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Due Diligence Report

FALL 2006

Sound Environmental Policy By Steve Price, VP Due Diligence

As a Due Diligence leader, one of PME's main goals is to assist financial institutions who don't have the luxury of in-house environmental staff, with environmental risk management in loan transactions. This includes understanding the structure of the transaction, and the different risks involved for the borrower and the bank. Very important to this process is having an environmental policy within the bank that adequately assesses risk for a given transaction. Having a sound environmental policy does not necessarily mean that you complete an ASTM Phase I ESA for every loan, and never lending on properties which may have some concerns. It is important to know basic loan information such as if the loan is new purchase for the borrower or a refinance; whether it is a new loan to the bank or the bank already holds the mortgage; the history and/or environmental risk of the collateral; loan amount and loan to value; potential use/reuse limitations associated with contamination which could affect highest and best use value; and the overall environmental risk tolerance of the lender. Once these basic factors are known, PME can provide tailored environmental risk assessment to address potentially complex environmental concerns and get the deal closed.

PME has recently created a comprehensive environmental policy for a community bank which addressed all aspects of lending, foreclosure and new property acquisition by the bank. The policy was fairly simple, straight forward, and easy to use and understand by the lenders, while at the same time protects the borrower (when possible) and the bank from unnecessary environmental liability associated with taking real estate as collateral. If your bank could use sound environmental policy and/or advice, please contact PME, we would appreciate the opportunity to assist you.

Environmental Due Diligence for Refinances

By Steve Price, VP Due Diligence

Most lenders estimate that 60% or more of their commercial real estate (CRE) lending is refinancing existing loans. In most of these situations the borrower already owns the property and potential environmental liabilities. The goal of environmental due diligence for refinances is to provide the bank with adequate information to assess the value of the collateral, and identify issues that may effect the use/resale of the property. For most sites, this can be accomplished with less effort and costs than a Phase I Environmental Site Assessment (ESA) completed in general accordance with the ASTM Standard.

One of the common myths is that the bank needs to do a full Phase I ESA at the front end of the deal to protect them in the event they foreclose on the property at some time in the future. This is NOT true. In the event of a foreclosure, the bank is considered a new purchaser under the law, and must conduct their own environmental due diligence (Phase I ESA and Phase II ESA/BERA EBEA, as needed) to take advantage of State and Federal liability exemptions (even if a full Phase I ESA was previously completed on the property).

The typical Phase I ESA will cost \$1,900 to \$2,500 for most commercial and industrial properties. A new purchaser benefits from completing a Phase I ESA because it provides them with

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- Environmental Due Diligence for Refinances
- Wetland Impacts on Site Development
- Property Condition Assessments—What are they?

“Mid-West's Premier Due Diligence Company”

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PM Environmental, Inc.

PM Environmental, Inc. (PME) is an environmental due diligence firm that has been serving banking and developer clients since 1992. PME's success is based on our ability to assess environmental risks and help our client's minimize these risks. We help simplify the technical issues so our clients can make sound business decisions. We do over 500 Phase I ESA's per year and have evaluated thousands of sites throughout the Midwest.



PME operates our own sampling equipment. This reduces our costs and makes us more responsive!! We just added a 3rd geo-probe to better serve our clients.

Our due diligence services include:

- Bank specific Due Diligence/Risk Assessments
- Transaction Screens (ASTM E1528)
- Phase I Environmental Site Assessments (ASTM E1527)
- Phase II Environmental Site Assessments
- Property Condition Assessments (PCA)
- Baseline Environmental Assessments
- Brownfield Redevelopment Planning
- Environmental Liability Assessments
- Asbestos Inspections and Abatement
- Lead Paint Inspections
- Mold Inspections and Remediation

Environmental Due Diligence for Refinances (Continued)

liability protection under federal environmental laws. At the same time, it provides the bank with appropriate information to assess the risks associated with the property.

For a refinance transaction where the borrower already owns the property, they get no such liability protection, and usually, it is the bank's environmental policy requirements that drive the due diligence process.

In lieu of completing a formal Phase I ESA, a variety of activities can be completed to provide the bank with adequate information on the property to make risk decisions, and can include any combination of the following:

- Site Reconnaissance by experienced environmental personnel
- Interviews with owners/operators or others familiar with site history and operation
- Government Database Review
- Review of local, State and/or Federal Governmental files/records
- Review of historical sources including aerials photographs, Sanborn maps, City Directories, etc.
- Review of previous environmental reports completed on the property

Often times the scope of work required to obtain adequate information regarding environmental risk can be less than a full ASTM Phase I ESA, but will ultimately be determined by the type of property, history, operations, etc. These limited reviews generally cost between \$600 to \$1,500, and can be done quicker than a full Phase I ESA report. This ultimately saves the bank and the borrower time and money in the transaction process, AND provides the information needed to make a risk based decision.



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Wetland Impacts on Site Development By James Charles, PE, CPG

The presence of wetlands on a property can significantly affect a developers ability to develop or improve an existing piece of property. This is true for undeveloped parcels or sites with existing structures. New purchasers and lenders need to be aware of these impacts and verify they will not prohibit the intended development. **REMEMBER:** sites do not have to be “wet” to be classified as a wetlands. The wetlands classification depends on moisture content, soil types, and plant types. Even if the site contains wetlands, there are several additional requirements that will determine if the area is a “regulated wetland” and these will vary by state. In Michigan, the wetland regulations are found in the Part 303 rules of NEPA (1994 PA 451). As a developer or lender, the first step is to determine if the site contains any wetland that may be subject to regulations. An initial assessment can be completed relatively inexpensively. If there are wetlands it will need to be determined if these are subject to regulation and potential restrictions. We recently worked on a site where 2/3’s the property could not be developed. Buyer beware!!!

Events

- West MI ACG Annual Dinner Meeting, September 27
- West MI ACG Breakfast Meeting October 18
- West MI ACG Breakfast Meeting November 15

Contact: Julie Metsker
 Phone 616-732-7149

- ACG Detroit—The role of M&A in Corporate Strategy September 26
- ACG Detroit—History and Current Trend in Distressed Inverting October 17th

Register Online:
www.acg.org

Property Condition Assessment—What is it? By James Charles, PE

One of items that can fall through the cracks with commercial real estate lending is the condition of the structures and mechanical systems. Structural problems or obsolete systems can lead to unexpected project development expenditures that could influence the viability of the project and major impact on the value of the collateral. Major repairs can exceed \$100,000 for many systems. ASTM developed a standard specification for conducting **Property Condition Assessments (PCA)**. A PCA is a systematic process for evaluating a structure and major operating systems that include:

- Superstructure
- HVAC
- Roofing Systems
- Parking
- ADA Compliance
- Electric Systems
- Plumbing Systems
- Interior/Exterior

Objectives of **ASTM E2018-01** is to (1) define good commercial and customary practice for the PCA of primary commercial real estate improvements; (2) facilitate consistent and pertinent content in a **Property Condition Reports (PCR)**; (3) develop practical and reasonable recommendations and expectations for site observations, document reviews and research associated with conducting PCA and preparing PCRs; (4) establish reasonable expectations for PCRs; (5) assist in developing an industry baseline standard of care for appropriate observations and research; and (6) recommend protocols for consultants for communicating observations, opinions, and recommendations in a manner meaningful to the user.

PCAs completed under ASTM standards provide estimates of probable costs for changes or repairs that require immediate attention (Deferred Maintenance Items). The PCA also provides opinions concerning probable costs to remedy physical deficiencies that need to be made in the near future, usually within the first year or two (Short-Term Repairs). Estimates provide assessment of renovation costs based on current market rates, enabling stakeholders to project reasonable budget figures when considering property values.

Please contact PME if you are interested in our PCA services.

PME News

PM Environmental, Inc., has been awarded a two year contract with the Michigan Department of Transportation (MDOT) to perform Preliminary Site Investigations (PSIs) for MDOT on a statewide basis on construction projects. Only four consultants were selected state wide. PME has been an approved MDOT consultant for several years and has successfully completed numerous projects. PME’s selection was based on technical resources, experience, and cost structure.

EPA’s AAI Rule effective November 1, 2006. Make sure your Phase I’s meet the new standard.

Grand Rapids Jennifer Rezmer has joined PME’s Grand Rapids office as a Project Consultant. She has over 7 years experience in due diligence, groundwater monitoring, and UST projects.