

THREE ENVIRONMENTAL DUE DILIGENCE PRODUCTS TO CONSIDER

Transcript from “Video tutorial: Three environmental due diligence products to consider,” second in a series of brief tutorials on Environmental Due Diligence.

Watch the full video here:

<http://pvcservices.com/2012/11/video-tutorial-three-environmental-due-diligence-products-to-consider/>

Welcome to part two of Environmental Due Diligence, a series of quick tutorials for lenders and commercial real estate professionals.

During the first tutorial, we talked about how using pre-existing environmental documents is a good starting point in your quest for appropriate environmental due diligence.

But what if previous reports aren't available and you need to start from scratch?

Here's a brief overview of three environmental due diligence products to consider, and how to make the best choice for your individual deal:

OPTION 1: DATABASE WITH RISK RATING

This product uses a basic datamap report that you've likely seen from FirstSearch and EDR. This is used in conjunction with a borrower Questionnaire and a historic research source such as a Sanborn Fire Insurance Atlas.

An Environmental Professional can review this information to provide a low or high risk rating for a particular property.

This option may be a good choice when the collateral is considered to be a low-environmental risk; the dollar amount of the deal is not significant; or your borrower already owns the collateral.

If your borrower is going to rely upon this report and a purchase is involved, they should consider a more comprehensive investigation – regardless of the lender’s minimum requirements.

OPTION 2: TRANSACTION SCREEN

The Transaction Screen should include the research documents that were referenced in the Database Search with Risk Rating, and often includes at least one additional piece of data – such as a fire department search for historic underground tanks.

The Screen differs most importantly from Option 1 in that a site inspection is conducted and a Questionnaire is completed by an environmental professional.

This can be a critical component in determining the true environmental risk posed by a particular piece of collateral, especially if issues associated with on-going operations are not reflected in a datamap or historic research sources.

Consider a Transaction Screen when the collateral type suggests a site inspection is needed for a greater comfort level.

OPTION 3: PHASE I ENVIRONMENTAL SITE ASSESSMENT

Consider the Phase I the Cadillac of preliminary environmental assessments. The Phase I will utilize all reasonable ascertainable sources of information.

For example, in addition to the data sources previously discussed in the Screen, the Phase I also includes a review of records found at most municipal departments, such as Assessor’s, building department, Conservation Commission, and clerks offices.

Additionally, the Phase I document should provide more displays, such as a detailed site plan and photographs.

The Phase I is necessary to claim lender liability exemption and is often required by the SBA on property types considered high risk.

You might also choose a Phase I for a moderate to high dollar deal; when your borrower is purchasing the property; and prior to foreclosure activities.

I hope this information helps you navigate the environmental due diligence options during your next deal. Next time we’ll talk about how to interpret findings of environmental reports. Thanks for watching.