



Failing Septics: Improving Community Resilience



IACC | October 2023

Strategic Priorities



Promote
environmental
and public
health



Prevent and
reduce harmful
pollutants



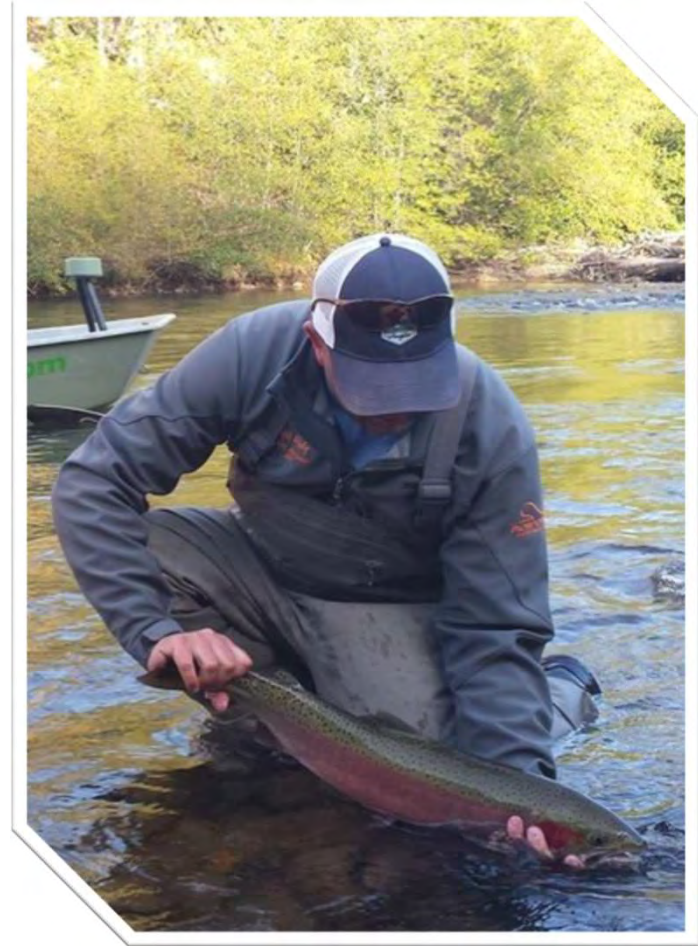
Protect and
manage our
state's waters



Build community
resilience

Clean Water Supports Us All

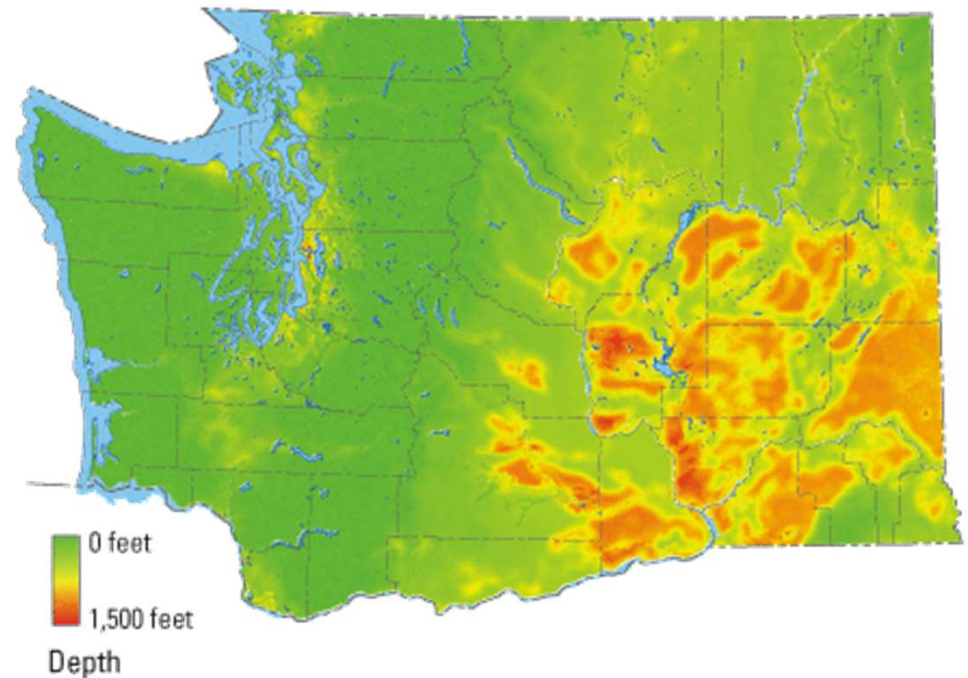
- Recreation
- Drinking water
- Treaty rights
- Wildlife
- Commercial fishing/aquaculture



Water Quality Issues

- 1 million OSS statewide
- 2,300+ WQ impairments
- 90 TMDLs
- Shellfish harvest closures
- Harmful algal blooms
- Groundwater concerns

Map showing well depth needed to obtain ground water with a likely nitrate concentration less than 2 mg/L



Regulatory Structure of Sewage

OSS	LOSS	WWTP
<ul style="list-style-type: none">• Up to 3499 GPD• Permitted at the LHJ level. DOH support• Owners responsible for O&M	<ul style="list-style-type: none">• 3500 – 99,999 GPD• DOH permitted• Maintenance service provider required, annual reporting• HOA's, farmworker housing, small municipalities	<ul style="list-style-type: none">• 100,000 GPD +• Municipal sewers• NPDES permits• Permitted by ECY



LHJs and System Failures

- LHJ's are notified of a failure in multiple different ways
 - Inspection results
 - Neighbor complaints
 - Dye testing
 - WQ pollution, identification, and correction programs



Barriers to Addressing Failures

- Cost
- Fear
- Trust

“It has...been...the practice of the world to consider its wastes satisfactorily disposed of when they are hidden from sight.”

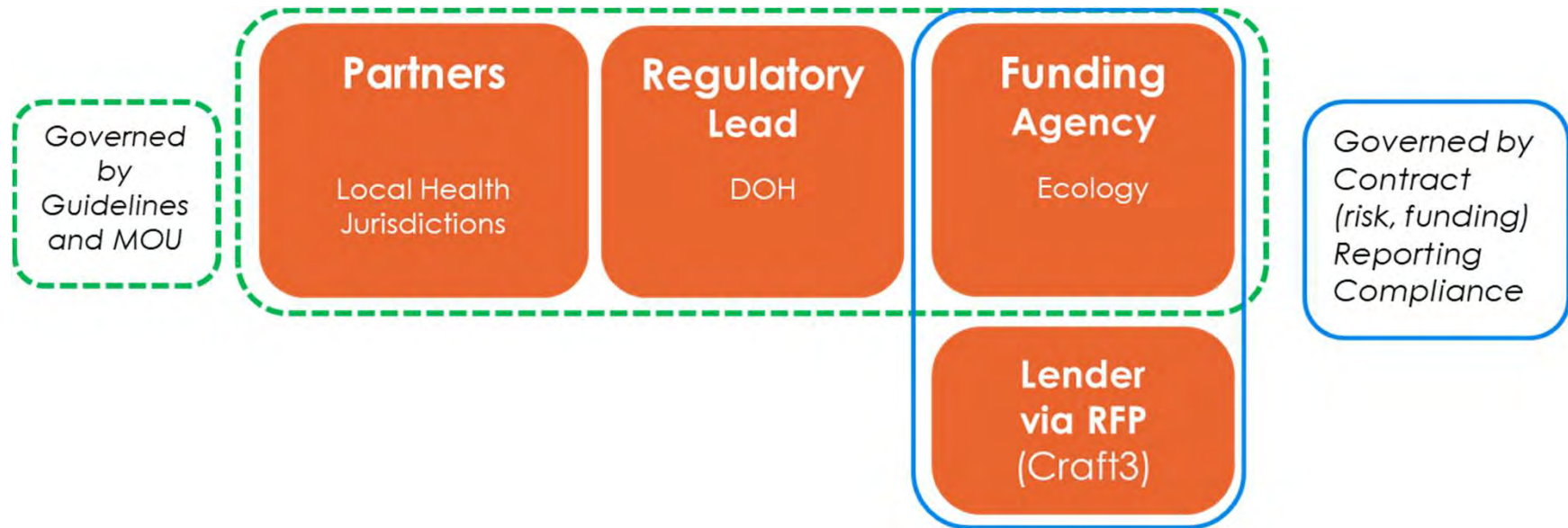
- George Waring (1894)

Finding a Stakeholder-Driven Solution

- Few dedicated funding sources for homeowners to access assistance
- Needed to develop a flexible program that could leverage public/private resources quickly
- Settled on a revolving loan program administered by Ecology/lender
 - Clean Water State Revolving Fund
 - Centennial Clean Water Fund



Creating the Partnership



Creating the Partnership

State of Washington	Craft3	LHJs
<ul style="list-style-type: none"> • Capital • Program Guidelines • Oversight • Federal Compliance 	<ul style="list-style-type: none"> • Matching Capital • Lending/Servicing • Outreach/Marketing • Federal Compliance 	<ul style="list-style-type: none"> • Permitting • Regulation • Enforcement • PIC and Outreach
OSS Industry	Property Owner	Other Partners
<ul style="list-style-type: none"> • Outreach/Marketing • Design and Install 	<ul style="list-style-type: none"> • Pick Contractor • Obtain Permits • Authorize Payments 	<ul style="list-style-type: none"> • Community Groups • Tribes • Educators

Program Eligibility

One of these must apply:

- Septic older than 25 years
- Active failure
- Under order to fix from LHJ

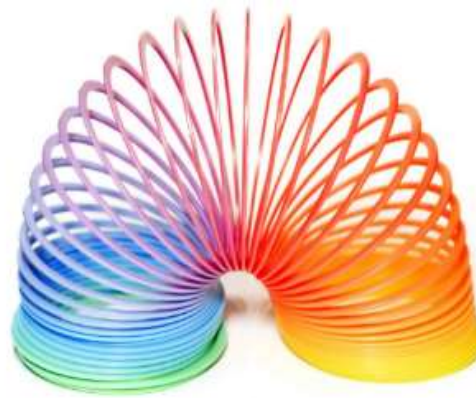
Eligible

- Owner/non-owner occupied
- Residential or commercial
- Up to 1BR expansion*
- OSS/sewer connection*
- All inclusive

Ineligible

- Temporary fixes
- New construction
- Non-permitted projects
- Significant expansions

Why the Program Works



Lessons Learned

- Adapt and be creative!
- Provide additional support for LHJs and homeowners
- Promote a strong partnership



Scaling Equitable Clean Water Loans

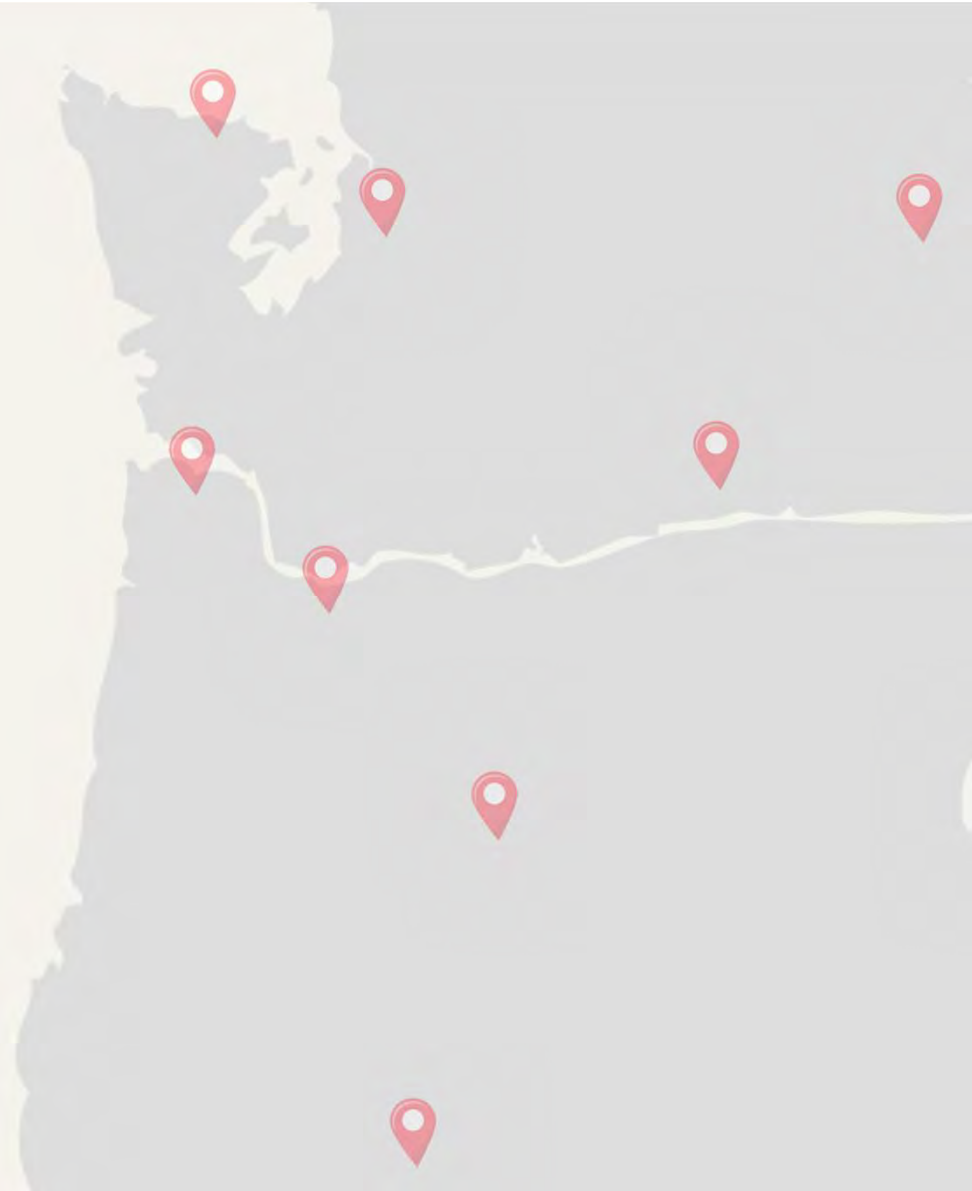
10.20.23


Desiree Sideroff
SVP,
(she/her/hers)
Consumer Lending
Director
Craft3



About Craft3

- Non-bank nonprofit community lender with offices across Oregon and Washington.
- Community-responsive, culturally relevant, inclusive financing to businesses, nonprofits, tribes, individuals for environmental resilience, lessen racial wealth gap, expand economic opportunity.
- Capitalization: Leverage and blend capital from multiple public and private sources to achieve greater outcomes, lasting impact.
- Results: Since 1994, Craft3 invested over \$700 million in Pacific Northwest Communities, including 3,000 Clean Water and 6,000 Home Energy Loans for





Craft3 Clean Water Loan

Our loans help landowners make septic system repairs that are often urgent, unexpected and costly – and can even force families out of their homes.



Paying for a \$30,000 critical repair is hard. Conventional loans and local grant options leave many out.

Financing a Failing Septic
During Mortgage Restructure

A Unique Solution to Meet Community Needs

Craft3 Clean Water Loan Rates & Terms

Current as of 10/18/23, subject to change. Visit www.craft3.org for the latest rates and terms.

Annual Household Income and Occupancy	Interest Rate	Term Options	Examples
Up to \$35,000 and owner-occupied	2.49% (2.79% APR*)	Deferred payment** Interest-only payments*** Fully-amortized payments	Deferred payment option: \$24,000 loan amount, No monthly payments for 179 months, Balloon payment of \$083 due on 180th month based on 2.79% APR.
Up to \$55,000 and owner-occupied	4.49% (4.79% APR*)	Interest-only payments*** Fully-amortized payments	Interest-only payment option: \$24,000 loan amount, \$94 interest payment for 179 months, Balloon payment of \$24,889 due on 180th month based on 4.79% APR.
Greater than \$55,000 - or - on-owner-occupied, secondary home	5.49% (5.99% APR*)	Fully-amortized payments	Fully-amortized repayment option: \$24,000 loan amount \$202 for 180 months No balloon payment required.

*APR, Annual Percentage Rate based on example loan criteria.

**Deferred Payment option maximum loan amount is \$35,000 and maximum loan-to-value is 80 percent.

***Interest-only Payment option maximum loan amount is \$45,000 and maximum loan-to-value of 100 percent.

Loan availability, terms and conditions current as of 09/01/23 and are subject to change. Visit our website for latest terms and rates. Examples include financing of Craft3 \$795 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, fees may apply. Principal balance and interest (if applicable) is due on sale, transfer, refinance or maturity. Due to Clean Water Loan funding sources, financed projects require a cultural resource review by the Department of Ecology. If a designation is made, the property owner will be responsible for costs incurred. Visit our website for details. NMLS ID 390159



Equitable Loan Structure and Underwriting



Financing tailored to community needs

Lower rates for lower income households.
Deferred payment options for lower incomes
Long terms for monthly affordability.



\$0 out of pocket required

Finance the full project cost
Finance "cost share" clients wouldn't otherwise afford.



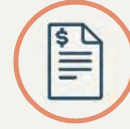
Underwriting for inclusion; perfect credit not required

We consider the ability to repay, but don't require perfect credit. We de-emphasize credit scores, allow ITINs, don't raise interest rates for low credit scores. Don't report to credit agencies.



Lower equity requirements

Borrow up to or in some cases more than the value of the property.
Can consider unsecured when homeowner doesn't own the land.



No cost to contractors for participating

Contractors paid directly by Craft3 upon client authorization.
Deposits support contractor cash-flow, ability to scale.
Workflow supports LHJ, Contractor, lending needs.



Craft3 project navigation staff support every step of the way



Eligibility Criteria Meets Needs, Minimizes Construction Risk

Property

One of the following.

- Septic system is failing
- Septic system at least 25 years old
- Health officials contacted Landowner
- Landowner under orders to fix system
- System destroyed by natural disaster

Not limited to owner-occupied.

- Single-family (owner, non-owner occ.)
- Nonprofits, land-trusts
- Small businesses
- Multi-family
- Manufactured Home Communities
- HOAs and shared systems
- Tribal land

Project

Approved²⁰ designs, fully permitted installations only.

Permanent fixes only, terra lifting or jetting not eligible.

Cultural resource consultation on every project.

Sewer connections allowed when required.

No cost restrictions, but Craft3 reviews bids for consistency, anomalies, asked questions.

Contractors

State and/or Local Health-Approved Designers, Installers

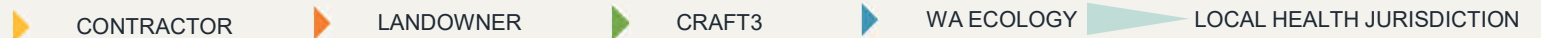
Craft3 extra vetting for BBB complaints, financial controls

Multiple bids recommended, but not required.

Contractors and clients responsible for permitting, maintaining on-site IDPs.



Workflow Supports All Stakeholders



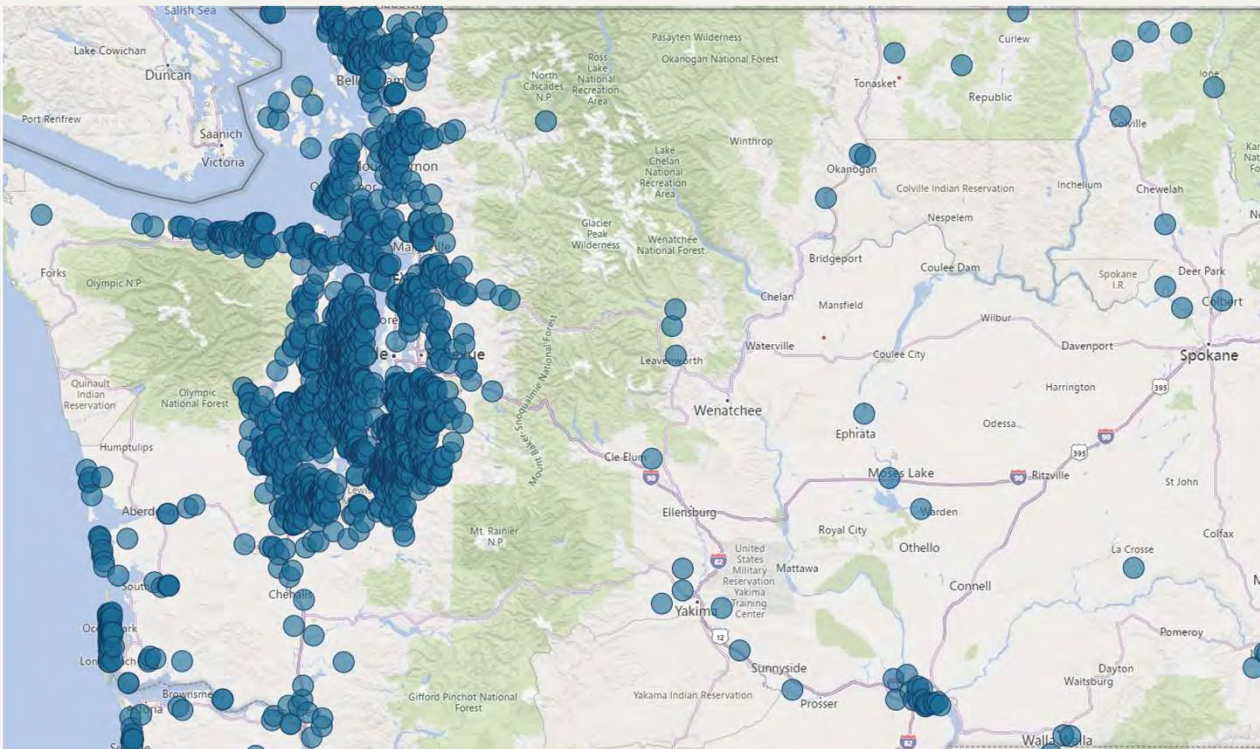
- ▶ 1. Apply for a financing
- ▶ 2. Cultural resources review
- ▶ 3. Evaluate, pre-approve loan application
- ▶ 4. Obtain project design²¹, permit, bids*
- ▶ 5. Sign loan documents
- ▶ 6. Deposit to contractor
- ▶ 7. Perform work
- ▶ 8. Approve installation.
- ▶ 9. Approve Final invoice
- ▶ 10. Final disbursement to contractor(s)
- ▶ 11. Craft3 Reporting to ECY

Including reimbursement for loans capitalized with ECY loan funds.



Regional Clean Water Loan Program Results

7/15/16 – 10/15/23



1,809 Projects financed for \$48 mil.

245 mil. gallon wastewater treated/yr
Improves public health, housing stability. Locations near TMDLs, surface, and groundwater, shellfish.

Expanded access

HHI <80% AMI: 39% of projects
HHI <120% AMI: 55% of projects,
Plus many others that would have been left out

Strong Portfolio Performance

Cumulative loan losses less than 1%

Local Business Impact

Over 300 community-based OSS
Professionals, hundreds of subs paid from loan proceeds.

Statewide Outreach and Collaboration

80+ events reached over 8,500 participants with input that shaped program evolution.

Public Agency Time / Cost Savings

via avoided time/risk of creating separate programs, creating temporary solutions, taking regulatory action, or mitigating degraded waters.



Safeguarding a family home

For Terry, a single parent in Kitsap County, a costly septic system replacement was a crisis. A Craft3 Clean Water Loan let her stay in her home.





A 25-year U.S. Air Force veteran living on military retirement and social security in Whatcom County didn't have \$22,000 to fix a failing septic system. The Craft3 Clean Water Loan made repair possible

Why it Works and Scales

- **Flexible Equitable Lending Solution.**
Loans address more barriers than income.
Grants, if any, not enough to meet the needs.
Consistent requirements, volume helps contractors.
- **Cost-effective one-stop shop.**
Loan structure accommodates range of needs.
Deeper subsidy saved for greatest hardship.
LHJs save time for other priorities.
Less lift, cost, than single-area solutions.
- **Simplifies a difficult process.**
Project navigation support to clients and contractors.
Local, state, federal, data addressed via process.
Loan capital restricted to project;
contractors are accountable, trust they'll get paid for work done.
- **Capitalization public-private partnership.**
Predictable, scalable, low-cost capital can meet community needs consistently over time.
Private matching funds creates flexibility.





Thank you!

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Extra

Loan Fund Best Practices

Serve range of households, extra subsidy for those with lowest-incomes

Many households lack access but cannot qualify for grants.

Grants alone cannot achieve the scale, flexibility, speed to meet evolving needs.

Avoid prescribing loan terms but require transparent pricing/decision criteria.

Wide eligibility to served under resourced communities

Don't restrict access by geography or income

Difficult to achieve equity results with limited project or geographic scope.

Contactors need larger, predictable markets to succeed

Listen to, address motivations, constraints of all stakeholders.

First: financial mechanisms must work for recipients: residents, small businesses, contractors.

Other key stakeholders: community-based organizations, funders, landlords, regulators.

Align capital sources with lender and community needs.

Mini-construction loans with data collection are expensive to administer and break even.

Work with lenders on how to achieve equitable outcomes avoid restrictions that undermine equity and affordability goals

Unequal climate impacts may require additional measures

Communities voice the need for critical home repairs, fire hardening, flood stabilization, and more