



Environmental Risk - Credit Risk
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Helen Sahi
Senior Vice President
Bank of America
Chair, UNEP FI North American Task Force
Steering Committee Member, UNEP FI

Environmental Risk - Importance to Lenders

- Growing concerns about the environment have contributed to public expectations about the role of corporations and financial institutions in society.
- Financial institutions are concerned with monetary losses related to the extension of credit.



Risks to Bankers

- Market risk
- Construction risk
- Leasing risk
- Interest risk
- Environmental risk
 - Credit
 - Investment
 - Internal Operations



Environmental Risks in Lending

- Direct liability
- Cash flow impairment
 - Inability to fulfill financial obligation on the loan
- Collateral devaluation/security impairment risk
 - Devaluation of collateral due to environmental issues
 - Real or perceived stigma
- Reputation risk
 - Positive or negative public or shareholder opinion
 - Balance triple bottom-line



Contaminated Site



Leaky Underground Storage Tank



Stigma of Contamination



Sampling of Contaminated Soil



Reputation Risk



Reputation Risk



Transactions Effected by Environmental Risk

- Unsecured Loans
- Secured Loans
- Guaranteed Loans
- Securitized Loan Transactions
- Equity Investments
- Leasing



Transaction Type and Environmental Risk

	Direct Liability Risk	Collateral Impairment Risk	Cash Flow Impairment Risk	Reputation Risk
Unsecured Loan	X		X	X
Secured Loan	X	X	X	X
Guaranteed Loan	X		X	X
Securitized Loan		X	X	X
Equity Investment	X		X	X
Leasing	X	X	X	X

Good Environmental Risk Management and Its Effect on the Bottom Line

- Protection of assets
- Preservation of net income
- Identification of lending opportunities
 - Sustainable development
 - Eco-Loans performance indicators
 - Reduction in risk premiums
 - Reduction in loan spread rates



Credit and Environmental Review Process

Issues to Consider

- Size of loan
- Type of loan
 - Residential
 - Commercial
 - Industrial



Credit and Environmental Review Process

Issues to Consider *(Continued)*

- Time
 - Historical
 - Current
 - Ongoing



Credit and Environmental Review Process

Issues to Consider *(Continued)*

- Exit Strategy
- Match Risk to Terms
- Security



Risk Control/Risk Prevention Stage Module

Bank policies and procedures

- Organization
- Staffing and training
- Review philosophy
- Technology
- Consultants
- Legal - representations and warranties
- Insurance
- Waivers



Risk Transfer - Risk Finance Stage Module

- Indemnification - legal
- Representations & Warranties - legal
- Insurance- business risk
- Escrows and Hold Backs - business risk



Risk Monitoring During Life of Loan

- Track performance/environmental issues
 - during life of loan
 - during workout
 - prior to foreclosure



Opportunities in Environmental Risk Management

- Improve credit rating of loan portfolio
- Cost reduction on managed assets
- Reduce risk premiums and loan spread rates



Global Trends

- Certain lenders are driving major transactions using prudent environmental risk management systems and sustainable lending policies, procedures and practices.
- Certain lenders are using their environmental risk management expertise to market their ability to ease the lending process to developers of environmentally impaired sites.



Sustainable Lending



Serre, Calabria

3 MW Photovoltaic System



Redevelopment of Contaminated Site

Former Heavily Contaminated Site



New Interchange (Under Construction)



GTE Headquarters (Under Construction)

Global Trends

- UNEP FI
- Equator Principles
- Global Reporting Initiative - Core Indicators
Financial Sector Supplement
- Eco lending to small and medium sized enterprises to develop environmentally friendly products
- Discounts on “green loans”
- Micro-credit financing

