

# Environmental Bankers Association



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Participation &  
Syndication Loans

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**Environmental  
Bankers  
Association**



## **Winter Conference**

January 15-18, 2017

Tampa Marriott Waterside

Tampa, Florida

# Overview

## ○ **First Half**

- Set the Stage
- Review the survey data from the Fort Worth meeting\*
- Clarification polling

## ○ **Second Half**

- Guided discussion about how we can use this data to improve the due diligence process for participation and syndication loans.

\*Note: all references to Survey Results in the deck are the 2016 Fort Worth EBA Survey Results.

# Setting the Stage

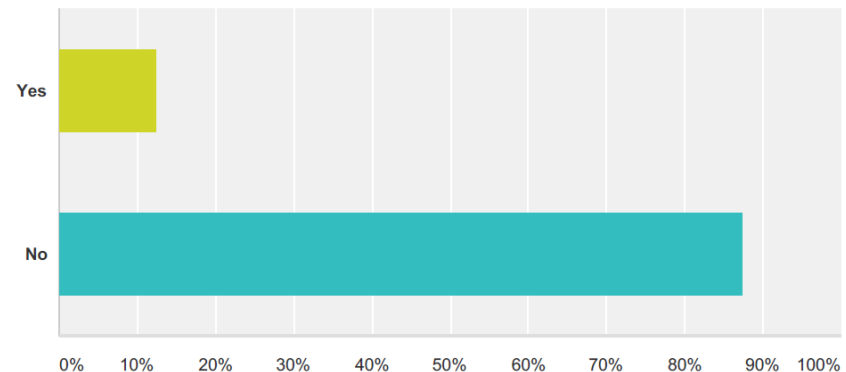
- Multiple banks
- Different risk tolerances
- Compressed timelines
- Complex operations
- Sometimes competing interests among bank group participants.
  - Lead bank vs. participating bank
  - Internal bank documents (including summary tables) are not shared with other banks

# Survey Results

- **Almost 80%** of bank respondents were from banks with assets over \$25B.
- **75%** of respondents reported that **either the bank or borrower could engage** environmental due diligence.
- Most banks want **FINAL** reports.

Q15 Do you require draft reports?

Answered: 16 Skipped: 6



## Survey Results (cont.)

- **Over 80%** of bank respondents have a scope of work that **extends beyond the basic requirements of an ASTM Phase I ESA**. (ACM, LBP, Radon, recommendations, cost estimates for issues, and file reviews)
- **Over 80%** of bank respondents have a scope of work that is **less than an ASTM Phase I ESA**.

## Survey Results (cont.)

- **Only half** of bank respondents report that they **extend reliance to participants** within engaged due diligence.
- **Lead banks rarely (over 80%) talk** to participating banks **prior** to engaging due diligence.
  - Only 30% of banks report that a kick off meeting is utilized.
  - Almost 50% banks will engage in conversation post due diligence.

# Poll Questions....

- For the banks and consultants, **if you were invited to a kick off call on a deal, would you participate?**
  - Yes
  - No
- For the banks and consultants, **do you ask for the names of banks involved in a transaction?**
  - Yes
  - No



## Survey Results (cont.)

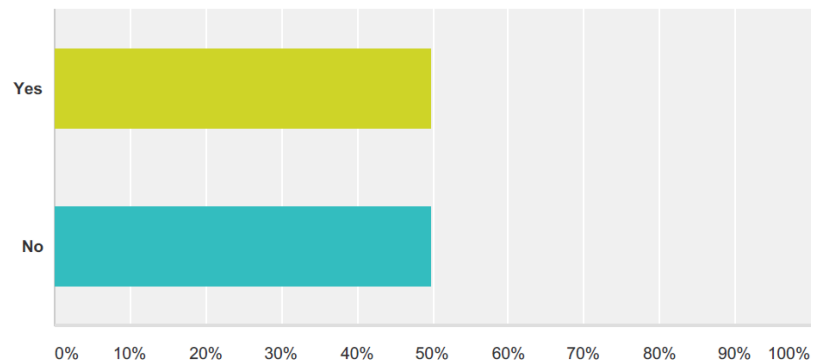
- **Most banks (over 60%) review all reports** associated with the transaction.
- **Only half** of bank respondents **require a summary table** as part of the engaged scope of work.
  - But over 60% share the summary table (not 60% of the half...)

# Poll Question....

- Of the bankers in the room, would you find a Phase I ESA vendor summary table helpful in your review process?
  - Yes
  - No

Q12 Do you require a summary table?

Answered: 16 Skipped: 6



# Poll Question....

- Of the consultants in the room, how much more would you charge to include a summary table as part of your **Phase I ESA deliverable (assume 10 sites)**?
  - Under \$500
  - \$500 to \$1,000
  - \$1,000 to \$1,500
  - Over \$1,5000

## Survey Results (cont.)

- **Over 80%** of bank respondents **DO NOT share internal reviews** with participants.
  - Almost 60% of bank respondents report they outsource reviews
  - But less than 40% of bank respondents report they ask for a summary table as part of the outsource scope.
  - Outsourced reviews are generally not (90%) limited by bank prescribed materiality.

## Poll Question....

- Of the consultants in the room, how much more would you charge to include a summary table as part of your **Third Party Outsource Review deliverable (assume 10 sites)?**
  - Under \$500
  - \$500 to \$1,000
  - \$1,000 to \$1,500
  - Over \$1,500

## Survey Results (cont.)

- Most lead banks move forward based on internal credit decisions.
- When participating banks do not agree with the lead bank's scope, they move forward based largely on internal credit decisions.

# Poll Question....

- For the bankers in the room, what data do you provide to aid in the internal credit decision (choose 1 answer)?
  - Cost estimates from engaged Phase I ESA vendor
  - Cost estimates from outsource vendor/reviewer
  - Internal departmental data/experience
  - Other-explain

# Survey Results (cont.)

- Insurance Limits
  - Almost 60% of banks will NOT allow participants to request higher insurance limits from lead bank's engaged vendor.



# Poll Question....

- Of the consultants in the room, would you provide higher insurance coverage to a participating bank than they did for the lead bank?
  - Yes
  - No

# Take Aways

- Are there guiding principles?
  - Perhaps a summary table?
- Especially in light of participation and syndication deals.
  - Better communication at front end can save time and frustration at the backend.
  - Think about the other banks in the transaction
    - Consider their due diligence needs

# Summary Table Format/Content

## Option A

[REDACTED] Environmental Due Diligence Review Summary and Action Steps based Phase I ESA done by [REDACTED] on May 29, 2015		
Name and Location	Property Description and Review Findings	Conclusions and Action Steps
[REDACTED]	<p>The subject property consists of 7.62 acres improved with a nursing home (60 beds; 21,025 square feet), parking lots/drives, and landscaped areas constructed in 1996 on previously undeveloped land. The subject property is served by municipal water and on-site septic systems.</p> <ul style="list-style-type: none"> <li>• → An integral 600-gallon AST associated with an emergency generator is located at the subject property. No staining or other evidence of releases was observed in association with the AST.</li> <li>• → The subject property is located in EPA Radon Zone 1. Radon was reported in two of four samples in 2007 at concentrations above the USEPA advisory threshold for residential radon exposure. The elevated samples were collected in the west wind basement. To reduce radon concentrations, a basement exhaust system has been in operation in this location since 2011. Subsequent radon testing conducted in 2011 and May 2015 indicated radon concentrations were below the advisory threshold for residential radon exposure.</li> </ul>	<p>The environmental risk associated with the subject property has been adequately assessed, and no significant or de minimis environmental concerns were identified.</p> <p>No further environmental assessment of the subject property is warranted at this time.</p>
[REDACTED]	<p>The subject property consists of 2.96 acres improved with a nursing home (13,400 square feet), a shed (300 square feet), parking lots/drives, and landscaped areas. Historically the subject property was improved with a residence since at least 1883; and converted to a convalescent facility in 1959 with additions in 1965 and 1974 and renovations in the 1980s. The subject property is served by municipal water and an on-site septic system.</p> <ul style="list-style-type: none"> <li>• → A 330-gallon fuel oil AST for heating is located at the subject property. No staining or other evidence of releases was observed in association with the AST.</li> <li>• → Based on the date of construction, ACM are potentially present within in-place building materials. Observed suspect ACM included pipe insulation, ceiling tile, vinyl floor tiles, and wall system materials. The suspect ACM was in generally good condition.</li> <li>• → Based on the date of construction, LBP may be present within the building improvements. The current condition of painted surfaces is unknown.</li> <li>• → The subject property is located in EPA Radon Zone 1. Radon testing was collected</li> </ul>	<p>The environmental risk associated with the subject property has been adequately assessed and de minimis environmental concerns were identified.</p> <ul style="list-style-type: none"> <li>• → Provide current asbestos O&amp;M Plan by October __, 2015 or develop and implement an asbestos O&amp;M Plan (\$500) within 30 days thereafter.</li> <li>• → Provide current LBP O&amp;M Plan by October __, 2015 or develop and implement an LBP O&amp;M Plan (\$500) within 30 days thereafter.</li> </ul>

# Summary Table Format/Content

- Option B

**Phase I ESA Report Summaries**

Proj. #	Client Project #	OSI Store #	Property Name	Address	City	State	Zip	Visit	Final	No Issue Identified	REC	HREC	ASTM Non-Scope Considerations	Conclusions	Recommendations
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New Proj. Number	Proj. Number	Address	City	ST	Zip	Information Reviewed	Previous Report Exists	Previous Report Date	Previous Report(s) Reviewed	Site Description	History	No Concerns Identified	REC	HREC	ASTM Non-Scope Issues	Consultant Recommendations
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# Poll Question.....

- For the consultants and bankers, which option do you prefer?
  - Option A
  - Option B
  - Option C, please explain

# Next Steps

- Consensus to participate
- Working Group for base headings
  - Create heading modules for specific situations (i.e. Gasoline stations)

# Poll Question.....

- Are you interested in working in this working group?
  - Yes, please provide contact information
  - No, but I am really looking forward to using this product in my next participating deal.

Thank You!