

RevTech – Cleaning up Contaminated
Properties for Reuse and Revitalization

July 22-24, 2003

Success in Private Sector Financing
of Environmentally Challenged
Properties













Success in Private Sector Financing of Environmentally Challenged Properties

1. Financing Contaminated Property Transactions
2. The Economics of the Transaction
3. Environmental Risks that Lenders and Borrowers Face
4. Mitigants to Environmental Risk

Financing Contaminated Property Transactions

Dean Jeffery Telego
Environmental Bankers Association

Overview:

Lenders Financing Contaminated Property Transactions

- Take Home Messages
- Banker's Historical Perspective, overcoming the barriers and challenges
- Underwriting Brownfield Deals
- General Credit Environmental Risk Management Rules, Standards, and Stages
- Future Trends, Market Forces, and Emerging Issues

Historical Perspective and Forces Affecting Lending on Brownfields

- Brief History of environmental lender liability and CERCLA
- Brightline test and policing loans
- Downturn of real estate market in late 1980s & early 1990s
- Evolution of bank regulatory guidance and policies
- Design of bank environmental risk policies and procedures

Underwriting Brownfield Deals

- Credit Risk Questions affecting the Deal
- Types of Credit Risks
 - Categories of environmental risk
 - Bracketing the risk
 - Doing the deal despite the risks

General Credit Environmental Risk Management

- Rules
- Stages
- Standards

Future Trends, Market Forces, and Emerging Issues

- EPA's Brownfields Action Agenda to Land Revitalization Agenda and One Cleanup Program
- Public/Private partnerships and pilots
- Role of states, risk-based decision making
- Outreach to banking community
- Recent brownfield legislation and All Appropriate Inquiry Standards and Practices

A Lender's Perspective

James Colella, Vice President
PNC Financial Services Group, Inc.

A Lender's Perspective

- Sponsorship
- Guarantor
- Project Team
- Project Fundamentals
- Loan Type / Asset Class
- Loan Purpose
- Loan Sizing
- Recourse
- Permanent Lender

Sponsorship

1. Reputation and Experience
2. Management Team
3. Local/Regional vs. Non-Local/Regional Developer

Guarantor

1. Ability and Willingness
2. Guarantor Covenants

Project Team

1. Project Manager
2. General Contractor
3. General Contract (GMP vs. Lump Sum)
4. Bonding Requirements
5. Architect
6. Environmental Consultant

Project Fundamentals

1. Bank Underwriting
2. Pro-forma
3. Market
4. Appraisal
5. Phase I, II, etc.

Loan Type / Asset Class

1. Office
2. Multi-family
3. Industrial
4. Retail
5. Hotel

Loan Purpose

1. Construction
2. Acquisition
3. Mortgage
4. Refinance
5. Income Property
6. Owner Occupied

Loan Sizing (Construction Loans)

1. Conventional Financing
2. With a Qualified Take out Source
3. Construction Loan with Pre-Funded
Take Out Source

Recourse

1. Principal Repayment Guaranty
2. Completion Guaranty
3. Cost and Carry Guaranty
4. Environmental Indemnity

Permanent Lender – Underwriting Assumptions

Spreads over 10 yr Treasury:

< 50% LTV

Sub 1.5%

50% - 65%

1.50% - 1.65%

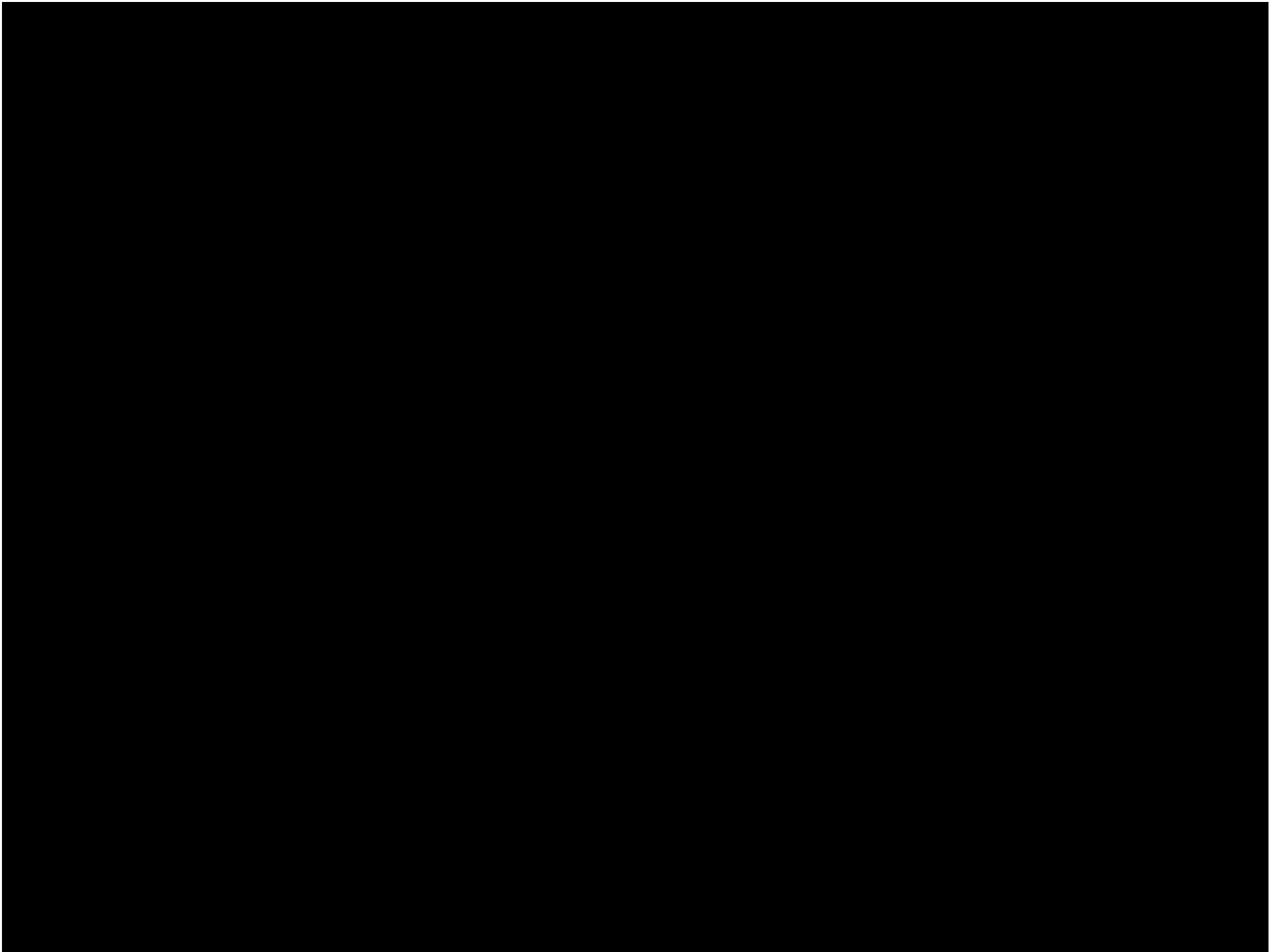
65% - 75%

1.65% - 2.25%

Permanent Lender – Underwriting Assupmtions

LTVs - Life Company vs Conduit:

Retail	70-75%	75-85%
Office	65-70%	70-75%
Multi-Family	75-80%	80%
Industrial	70-75%	75-80%
Hotel	50-55%	55-60%



Environmental Risks that Lenders and Borrowers Face

William Muzychko, Vice President
PNC Financial Services Group, Inc.

Environmental Risks to Lending

1. Impairment of Cash Flow
2. Decline in Value of the Collateral
3. Inability to Repay/Refinance
4. Enforcement Action
5. Direct and Indirect Liability
6. Image/Reputation Risk

Cash Flow

1. Newly Discovered Issue
2. Non-Collateral Property
3. Legacy Risk
4. Failure of Risk Transfer Method
5. Excess Remediation Cost
6. Offsite Contamination

Cash Flow

7. Business Interruption
8. Compliance Violation
9. Health Related Costs
10. Change in Regulations
11. PRP Costs
12. Catastrophic Event

Collateral Value

1. Inadequate Property Valuation
2. Phase I ESA Issues
3. Designated Substance Issues
4. Wetland or Flood Plain Issues
5. Adjacent Property Land Use Changes
6. Soil/Groundwater Contamination
7. Contaminant Migration
8. Operational Changes

Collateral Value

9. Improper Handling or Storage of Chemicals
10. Deterioration of Equipment
11. Change in Property Use, or Tenants
12. Changes in Regulations
13. Changes in Management Team
14. Excess Remediation Costs
15. Activity/Use Limitations, (Institutional and/or Engineered Controls)

Repayment & Refinance

Initial Lending Assumptions:

1. NFA Letters
2. Off-Site Disposal and Documentation
3. Inadequate Due Diligence
4. Discovery During Construction
5. Regulatory Changes

Repayment & Refinance

Operations:

6. On Site Contamination
7. Migration of Contamination
8. Impacts to Natural Resources
9. Regulatory Compliance Issues
10. Construction/Renovation Issues
11. Damage to Structure
12. Mold Growth

Enforcement/Third-Party Actions

1. On-Site Conditions
2. Off-Site Conditions
3. Changes in Standards
4. Changes in Cost Estimates
5. Site Use
6. Health & Safety Issues
7. Third-Party Considerations
8. Unanticipated Events

Liability

1. Third Party
2. Natural Resource Damages
3. Lender Liability
4. Product Liability or Workplace Adverse Health Affects
5. Shareholder Lawsuits
6. Compliance Violations
7. Potentially Responsible Party (PRP)
8. SEC Reporting

Liability

9. Former Facility (Legacy)
10. Damage to Equipment During Intrusive Investigations
11. Improper Waste Disposal, and Handling Practices
12. Negative Press
13. Nondisclosure of Known Environmental Impairments
14. Work Stoppage - Inadequately Investigating Environmental, Developmental and Social Risks

Image/Reputation Risk

1. Lack of Senior Management Commitment and Support
2. Contaminated Property Transactions
3. Oversight or Enforcement Actions by Regulatory Agencies
4. Borrower's Image
5. Credit Image Risk

Image/Reputation Risk

6. Statutory or Tort Actions
7. Perception of a Negative Environmental Exposure
8. Inadequate Risk Communications or Disclosure
9. Lack of an Environmental Risk Management Due Diligence Program

Mitigants to Environmental Risk

Daniel Kaley, Vice President
Citizen's Financial Group

Mitigants to Environmental Risk

1. Conduct a Thorough Investigation.

- Phase I Environmental Assessment
- Phase II Investigation
- Phase III Remediation
- Regulatory Investigations
- Remedial Cost Estimates

Mitigants to Environmental Risk

2. Financial Remedies

- Indemnification Agreements
- Escrows
- Insurance
- Letters of Credit
- Government Grants
- Low Interest Government Loans
- Tax Incentives
- Opportunity Zones
- Financial strength of the borrower

Mitigants to Environmental Risk

3. Regulatory Remedies:

- “No Further Action” Letters
- Covenants Not to Sue
- Approved Remediation Plan

Mitigants to Environmental Risk

4. Other Remedies

- Borrowers' Development Plan
- Previous Experience
- Coordination among Development Team
- Surrounding Vicinity Development
- Scheduled Disbursements
- Alternate Collateral

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