



*A Lenders Perspective on Brownfields*



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## Environmental Risks with Contaminated Sites – One Bank’s Perspective

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### Overview



- Myths Vs Reality
- Financial Mitigation Techniques
- What RBC Looks for in its Reviews
- Properties RBC will not Finance
- Trends I Like and Those I Don't
- Stigma
- Emerging Environmental Issues for Banks



## Myths vs Reality



- An SLRA is acceptable to all Canadian banks
- Banks require RSC's for funding
- Banks are only interested in "dig and dump" solutions
- Banks are all the same when it comes to contaminated sites

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## Myths vs Reality



- A site with contamination is DOA for a loan
- A QP designation is a designation of quality

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## Financial Mitigation Techniques



- Secured Creditor Insurance
- Valuation Indemnification
- Equity Retention

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## Case Study- Secured Creditor Insurance



- Site in Scarborough, Ontario
- 80 year client of bank.
- RBC held commercial mortgage on site.
- At time of renewal found site to have been contaminated with TCE by a neighbouring property (also RBC client).
- Contamination too extensive and expensive for remediation (affected three properties)

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## Case Study- Secured Creditor Insurance



### Solution

Required borrower to obtain secured creditor insurance policy on behalf of RBC. One time premium of \$11,000 for 15 yrs (\$1 million coverage). In the event of realization we could turn to insurance rather than taking back the property

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## Case Study – Valuation Indemnification



- Site in Cochrane, Alberta.
- Domtar had operated a wood treatment plant for a number of years.
- Contamination (PCP) from the plant had migrated off site impacting 15 commercial properties.
- Lenders (including RBC) were unwilling to lend on these properties.

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## Case Study – Valuation Indemnification



### Solution

Negotiated agreement with Domtar whereby we would be willing to provide financing but in the event of borrower default, Domtar would pay us the difference between what we could sell the site for and what the value of the site would be clean. Also agreed to buy us out if we could not sell property within one year.

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## Case Study – Equity Retention



- Site Toronto, Ontario.
- Apartment Building next to old landfill producing large quantities of methane >100% LEL 15 m from building.
- Very valued client of the bank
- Property assessed at \$2.5 million
- Loan \$1.5 million

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## Case Study – Equity Retention



### Solution

- Required borrower to maintain minimum of \$1 million in equity at all times
- Required monitoring and reporting of methane quarterly (now semi-annually)
- Established sentinel wells closer to building that would be monitored and if trigger level reached (10% LEL) would require installation of methane gas interception system

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## What RBC Looks for in a Review



- The consultant that prepared it
- The age of the report
- The current and proposed property use
- The former property use
- The date the building was constructed
- The activities on the neighbouring properties (former and current).

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## Properties RBC Will Not Finance



- Developments on former landfills
- Properties with outstanding legal issues
- Properties with liens
- Properties with **unresolved** off site contamination issues
- Properties where the environmental issues are not well explained or mitigated
- Properties where the borrower, consultant or the lawyer is difficult to work with

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## Pet Peeves



- Clients that want to use reports over 3 yrs old
- Clients that wants to use a non approved consultant just because they are cheaper
- Consultants that do not include an exec summary or recommendations
- Consultants/Clients that tend to ignore the financial implications of a risk assessed property
- Consultants/Lawyers/Clients that try to tell me how to do my job

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## Trends I Like



- Municipal projects with vision
- Innovative solutions to environmental issues
- A levelling of the playing field in Project Finance (Equator Principles).
- Increasing collaboration among FIs to raise the environmental requirement bar

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## Trends I Don't



- Overuse of Screening Level Risk Assessments
- The relative ease of getting a QP designation
- Record of Site Condition process
- Lack of disciplinary action by professional bodies
- Consultants that cannot communicate
- Increasing scientific and business illiteracy of politicians, policy makers and NGOs
- Increasing trend by regulators to go after the wrong parties (eg Kawartha Lakes, Northstar Aerospace, Rocha)

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## Stigma



- Vastly overblown, rarely comes up in a transaction review for a property
- More a perception than a reality
- In cases of real stigma (a former site of a infamous crime for instance) the use of qualified stigma appraiser is of paramount importance
- If its priced right there is no stigma

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## Emerging Issues



- Carbon Pricing and Cap and Trade
- Marijuana Legalization

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