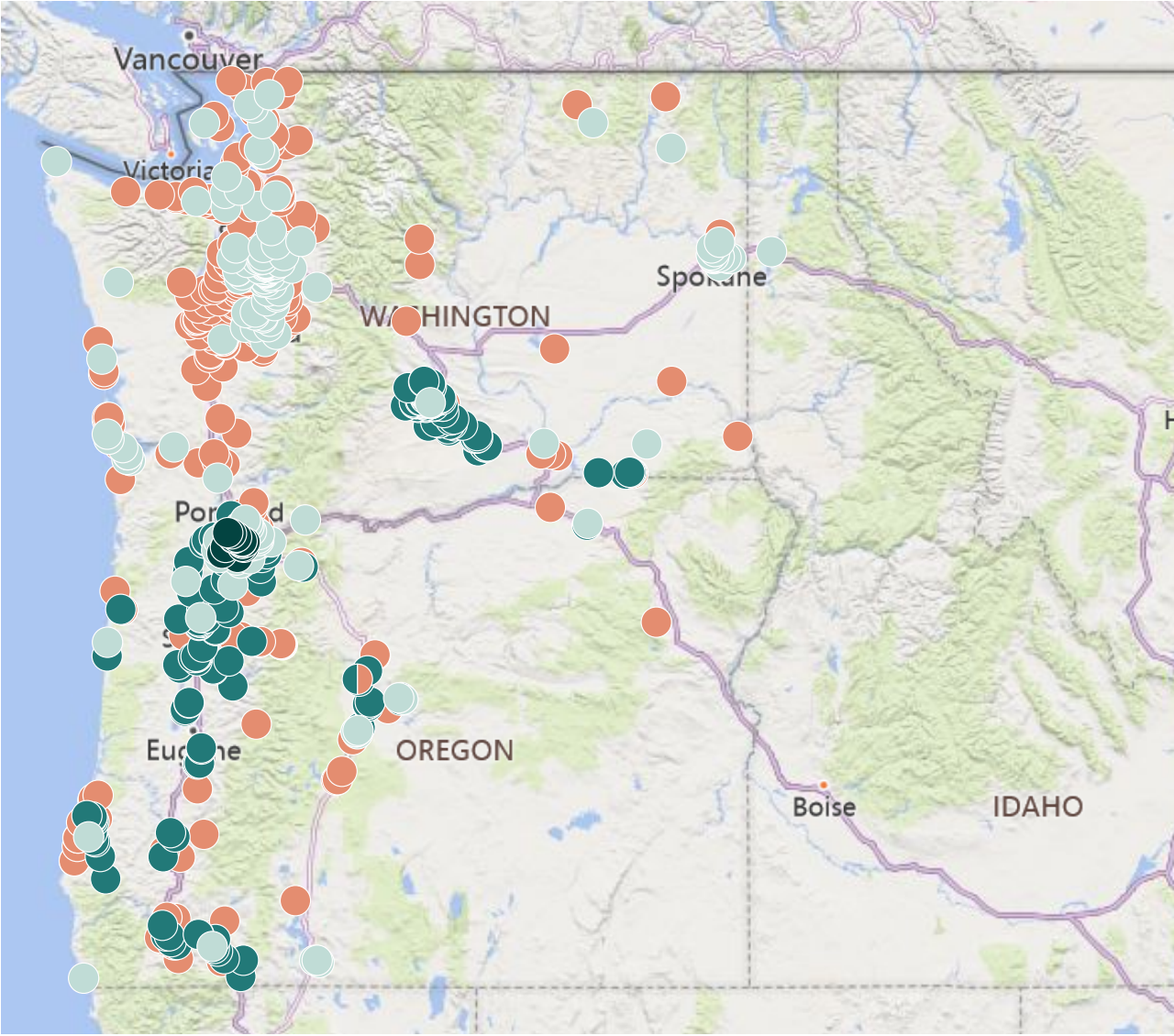
than 40,000 low-income families, strengthened over \$208 million in locally owned assets, and leveraged \$48.9 million in third-party investment.

We originated 628 loans to consumer borrowers, providing \$15.8 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 195 low-income families (31 percent) and other moderate income or low-wealth borrowers, strengthened \$228 million in locally owned real estate assets, averted 884 metric tons of greenhouse gas emissions, and treated over 40 million gallons of wastewater.



Lending and Outcomes

2022 Production Map

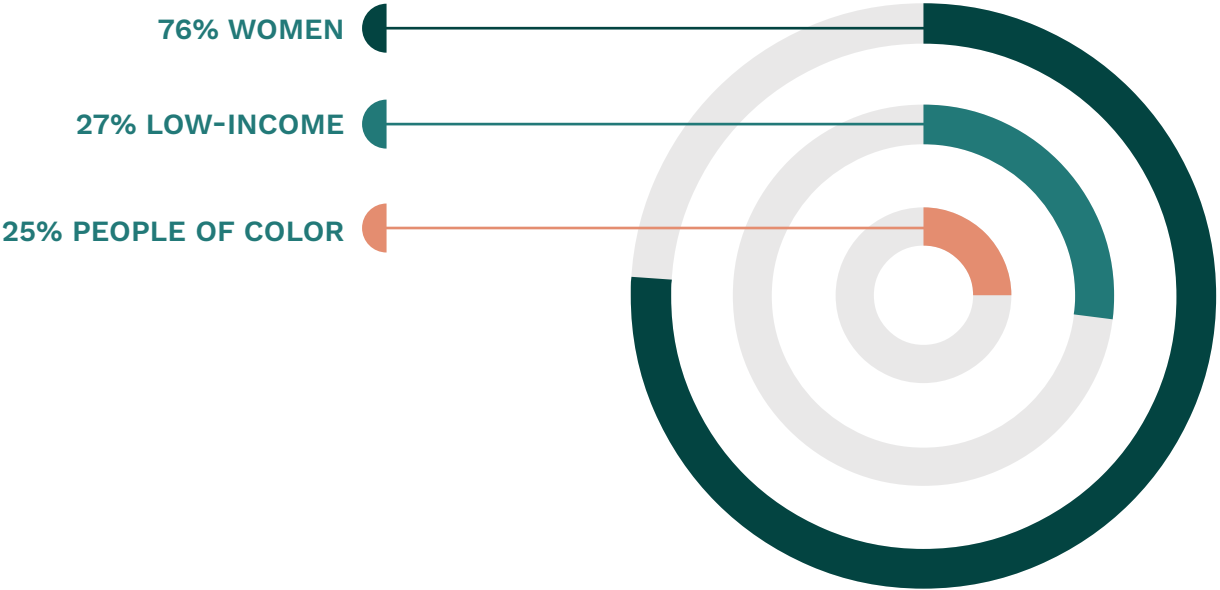


- ADU Loans
- Home Energy Loans
- Clean Water Loans
- Commercial Loans

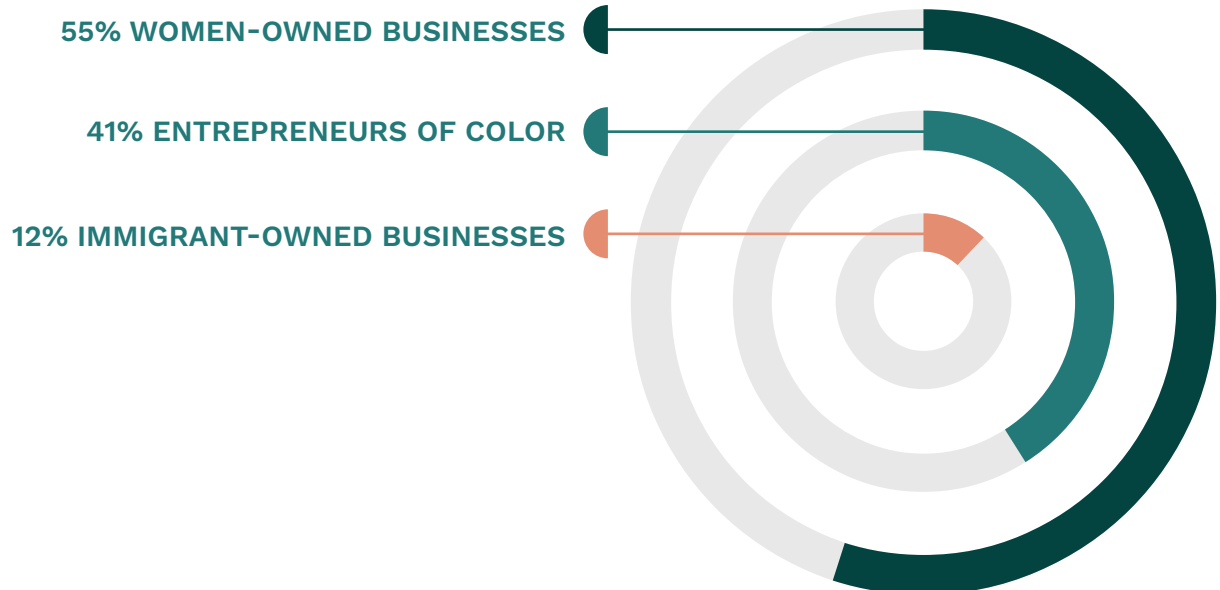
Lending and Outcomes

EXPANDING ACCESS TO CAPITAL

In 2022, Craft3 made \$15.8 million in loans to homeowners. Here's where those dollars went:



In 2022, Craft3 made over \$42 million in commercial loans. Here's where those dollars went:



Lending and Outcomes

IN 2022, CRAFT3'S LENDING SUPPORTED THE FOLLOWING OUTPUTS AND OUTCOMES.



42 start-ups
financed



955 jobs created
and retained



\$49.3M third-party
investment leveraged



41 million gallons of
wastewater treated



136,940 community facility
service slots supported



40,362 low-income
households assisted



1,889 acres of working
landscapes and conservation
lands conserved



963 metric tons
of greenhouse gas
emissions averted



\$208.8 million
in locally-owned
assets strengthened



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

Making a Difference

BELOW YOU CAN READ STORIES OF JUST A FEW OF THE ENTREPRENEURS AND COMMUNITY LEADERS OF COLOR WE HAVE BEEN ABLE TO SERVE THROUGH OUR COMMERCIAL AND CONSUMER LOAN PRODUCTS.



SALVADOREAN BAKERY

Seattle, Washington

Sisters Aminta and Ana operated a bakery in a leased space for many years. They were motivated to purchase a building that could become a flagship location, help them build generational wealth, and safeguard against displacement. The Craft3 lending team crunched the numbers and tested financial projections so the sisters could secure a loan to acquire a property and finance renovations.



THE AFRICAN YOUTH & COMMUNITY ORGANIZATION

Portland, Oregon

AYCO, a nonprofit that serves the East African immigrant and refugee community, wanted to purchase a building that would provide stability and let them grow. A conventional loan, however, was not consistent with Islamic law. Craft3's Shari'a-compliant Musharakah financing let them purchase an 18,000 square foot building that will become the Dream Center.



ALEX'S PILIPINO STORE

Vancouver, Washington

Divine was interested in acquiring a Pilipino grocery store that had been a community hub for decades and where she had been a longtime customer. Her limited credit history and unfamiliarity with financing were barriers. Craft3's lending team helped Divine understand her options and supported her throughout the entire process.



RANDAL

Portland, Oregon

A Craft3 loan helped Randal, a first-time homeowner build an accessory dwelling unit (ADU) that will be rented to a tenant who earns 80 percent or less of the area median income. Randal is the Executive Director of Taking Ownership PDX, a nonprofit that connects Black homeowners in Portland with services to protect and improve their homes.

Financial and Portfolio Performance

BALANCE SHEET

Total assets were \$181.8 million at the end of 2022, representing two percent year-over-year (YOY) growth. Net assets, which comprised 39 percent of total assets, grew 2.6 percent in line with overall asset growth, to \$70.1 million. We had another strong year of loan production with total loans outstanding increasing 9.9 percent to \$142.1 million. Both loan portfolios grew during 2022 – moderately for commercial with a 5.7 percent increase in commercial loans outstanding to \$106.8 million and significantly for consumer with a 25 percent increase in consumer loans outstanding to \$35.3 million by year-end. The significant increase in consumer loans was due to continued expansion of Clean Water Loans in Washington, following the 2021 expansion statewide, and an uptick in Accessory Dwelling Unit construction loans in Portland.

Unrestricted cash and investments were \$32.2 million at year-end. In 2022, we used \$17 million of excess cash to prepay floating rate debt which was increasing in price. Our current cash reserve and available lines of credit still provided us with excess liquidity. Notes payable held steady at \$107.1 million, which was \$2.8 million under budget, the result of debt prepayments, partially offset by disbursements of new debt at lower fixed rates. Our leverage remained conservative, with our debt-to-net assets ratio having decreased modestly to 1.53 at year-end 2022 (from 1.57 in the prior year).



Financial and Portfolio Performance

Continued

INCOME STATEMENT

We ended 2022 with positive net income of \$1.7 million, which was nearly 3.5 times higher than budgeted, due to several factors, including (1) a negative provision expense for loan losses due to substantial loan loss recoveries and favorable asset quality trends; (2) unrealized losses on investments due to the rapid rise in interest rates, which reduced the value of our bond portfolios, though bond values will revert to the purchase price as they approach maturity and actual losses would only be incurred if they were sold prior to maturity; (3) the timing of grant income and the deferment of invoices on a large multi-year government grant opting instead to disburse low-cost debt; and (4) \$1.4 million in interest recoveries from charged-off/ non-accrual loans, which contributed to commercial interest income.

Revenue totaled \$19.2 million, achieving 97 percent of total budgeted revenue for 2022. Interest income increased by 16.6 percent to \$10.1 million. Of this, commercial interest income was \$8.3 million, which was \$1.7 million or 26 percent over budget significantly due to the previously referenced interest recoveries. Consumer interest totaled \$1.6 million, which was 98 percent of budgeted interest income. 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. 2022 grants and contributions totaled \$6.3 million, which was 32 percent less than the \$9.2 million budgeted due primarily to the intentional delay in invoicing under a 2021, multi-year government grant, which is available for reimbursement through June 2024, and to a lesser extent the delay in the public announcement of two pending government grants, expected to be announced during the first half of 2023.

Total expenses were \$15.9 million for the year, which was a 10.8 percent increase over the previous year, but under budget by \$3.5 million or 18 percent, significantly due to a \$2.8 million reduction in provision expense based on lower than anticipated charge-offs and higher than expected recoveries. Less significant contributors to lower expenses included reduced personnel expense due to gaps in hiring new and replacement positions, and lower interest expense as a result of lower than budgeted Notes Payable and decisions to prepay more expensive debt in favor of borrowing under lower-cost facilities, made available to us by mission-aligned investors, for which we are grateful.

If you'd like to see our full balance sheet and income statement results, you can view [Craft3's consolidated 2022 Audited Financial Statements](#).



Financial and Portfolio Performance

Continued

ASSET QUALITY

Asset quality remained strong during 2022, with all performance measures significantly under management and investor covenant thresholds. Annual net charge offs (net of recoveries) declined from -0.34 percent in 2021 to -0.70 percent in 2022, with three-year rolling net losses of 0.22 percent of loans outstanding. At year-end, our allowance for loan losses was \$7.9 million, or 5.5 percent of the consolidated portfolio. Craft3's problem assets of \$4.0 million represented 2.84 percent of the loan portfolio at year-end, which was up from 1.33 percent in 2021, but far below our internal goal of less than eight percent of loans outstanding and below elevated levels in 2018-2020. Loans over 30 days past due were low and relatively flat vs. the prior year at 0.32 percent and well below our internal goal of less than five percent of loans outstanding.



2022 Institutional Investors and Grantors

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

2022 Wealth Management Firms Advising Anonymous Investors

Arc Advisers

Balanced Rock Investment Advisors

Baldwin Brothers, LLC

Becker Capital Management

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 Clarius Group

The Sustainability Group at Loring,
Wolcott & Coolidge

ALTi Tiedemann Global

Trillium Asset Management





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