

## Environmental Risk Management Guidelines (Environmental Matrix)

| Product  | Description  | Vendor  | Reviewed by EP<br>(EP = Env Professional)  | Site Visit                              | CERCLA Defense<br>(AAI*)        | ASTM Compliant**             | Risk Mgmt Guideline<br>(MF = multifamily)  |
|--|--|---|--|---|---------------------------------|------------------------------|--|
| Environmental Questionnaire (EQ)   | Bank-approved brief environmental risk questionnaire completed by borrower   | (Internal document)                                 | No, reviewed internally  | No                                      | No                              | No                           | <b>ALL LOANS</b>   |
| Environmental Database Review, Government Record Search (EDR, DB or GRS)   | Brief site environmental history   | Database Vendor or EP                               | No, usually reviewed internally  | No                                      | No                              | No                           | <b>Loans &lt; \$xxx (non-MF) if:</b> Negative EQ <sup>1</sup> ; or, Positive EQ (MF) or site inspection; or, No observed risks <sup>2</sup> on or adjacent to subject.   |
| Transaction Screen (TSR, TS, or ETS)   | Limited environmental due diligence  | Vendor or EP (if EP, engaged by borrower or lender) | No, usually reviewed internally (if yes, engaged by Bank)  | Yes, visual usually (depends on issues) | No                              | Yes – E1528-06, -14          | <b>Loans \$xxx-\$xxx (non-MF) if:</b> Negative EQ <sup>1</sup> ; or, Positive EQ (MF) or site inspection; or, No observed risks <sup>2</sup> on or adjacent to subject.  |
| Phase I ESA<br><b>Request ASTM E1527-05, -13 standard**</b><br><i>Request lead &amp;/or asbestos survey, if contamination suspected (multifamily)***</i> | Environmental Site Assessment. Basic ESA scope does not include search for petroleum, lead or asbestos; may be added upon request. Basic vapor intrusion, HRECs/CRECs, added with E1527-13.                        | AAI-compliant EP (from borrower or lender)          | No, unless ESA notes observed environmental risks (if yes, engaged by Bank; otherwise reviewed internally by bank) | Yes, visual                             | Yes                             | Yes – E1527-05, -13          | <b>Any Loans Involving:</b> (may be waived by insurer) Current or prior use is environmentally sensitive <sup>3</sup> ; or, EQ, EDR, TSR, insurer or site inspection suggest further research; or, Any loan > \$xxx (incl. MF); or, Pre-foreclosure & pre-acquisition of Bank facilities or investments (pre-CRE, OREO). |
| Phase II ESA, or RCRA Facilities Investigation (RFI), or RI/FS (Remediation Investigations / Feasibility Study)  | Invasive samplings (soil borings, indoor air quality testing, etc.), analyses. RFI focus is on certain non-EPA regulated env hazards. Results may warrant added sampling, testing to isolate contaminated area(s). | AAI-compliant EP (from borrower or lender)          | Yes, usually – should be engaged by Bank   | Yes, invasive                           | Yes, if preceded by AAI Phase I | Yes, usually – E1903-97, -02 | <b>Any Loans Involving:</b> (may be waived by insurer) Phase I ESA suggests further invasive research; or, Other indications suggest further invasive research.  |

|                      |  |  |  |                    |                                 |              |   |
|----------------------|--|--|--|--------------------|---------------------------------|--------------|---|
| Phase III ESA        | More invasive ESA (additional borings/analysis) per Phase II findings. Describes extent of contamination. Provides remediation options & estimated costs-to-cure.                    | AAI-compliant EP (from borrower or lender) | Yes, should be engaged by Bank (consultation with qualified counsel recommended) | Yes, very invasive | Yes, if preceded by AAI Phase I | Yes, usually | <b>Any Loans Involving:</b> (may be waived by insurer)<br>Phase I or II ESA suggests in-depth invasive research or need to quantify cost-to-cure.   |
| Compliance Audit**** | Audit of business activities to see if acting in compliance with pertinent environmental regulations (e.g., gas stations re: storage tanks/lines, dry cleaners re: chemicals, etc.). | AAI-compliant EP (engaged by Bank)         | No, usually reviewed internally (if yes, engaged by Bank)                        | Yes, usually       | No                              | No           | <b>Existing Loans Involving:</b><br>Subsequent transactions or inherited liabilities; or, Information suggesting possible non-compliance as a result in change in collateral condition or use; or regular time intervals. |

\* AAI compliance is necessary for CERCLA Bonafide Prospective Purchaser, Innocent Landowner, or Contiguous Property Owner defenses, as well as to maintain Secured Creditor or Good Samaritan exemptions.

\*\* ASTM E1527-05, -13 compliance adds petroleum hazards and vapor intrusion research to AAI-compliant Phase I ESA (not required under AAI or by US EPA). RFI may include a variety of on- and off-site activities such as monitoring, sampling and analysis for non-EPA regulated environmental hazards (e.g. petroleum).

\*\*\* Lead and/or asbestos survey may be added to ESA but is not part of basic scope. Survey should be requested if lead paint and/or asbestos are suspected, particularly if residential property or in states where mandatory.

\*\*\*\* Compliance Audit is not required by CERCLA, AAI or ASTM, but may be prudent on existing loans when there is a subsequent transaction or modification with stale prior due diligence reports, any material change in collateral condition or use, High Risk businesses (e.g. gas station, dry cleaners, manufacturing, etc.), or if there is suspicion of non-compliance to pertinent environmental regulations so as to mitigate or minimize potential environmental risk or loss. *Should be written into Loan Docs.*

<sup>1</sup> Negative Questionnaire: Current environmental questionnaire completed by borrower, Bank loan officer, or Credit Risk Officer (or authorized delegate) includes negative responses to questions relating to current or prior existence of environmentally sensitive<sup>3</sup> concerns.

<sup>2</sup> Observed Risks: Upon site inspection by Bank loan officer or Credit Risk Officer (or authorized delegate), any indication of current or prior existence of environmentally sensitive<sup>3</sup> concerns observed at or near the subject property.

<sup>3</sup> Environmentally Sensitive: Refers to any potentially toxic or hazardous substances identified by US EPA, state environmental authority, regional water district, or other regulatory entity including but not limited to dry cleaning chemicals/solutions, petroleum-based hazards (oil, gas, tires, etc.), lead, asbestos or ACMs (asbestos-containing materials), certain pesticides, toxic vapors, and/or mold.