

# Onsite Septic System Repair & Replacement Loan Support



State of Oregon  
Department of  
Environmental  
Quality

Over 30% of all Oregonians rely on some form of decentralized wastewater treatment, typically onsite septic systems, to treat sewage from their homes and businesses. It is estimated that 10 – 20% of onsite septic systems may fail each year. Failing systems and surfacing sewage are one of the most common sources of residential water quality complaints reported to DEQ by the public. Many older failing systems were constructed prior to current regulations and property owners lack funding for necessary repairs and upgraded systems.

## Failing Septic Systems are a Threat to Public Health and the Environment

The consequences of a septic system failure may cause or contribute to sewage back-up to the home or surrounding property; degradation of groundwater quality; delivery of excess bacteria and nutrients to downstream waters; and potentially causing or contributing to harmful algae blooms and/or closures of waterbodies for recreational or shellfish harvest uses. Repairing or replacing failed septic systems is important for protecting the quality and health of our lakes, streams, shellfish beds and drinking water sources, and reduces the risk of public exposure to untreated sewage.

Unlike homes served by municipal sewer systems, owners of onsite septic systems bear direct responsibility for maintenance and replacement costs associated with their systems. Repairs can cost thousands of dollars, and full system replacement can cost tens of thousands. Affording these expenses is challenging for many households and some are unable to qualify for loans – causing a challenging situation for the homeowner, for public health and for the environment.

## Background and Current Status of the Oregon Onsite Septic System Loan Program

The Onsite Loan Program (OLP) was established by the 2016 Legislature to address nonpoint source pollution caused by failing privately owned septic systems, a leading cause of water quality contamination across the state. Since the program was established, DEQ has distributed over \$1.7M in grant funding (GF pass-thru) to a non-profit community development lending institution, Craft3, which was awarded the contract to administer the program.

The partnership between Craft3 and DEQ was very successful. Craft3 reports that it leveraged the state

grant funding to process over \$3.5M in low-interest loans to 181 Oregon residents and small businesses to install or improve their septic treatment systems. The geographic reach was statewide with residents in 28 counties receiving loans, with 24% of these loans going to low income households.

Funding for the program was not renewed in the 2019 and 2020 legislative sessions. As a result, Craft3 depleted available funds and stopped taking new applications in June 2020. Nevertheless, the demand for this loan program, and the threat of failing septic systems, remain high.



Residential septic system replacement project

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*DEQ is a leader in restoring, maintaining and enhancing the quality of Oregon's air, land and water.*

## Additional Funding is Needed for the Program to Become Self-Sustaining

If the OLP continued to operate – and as loans are repaid – it is anticipated that the program would ultimately operate as a revolving fund for ongoing septic system repair/replacement needs in the state. However, the OLP is not expected to result in a revolving fund for many years. Since the program's financing terms include special rates and deferred payment options which make the program accessible to low-income Oregonians, more initial capital is needed until loans are sufficiently repaid. Therefore, an ongoing infusion of grants or other fund capitalization is necessary for the initial 8-12 years of program operation before the fund will be sustainably revolving.

## Clean Water State Revolving Fund

The 2019 Legislature passed Senate Bill 884 to expand the definition of borrowers eligible for loans from the Clean Water State Revolving Fund (CWSRF), to allow for lending to non-profit Community Development Financial Institutions

(CDFIs) that provide loans to individual homeowners for septic repair, replacement or connection to public sewer system, if available. SB 884 requires that DEQ amend existing rules and adopt a new rule in OAR chapter 340-054 that establishes policies for CWSRF pass-thru lending to CDFI's for these purposes. Prior to SB 884, only public entities were eligible borrowers from the Oregon CWSRF. In response to this change, DEQ plans to propose rules for adoption by the Environmental Quality Commission in early 2021 that will allow for lending to non-profit CDFIs while ensuring CWSRF loan fund integrity and mitigating financial risk. This new potential source of funding is intended to help support some functions of OLP activities, but these loans alone may not allow CDFIs to offer the type of deferred payment lending options needed by economically disadvantaged households. Other sources of fund capitalization will continue to be necessary to meet the program's objectives, including the ability to offer partially and fully deferred loans to applicants with limited financial means.

#### *Other Funding and Lending Solutions*

As demonstrated in other states, grant funding or charitable donations are a critical component for establishing fund capitalization until a loan program can become a self-supporting revolving fund. General Fund appropriations in 2016 and 2017 initiated the OLP in Oregon, but additional (or comparable) investments will be required for the program to be restarted in the near-term.

In addition to CDFI administered loan offerings, the state CWSRF loan program has been and continues to be available to support pass-through lending to eligible public entities that can be used to support local community needs, including loans for low-income resident septic system repair or replacement. Expanded use of the CWSRF for these purposes may be a viable solution to address this problem for some counties or other eligible local/regional organizations such as SWCD's.

Near-term funding to support septic system repair/replacement efforts would provide multiple benefits that include:

- Addressing nonpoint source pollution caused by privately owned failing septic systems - a significant source of water quality contamination across the state;
- Providing valuable financing solutions to low-income residents that otherwise may be unable to afford repair or replacement costs;
- Supporting local business opportunities for septic system professionals to maintain, repair and replace failing systems

#### **Alternative formats**

DEQ can provide documents in an alternate format or in a language other than English upon request. Call DEQ at 800-452-4011 or email [deqinfo@deq.state.or.us](mailto:deqinfo@deq.state.or.us).