



Environmental Review in Commercial Real Estate Lending

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Presentation Outline

- Environmental due diligence at CIBC.
- Why are lenders wary?
- Lender's perspective
- Assessing risk
- Mitigating risk
- Some specific concerns.
- Going forward: are the times changing?



Environmental Risk Management at CIBC

- First to hire an environmental risk manager (1991)
- Corporate Environmental Policy (1993)
- Formal Environmental risk guidelines (mid-1990's)
- Environmental Credit & Investment Policy (1999)



Environmental Risk Management at CIBC

- Only CIBC and RBC have full time staff.
- Deal with all aspects of environmental exposure:
 - **Corporate Real Estate**
 - **Procurement, Supply, Waste Streams**
 - **Transactional Due Diligence**



Why are lenders wary?

Direct Liability

- Largely mitigated by provincial regulations
- Prefer not to get to this point!!



Why are lenders wary?

Indirect Liability

- Collateral value at risk
- Borrowers incur costs, impairing ability to meet financial obligations
- Management focus drawn away from running the business



Why are lenders wary?

Reputational Risk

- Global Reputation and Legal Risk Policy introduced in 2004.



Assessing Environmental Exposures

Risks examined from three perspectives:

1. Understanding known & expected issues.
2. Potential for future risk exposures.
3. Reputational issues.



Assessing Environmental Exposures

- ESAs (Phase I & II)
- Remediation Reports
- Risk Assessment/RSC



Evaluating Degree of Risk (keeping things in perspective)

- Property type/use (commercial, industrial)
- Loan amount
- Location
- LTV
- Borrower credit rating
- Borrower history



Environmental risk is not a separate issue!

An essential component of evaluating overall credit worthiness.



Mitigating Environmental Risk Exposures

- In-house expertise
- Competent advisors (environmental & legal)
- Training: Relationship & Risk Managers
- Insurance products
- Reps and warranties in lending documents



Some Specific Considerations

- Current, complete, quality information
- Compliance: cleanup vs. risk assessment
- Effective environmental management controls



“Brownfield” Lending

- Business case must make sense
- Potential liabilities need to be understood
- “Full disclosure”
- Need to be comfortable with environmental status



“Brownfield” Lending

Treated like other lending opportunities
involving elevated environmental risk



Going Forward: Are the times changing?

- Greater acceptance of risk assessment as “mainstream” is necessary.
- Greater certainty needed regarding marketability/liquidity.
- Lenders will still move cautiously.



Thank You!



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