# Table of Contents

- **Development Director Message** ........................................ 3
- **Lending and Outcomes** ................................................ 4
- **Equitable Lending Initiative** ......................................... 7
- **Financial and Portfolio Performance** .............................. 9
- **Investors, Grantors, and Wealth Management Firms** ........ 11
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.
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
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 deferments over the life of the loan

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.

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.
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.
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