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***Environmental
Financial Advisory Board***

**INFORMATION NEEDS OF CAPITAL PROVIDERS
IN BROWNFIELDS REDEVELOPMENT**

This report has not been reviewed for approval by the U.S. Environmental Protection Agency; and hence, the views and opinions expressed in the report do not necessarily represent those of the Agency or any other agencies in the Federal Government.

September 1995

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EXECUTIVE SUMMARY

This advisory identifies and makes recommendations on the informational needs of capital providers in redevelopment transactions of contaminated industrial and commercial sites, known as "brownfields." The advisory recommends actions the Environmental Protection Agency could take to help meet these needs of capital providers.

The advisory is primarily directed at the needs of lenders who provide capital for redevelopment projects. These lenders, or capital providers, have become reluctant partners in brownfields redevelopment, due in part to the uncertainty of financial risk from environmental contamination. Uncertainty translates into a reluctance, or hesitancy, of capital providers to lend money, which inhibits redevelopment and environmental cleanup.

The Board believes that, in many cases, by eliminating or reducing this uncertainty, capital providers would be more inclined to lend money for projects. Redevelopment and the associated cleanup would proceed, in part because capital providers would have a greater understanding of the financial risk involved. As a result, capital providers would be better able to respond to their customers' financing needs, and they would, in effect, become partners in financing environmental compliance.

Criteria for Lending Decisions

This advisory presents a simplified model for lending decisions that reflects basic criteria -- credit, capacity, and environmental factors. The environmental factors are important because they may ultimately impact the credit worthiness of the applicant and the capacity to repay the loan. This advisory further elaborates on several categories of environmental factors that capital providers should be knowledgeable of when evaluating either lending opportunities or their existing loan portfolio. These categories which are meant to be a starting point include: environmental legislation, regulations, and court rulings; site assessment; cleanup; reuse of property; and liability.

Recommendations

The Board recommends that the Agency support the development of a Brownfields Redevelopment Clearinghouse to help capital providers in making lending decisions to fund the redevelopment and cleanup of brownfields properties. The Clearinghouse would be a partnership with various organizations, including: state environmental regulatory agencies; oversight entities and trade organizations of the capital providers; capital providers themselves; other brownfields redevelopment participants, including real estate developers

and brokers, community groups, local officials, and urban and community planners; and non-profit organizations, such as universities, experienced in brownfields redevelopment and financing issues. Potential components of the Clearinghouse would include: Brownfields Databases, Brownfields Case Studies and Model Programs, Brownfields Feedback on Proposed Rules and Regulations, Software for Brownfields Transactions, and Brownfields Resource Material and Consultation.

Development and Implementation

The development and implementation of the Clearinghouse would best occur on a pilot basis, with a target audience for each component, as appropriate. Pilots would allow the developmental and operational features of the Clearinghouse to be fully tested and explored. For example, there may be various alternatives to access the Clearinghouse, such as using databases that currently exist in either the private, public, or non-profit sectors.

The Board does not recommend that the Agency itself develop and implement the Clearinghouse. An approach that the Agency may find effective is to enlist non-profit organizations, such as a university, or group of universities, as lead entities in developing, and later maintaining, the Clearinghouse. Also, in reaching the target audience, the "one-stop general store" concept may be successful. An example of this approach is in Houston, Texas where the U.S. General Store for Small Business recently opened to provide one-stop assistance for small businesses on various government requirements and issues.

Benefits of the Clearinghouse

When capital providers are better able to manage the uncertainties of lending, the benefits reach beyond themselves and their customers. For example, the lending of money for brownfields redevelopment would spur a multitude of investments, both in terms of the economy with greater employment, more productivity, and increased demand for corollary products and services, and in terms of environmental improvements with the cleanup of contamination. Results would be a cleaner environment, a more robust economy, and an improved quality of life for a given locality.

A. Introduction

The Economic Incentives Committee of the Environmental Financial Advisory Board (EFAB) has begun a series of reports on the financial and environmental issues affecting the redevelopment of contaminated industrial and commercial sites, known as "brownfields." EFAB's primary objective with this initiative is to develop policy and program recommendations that would help reduce the risks, and hence the cost, of financing brownfields redevelopment. This advisory, the first in the series, identifies the informational needs of capital providers in redevelopment transactions and recommends actions the Environmental Protection Agency (EPA) could take to help meet these needs. Other brownfields reports underway are: (1) Financing Brownfields Redevelopment: Linkages to the Empowerment Zone/Enterprise Community Program; (2) Summary of Indianapolis, Indiana Brownfields Financing Field Meeting; (3) Brownfields Financing Case Studies; (4) Brownfields Financing Strategies and Techniques; and (5) Brownfields Financing Barriers and Incentives.

The Board wants to express its appreciation and support of EPA's current efforts to promote the redevelopment of brownfield sites. EPA's brownfields redevelopment activities are an organized commitment to help communities revitalize underused industrial and commercial facilities where redevelopment is complicated by environmental contamination. For example, EPA is targeting fifty demonstration pilots in 1995 and 1996 to support creative solutions to promote redevelopment. These pilots will provide concrete data for national policy discussions, along with a series of models for states and localities.

B. Background

The brownfields issue merges cleanup and economic development concerns in the sense that many cities are running out of clean land to accommodate industrial expansion. In the absence of clean, developable locations in cities, companies often choose suburban and rural locations. As a result, cities lose businesses, jobs, and tax revenues. The actual number of underused or abandoned sites is difficult to quantify, but the problem is significant. Some experts have suggested that more than 500,000 sites nationwide show evidence of at least some contamination which could trigger regulatory action and ultimately inhibit their owners from selling the site, securing financing, or proceeding with reuse. Public officials and private lenders can give examples of specific properties and describe the problems, but few are able to offer an overall estimate of their number. Listings of vacant space are readily available, but they include only properties for sale or lease, not property withdrawn from the market.

Brownfield sites are most highly concentrated in older industrial areas of large cities in the Northeast and Midwest regions of the United States. Their economic use has typically ceased or has become highly marginal relative to original use. In Cleveland, Ohio, for example, there are approximately 700 abandoned brownfield sites. They generally have

varying degrees of contamination stemming from waste generation, handling, and disposal practices that occurred before the environmental regulation of recent years. For example, there may be soil and groundwater contamination caused by solvents that either leaked or were improperly disposed. Also, asbestos may be a problem that needs to be removed from a building's interior prior to redevelopment.

Small-to-medium cities and local communities also have brownfield sites, although the incidence there is on a much smaller scale than in large cities. A common occurrence in local communities is old gas stations that are no longer in use that have environmental concerns due to underground storage tanks. Potential buyers/developers would need to assess any contamination and undertake cleanup, as required, in conjunction with the projected reuse of the stations.

C. Overcoming the Barrier of Uncertainty

Capital providers have become reluctant partners in brownfields redevelopment, due in part to uncertainty of financial risk from environmental contamination. The financial risk may be unknown, difficult to measure, or appear too excessive, thus making project profitability questionable. Liability issues are a critical area that contributes to financial uncertainty. Capital providers may become financially liable (i.e. lender liability) for any illness or damage caused by contamination even though they did not know about the problem when they lent money to purchasers or builders. Another concern to capital providers is liability to borrowers which may occur due to the borrowers' possible non-compliance or ignorance of environmental regulations. This liability could hinder the borrowers' ability to repay the loan and affect the value of the collateral used for the loan.

Uncertainty translates into a reluctance, or hesitancy, of capital providers to lend money, which inhibits redevelopment and environmental cleanup. *This advisory attempts to help capital providers by recommending ways of providing information that will enhance their understanding and management of the uncertainties of financial risk attributed to environmental issues.*

The Board believes that, in many cases, by eliminating or reducing the level of uncertainty, capital providers would be more inclined to lend money for projects. Redevelopment and the associated cleanup would proceed, in part because capital providers would have a greater understanding of the financial risk involved. In the process, capital providers would be better able to respond to their customers' financing needs, and they would, in effect, become partners in financing environmental compliance.

Information alone cannot overcome all barriers to brownfields redevelopment as other remedies may be required, such as changes in legislation and/or regulations and the

development of financial options and incentives. For example, changes might be needed to bring greater certainty to the decision-making process to address such barriers as: liability risk for past contamination, cleanup standards and the cost of cleanup, and the lack of funding and incentives. Subsequent advisories will focus on these issues and other such barriers. In addition, there are often non-environmental barriers to brownfields redevelopment that policy makers would need to address, such as those relating to land-use planning/community development, real estate and local market issues, building design, transportation access, and workforce availability.

D. Users

This advisory is primarily directed at the capital providers that are providing debt capital for redevelopment projects, such as financial institutions, finance companies, insurance companies, and pension funds. There are many players in the financial services industry in the United States. They range from traditional "banking" financial institutions, such as commercial banks, thrift institutions, and credit unions, to other financial service firms, such as insurance companies, finance companies, investment banking firms, investment companies, and pension funds.

Besides capital providers, other significant players in brownfield site transactions share a common objective of wanting to reduce the uncertainty associated with brownfield projects. These entities would also benefit from the information in this advisory. They include: the recipients of the debt capital (the borrowers); contributors of equity capital, including real estate developers, industry, and others; and community groups, including its officials, citizen groups, and urban and community planners. Also, with the goal of more effective information triggering more redevelopment and environmental cleanup, regulatory agencies at the Federal and state levels would be extremely interested in the role of information to reduce uncertainty in brownfield projects.

E. Lending Criteria for Capital Providers

A simplified model for capital provider lending decisions, shown in Appendix A, reflects basic criteria throughout the lifecycle of a loan and includes environmental factors. The appendix outlines the criteria -- credit, capacity, and environmental factors -- and also lists examples of questions that capital providers would be asking prospective borrowers.

The lending criteria are not mutually exclusive as there will be overlap, especially regarding the environmental factors. In addition, the criteria are not static in time, since capital providers address them at various stages, as appropriate, in the life of the loan. The "loan life" begins with loan application, later involves loan portfolio monitoring, and ultimately includes loan termination, either repayment, sale, or foreclosure. Environmental

factors need to be aggressively determined up-front in the loan application process since that is probably the time of greater focus, or scrutiny, from capital providers. However, loans should be routinely monitored after they have been made for changes in environmental factors just as they are for the credit and capacity criteria.

Credit and Capacity

The criteria begins with "credit" and "capacity," which are paramount in all potential lending transactions. Capital providers must be concerned about the applicant's credit worthiness and history of past debt repayments. In addition, providers must be assured that the applicant has the capacity to repay the loan either through cash flows of the projected project or from other sources. The Board is not addressing credit and capacity criteria. Granting a loan may be -- pure and simple -- a poor business decision on the part of the capital provider. The borrower may have poor credit history or lacking the skills, or the access to the skills, necessary for project success. Also, the future reuse of the site may be impractical, resulting in little profit, or even a loss, for the project.

Environmental Factors

Another tier of criteria in potential lending transactions is environmental factors. These factors take on great importance because they may ultimately impact the credit worthiness of the applicant and the capacity to repay the loan. There is an array of information on environmental factors that capital providers should be knowledgeable of when evaluating either lending opportunities or their existing loan portfolio. Listed below are several categories of environmental factors meant to be a starting point.

o Environmental Legislation, Regulations, and Court Rulings

Capital providers need to be aware of the principal provisions of environmental legislation relating to their specific business of lending money for brownfield site redevelopment. They should be familiar with legislation governing hazardous waste, solid waste, water, and air. Additionally, they should have an understanding of the relationships between regulations on compliance and enforcement and Federal/state/local authority and responsibility.

Capital providers need access to changes in environmental regulations. These regulations change rapidly with Federal and state authorities continually working on revising existing regulations, as well as developing regulations for new concerns. In addition, the courts in their interpretation of laws and regulations may be establishing important precedents and case law affecting redevelopment. Capital providers need this up-to-date information to help them reduce uncertainty in potential lending decisions.

o Site Assessment

In addition to understanding the environmental legislative structure, capital providers need to be knowledgeable of specific site-related issues. An important place to begin is with the site assessment. For example, are there different levels, or phases, of site assessments, and how do lenders know what level is required? Are test borings needed? Is there a need for chemical, geological, or hydrogeological studies? Capital providers need to be fairly confident that they are, first, asking the right people the correct questions, and, second, getting information which they can rely on in their decision-making process. A reliable site assessment process cannot be over-emphasized because lenders who have confidence in their assessment program and capabilities will better be able to differentiate between high and low risk sites.

Another source on prospective properties is the public record, which contains valuable historical information, especially when capital providers do not have first-hand knowledge of a specific site's history. Lenders should know who maintains the public record, how to access it, and the information they want to gain from the record. Another issue is the cost of the doing the assessments, or better phrased, "who pays and how much?" True, the assessment costs are borne to the potential borrower as expenses of undertaking a redevelopment. However, capital providers may be able to offer their experiences regarding these costs, or even information as to the availability of any fund that may exist, possibility at the state level, to assist with site assessment costs.

o Cleanup

Uncertainty in either the nature of the cleanup or its cost are highly detrimental to a potential transaction. Capital providers need to know such factors as: the cleanup standards that are in place governing the potential project, whether Federal requirements would supersede state requirements, and the existence of any voluntary cleanup programs that borrowers may want to consider.

The potential for a project to have cost overruns makes the price of capital rise. This is true not only for costs of construction, but also for costs of cleanup. In either case, cost escalations could drain a borrower's cash flow which would hamper the capacity to repay the loan. As with site assessment costs, capital providers should also be aware of any funds available that may provide low interest loans or grants for cleanup. This may be the needed "extra" to make the deal possible for the potential borrower.

o Reuse of Property

Reuse of property issues must be considered in conjunction with cleanup issues. An

important point here is whether there is any flexibility in the degree of cleanup that is needed given the future use of the site. Related to future use is future exposure, which may be a criteria of greater importance in determining the degree of cleanup. For example, the future use of the site may be the same, but exposure to health and safety may be different; and conversely, the future use of the site may be different, but exposure may be the same. Standards which would allow for cleanup to be tailored to the future use/exposure of a given site may be more appropriate and result in less cleanup costs which would lower the borrower's financing requirements.

Capital providers should also be knowledgeable of land use control issues, in particular, whether such controls currently exist on the property or could be imposed in the future. Many states impose controls under current law. Controls may be significant because of the impact on future use, acquisition, and collateral value of a site, which in turn could effect future profitability of the project. Again, this is another environmental site issue that could affect a borrower's profitability and therefore ability to repay a loan.

Site marketability is another area that capital providers should be aware. For example, even after the cleanup occurs, will there be a "fear" in the public's eyes of the prior contamination? Even though it is impossible to price this fear factor, capital providers must consider this uncertainty in any potential lending decision. Depending on the likelihood of the public not accepting the future site as "clean," profitability of the potential project could be impacted.

o Liability

Liability issues are important to capital providers for several reasons. They must be concerned about lender liability because as a party to the transaction they could be at risk even though they were unaware of the environmental problem when they lent the money. Capital providers must be knowledgeable of Federal and state liability laws, especially in regard to who would be held responsible and the requirements to secure release. They need assurances that participants to project redevelopment, including themselves, are not at risk to lawsuits from various sources, such as federal, state, or local governments, former or future employees working on the site, adjacent landowners, and local residents. Critical points here include the difficulties in knowing, and in documenting, if and when the responsibility for site cleanup has been met. Another liability issue for capital providers is when borrowers encounter unforeseen liability which could impair their cash flow and ability to repay the loan. This liability could also reduce the value of the property and therefore reduce collateral if the property was used as collateral for the loan.

There may be potential avenues to reduce exposure to liability. Capital providers need to be aware of federal release options, or partial releases, as well as state releases

including any conflicts with federal requirements. Another option involves the assumption of liability by states or local governments. These public entities may consider assuming a degree of risk and in effect providing protection to capital providers and developers. Other possible avenues include Federal policies, such as "comfort letters" or site-specific covenants-not-to sue, which would also lower uncertainty associated with environmental liability.

Insurance is another means that may be available to respond to environmental risks. Capital providers need to be aware of programs that measure and pool risk, in effect pricing risk into the equation. The issue with insurance may not be quantifying the exposure or pricing that quantification, but whether the costs can be absorbed. However, being able to insure the risk, even with its associated cost, brings greater certainty into the decision-making process that may allow the lending transaction to proceed.

Lenders must be able to distinguish between circumstances of liability that are legitimate and valid as opposed to instances where they may be over-reacting to uncertainty. Undoubtedly, liability concerns are an important example where other remedies are needed in addition to information.

F. Role of Oversight Entities and Trade Organizations

In determining the contents of the information for capital providers and the method or options for accessing the information, the Board believes that it would be extremely beneficial to involve the entities responsible for the regulation and oversight of the financial service firms as well as the trade organizations that represent the firms. With these entities knowing the "environment" in which capital providers operate, they would be very helpful in fine-tuning the practical application and utility of the informational tools in lenders' day-to-day operations. These entities may even offer sources, or potential ways, to deliver information to capital providers due to their existing linkages and contacts.

For financial institutions such as commercial banks, they come under the purview of the Office of the Comptroller of the Currency (OCC) if they are nationally-chartered banks, or a state regulatory agency if they are state-chartered banks. The OCC's supervision of banks is aided by the required submission of period reports and detailed on-site examinations, which are conducted by a staff of over 2,800 national bank examiners. Since the OCC is responsible for rules and regulations for national banks and bank directors, it could also serve as an important educational link to national banks on environmental issues.

Regulations of the Federal Reserve System and the Federal Deposit Insurance Corporation may also apply to commercial banks. For example, all nationally chartered commercial banks must be part of the Federal Reserve, as well as the Federal deposit

insurance program. The Federal Reserve structure offers another opportunity to reach member banks. A particularly effective method might be to use regional federal reserve banks to reach the respective banks in their geographic area. Interaction on a regional basis may have a particular appeal due to the closer proximity and keener sensitivity on specific issues facing line bankers within their area.

Federal thrift institutions also operate under an oversight structure of the Federal government's Office of Thrift Supervision. This structure may offer an opportunity to reach this segment of capital providers. The Office charters, regulates, and examines Federal thrifts and cooperates in the examination and supervision of certain state-chartered thrifts. In total, its oversight extends to more than 1,500 thrifts with more than 11,000 operating branches.

Insurance companies and pension funds also come under oversight and regulation. Pension funds are regulated at the Federal level by the Department of Labor (DOL). Through its audit and oversight procedures, DOL would have the potential to reach this group of capital providers. Insurance companies technically also come under Federal regulation since they are in the business of interstate commerce. In practice, however, insurance companies are regulated at the state level. There is a trend toward uniformity in state insurance laws which has been encouraged by the National Association of Insurance Commissioners, comprised of representatives of all states. This organization meets regularly to discuss mutual issues applicable to the insurance industry and would offer an opportunity to reach a targeted segment of capital providers.

Another avenue of direct contact with capital providers is through trade organizations that represent financial institutions, insurance companies, and other financial service firms. These trade organizations, such as the American Bankers Association, the Mortgage Bankers Association, the Independent Bankers Association, and others, through their recurring outreach programs with their constituents via newsletters, publications, and conferences, could serve as a vital source of providing information to capital providers.

In addition to the regulatory hierarchy over capital providers, there exists regulatory oversight over their customers, i.e. the borrowers, in terms of the reporting requirements to the Federal government's Securities and Exchange Commission (SEC). The primary mission of the SEC is to protect the interests of the investing public. In this regard, issuers that have conducted public offerings, have securities traded in the public markets, or have total assets and security holder populations of specified sizes, are required to furnish management, financial, and business information to the SEC on a continuing basis. To the degree that this information to the SEC results from environmental factors, capital providers should have access to it. If the factors effect a borrower's financial position, capital providers should know this as part of their decision-making process in evaluating lending opportunities.

G. Recommendations

The Board recommends that the Agency support the development of a *Brownfields Redevelopment Clearinghouse*. *The Clearinghouse* would be a partnership with various organizations, including: state environmental regulatory agencies; oversight entities and trade organizations of the capital providers; capital providers themselves; other brownfields redevelopment participants, including real estate developers and brokers, community groups, local officials, and urban and community planners; and non-profit organizations, such as universities, experienced in brownfields redevelopment and financing issues.

Many successful clearinghouses providing useful information on numerous topics could serve as models for *the Clearinghouse*. For example, the National Drinking Water Clearinghouse, established in 1991 at the West Virginia University, maintains various services and information, including newsletters and brochures, consultation and referrals, and data retrieval and feedback, related to small community drinking water systems.

Listed below are potential components of *the Clearinghouse*:

Brownfields Databases

The initial core component would be the *Brownfields Databases* which would allow easy retrieval of up-to-date, relevant information. Part E of this Advisory contains several categories of environmental factors with an accompanying discussion that could serve as a starting focus for the *Brownfields Databases*. The key point here is not to "reinvent" databases from ground zero, but rather to build upon the current, useful data that exists and to augment and improve it as would be beneficial. In many cases, the data would need to be tailored to the specific needs of capital providers and others in given localities because of differing state regulations and local needs. A specific database that may be beneficial would be for localities to have an inventory of their brownfields sites to enhance the ability to ultimately market those sites to developers and lenders. The inventory might contain such information as: name of site location or building structure; square footage of land and/or floor space; occupancy history, including possible contamination by source; inspections and permits. and maintenance and renovation history.

Brownfields Case Studies and Model Programs

Another potential component would be the *Brownfields Case Studies and Model Programs*. These real-world examples of brownfields redevelopment projects would be accessible via on-line access. These case studies and model programs would be valuable lessons learned for other prospective participants in redevelopment projects. The development of this component might utilize existing case study analysis conducted by the Environmental Finance

Center (EFC) at the Cleveland State University on brownfield financing issues and urban economic development at several cities in the Great Lakes Region. The Cleveland State EFC is one of six EFCs in a network that provides state, local, and private sector officials with training, advisory services, publications, and analyses on environmental financing issues. Other sources of case studies would include: the fifty Brownfields Economic Redevelopment Pilots, funded by EPA in either 1995 and 1996, to support creative redevelopment solutions, and the Brownfields Financing Case Studies being developed by EFAB.

Brownfields Feedback on Proposed Rules and Regulations

Another potential component would be the *Brownfields Feedback on Proposed Rules and Regulations*. This component would serve to inform interested parties and seek their comments on proposed regulations and rules that could ultimately impact brownfield redevelopment. For example, proposed Federal and state rules affecting costs of remediation and the types of remediation required could critically impact a borrower's ability to redevelop a brownfield site as well as a capital provider's ability to be part of that transaction. In effect, this component could serve as a communication vehicle to give regulatory officials another vehicle to receive comments and give them valuable insight on proposed regulations and rules. The component could also provide for expansion to allow for comment on existing rules and regulations affecting redevelopment.

Software for Brownfields Transactions

Another potential component would be *Software for Brownfields Transactions*. This component would provide capital providers with software to use as a step-by-step approach on brownfield site financing. In effect, this would represent a "how-to guide" on steps for proceeding with prospective buyers, and sellers, of brownfield site redevelopments. The software might also include "elements of success" that would typically be part of the borrower's operational business plan for the site redevelopment.

A model that could be used to develop this *Software*, from a technological standpoint, may be a rate model developed by the Government Finance Officers Association for communities to reflect the true cost of providing drinking water and wastewater services.

Brownfields Resource Materials and Consultation

Another component would be *Brownfields Resource Materials and Consultation*. Through telephone access, users could obtain, either free or with minimal cost, educational products, such as brochures, videotapes, newsletters, and government publications. They could also access information (date, location, subject, contact, etc.) on brownfields meetings and conferences. In addition, users could ask questions of technical experts regarding brownfield redevelopment issues.

Another feature of the *Brownfields Resource Materials and Consultation* would be a brownfields "green pages directory" depicting actual redevelopment transactions. This feature would enable users to obtain information on real-life brownfields projects, such as project highlights, sources of financing, barriers overcome, critical success factors, and the names and phone numbers of the principal players (i.e. developers, capital providers, community leaders, engineers, etc.) in the project. In effect, this feature would serve as a repository of "abstracts" of brownfields case studies. Appendix B contains an example of the "green pages directory."

Capital providers and their oversight entities and trade organizations will need to be integrally involved in the development and implementation of *the Clearinghouse*. It will be extremely important to learn from capital providers the precise information needed to assist them in their lending decisions. Also, meetings should occur with representatives of financial oversight entities and trade organizations, such as those highlighted in Part E, Role of Oversight Entities and Trade Organizations. In addition to providing insights on existing information that capital providers either use or do not use, these groups can provide an important linkage to their clientele on environmental information to assist them in their day-to-day business activities involving brownfield sites redevelopment.

The development and implementation of *the Clearinghouse* might best occur on a pilot basis, with a targeted audience for each component, as appropriate. One approach might be for a pilot on databases in the first year, a pilot of case studies in the second year, and a pilot on other components in the third year. The goal would be to create model components that could later serve additional audiences. Pilots would allow for the developmental and operational features of *the Clearinghouse* to be fully tested and explored, such as data contents, menu options and accessibility, downloading capabilities, resource requirements, and the role of various organizations, including the regulatory agencies. For example, there may be various alternatives to access *the Clearinghouse* that may be very effective, such as using databases that currently exist in either the private, public, or non-profit sectors.

The Board does not recommend that the Agency develop *the Clearinghouse*. Instead, the Agency may find it effective to enlist non-profit organizations, such as a university, or group of universities, as lead entities in developing, and later maintaining, *the Clearinghouse*. The Environmental Finance Center (EFC) network might be utilized in this manner. The EFCs would be highly effective in piloting components of *the Clearinghouse* given their targeted geographic focus and emphasis on sharing information among other Centers.

Another opportunity for a pilot would be to use the "one-stop general store" approach to reach the target audience. An example of this approach is in Houston, Texas where the country's first U.S. General Store for Small Business opened in July 1995 to provide one-

*Information Needs of Capital Providers
in Brownfields Redevelopment*

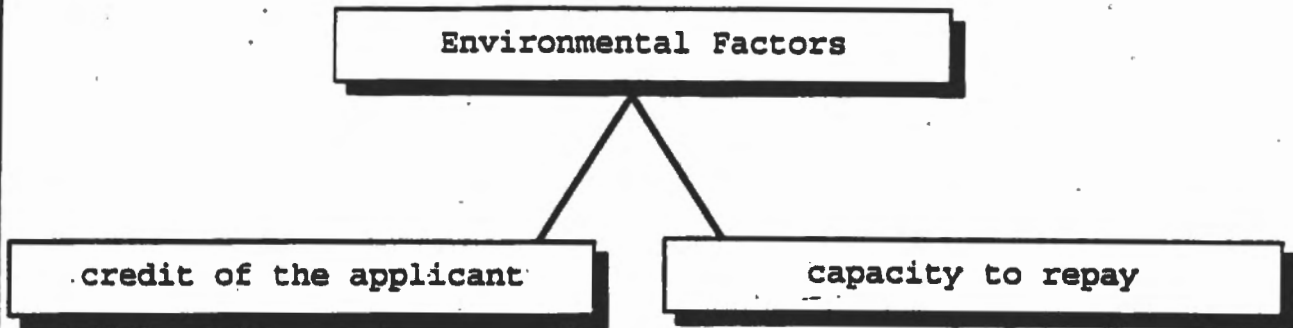
stop assistance for small businesses that need help complying with federal regulations, solving tax problems, bidding on contracts, and obtaining government loans. The General Store is user accessible (opened on some evenings and weekends) and computer friendly (providing information via electronic mail on Internet). Thirteen departments of the federal government are participating in the new venture, including the Environmental Protection Agency. This general-store concept may be another alternative for piloting components of the *Clearinghouse*.

The pilot would need to fully explore resource requirements for the *Clearinghouse*. Initial investments would be needed, both in terms of dollars and in-kind services, for the pilot to proceed, which could be solicited from various sources on a cost-sharing basis. The pilot would explore system operational costs and the extent that user fees could recover these costs.

The benefits envisioned from the proposed *Clearinghouse* would be numerous. When capital providers are better able to manage the uncertainties of lending, many groups would benefit, including themselves, their customers, the environment, and society. Lenders would definitely benefit by having better and more accurate information to make decisions. They would either be: (1) making profitable loans that would not have otherwise been made, (2) making loans at a lower cost, or (3) not making loans due to a clearer rationale of the environmental issues involved. Their customers would also gain when capital providers take a more informed and predictable approach to environmental factors in lending decisions. They would, of course, gain if the loan is made since financing costs would be reduced due to more accurate pricing of the environmental risks. On the other hand, customers would also gain when capital providers do not grant a loan due to environmental factors because potential customers would know in a more quantifiable basis the environmental risks involved. Customers may, as a result, alter their financial estimates for the proposed redevelopment, and may decide not to proceed any further with the project.

There are broader benefits, as well, of capital providers being better able to manage environmental risks. For example, the lending of money for a brownfield site redevelopment would spur a multitude of investments, both in terms of the economy with greater employment, more productivity, and increased demand for corollary products and services, and in terms of environmental improvements with the cleanup of contamination. This definitely would affect in a positive manner the environment and, coupled with the benefits to the economy, would improve the quality of life for a given locality. Furthermore, the willingness of capital providers to finance brownfields redevelopment places them in a unique position to not only help themselves and their customers, but also to be an agent to help enforce environmental regulatory mandates.

Appendix A: Overview of Lending Criteria for Capital Providers



Credit worthiness of applicant:

- ♦ What is the financial track record of the applicant in terms of being a good credit risk?
- ♦ How do you assess the "character" of the applicant in terms of past credit history?
- ♦ Does the applicant have the necessary technical and administrative skills, or access to them, to be a good credit risk?

Capacity to repay the loan:

- ♦ Is the business venture being proposed by the applicant a good investment?
- ♦ Is there a demand for the business venture?
- ♦ What is the competition for the business venture?
- ♦ Are there other cash flows that the applicant can draw from to repay the loan?
- ♦ What the estimated, as well as firm, occupancy for the redeveloped real estate?
- ♦ What collateral is being offered by the applicant?

Appendix A: Overview of Lending Criteria for Capital Providers
(Continued)

Environmental factors:

- ♦ What are the Federal, state, and local regulations in place affecting the site?
- ♦ How can we determine if a cleanup is needed and what will be the cleanup costs?
- ♦ What are the risks of escalation in cleanup costs, whether due to unforeseen costs, or changing regulations?
- ♦ What are the liability issues that are involved from the standpoint of the borrower as well as the lender?.
- ♦ Are there options available in environmental risk insurance and who provides it?

Appendix B: Brownfields "Green Pages Directory"

1. Where did the initial impetus for the proposed use come from? Private (i.e. property owner or borrower) or public?
2. What were the environmental conditions at the site?
3. What information on environmental conditions was available at the time the project was first proposed?
4. Did the project developer consider other sites? If so, had any others been rejected because of environmental considerations?
5. Was the potential for CERCLA liability a consideration for any of the parties in the transaction?
6. What kind of capital provider was involved?
7. What were the factors which initially led the user to the site?
8. What role, if any, did the community or community-related considerations play in the site selection or negotiation?
9. Did the site appear on any local, state or federally maintained list of contaminated sites?
10. Were there existing structures on the site and, if so, what role did their condition or configuration play?
11. What was the property's tax status?
12. Did the EPA Guidance on Brownfields play a role in the process?
13. What administrative mechanisms were available to approve the remediation of the site and use of the property? Were they in place at the time that the site selection and development process began?
14. What legal instrument was used to approve the remediation and/or to release the user from future liability?
15. What type of financing was utilized?
16. What role, if any, did the Community Reinvestment Act play in the project?