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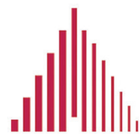

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Why outsourcing environmental risk mgmt. makes cents for lenders

Derek Ezovski
ORMS

The bottom line (which always needs to be a priority) is that by outsourcing their environmental risk management process, lenders are now able to free themselves from the often difficult, tedious and high liability process of environmental due diligence. Instead, they can focus on what they enjoy and profit from the most - building relationships and their businesses.

For financial institutions of all sizes, the risks related to environmental exposures in their real estate portfolios have always been a concern. However, due to the somewhat recent commercial real estate meltdown and the increased attention by regulators and examiners, there is an even stronger case to make sure that environmental and other collateral due diligence policies and procedures are managed correctly.

In practice, the larger institutions have managed this risk by creating internal divisions to oversee environmental issues on the lender's behalf - and they still do. However, community and regional banks, credit unions and other real estate based firms, are typically not able to justify having a department like this due to the lower volume of real estate that flows through their banks, as well as a desire to keep their fixed costs and headcount down. However, this does not alleviate the need. Therefore, many lenders are now looking to establish virtual risk management departments with outside firms to make sure that they are adequately protected and that they have access to the best solutions for their institution.

By outsourcing this environmental risk management function, lenders gain the following benefits: increased compliance and comprehension of regulatory requirements, lower fixed costs, less time spent on the procurement and review process by loan officers, access to experts in their field and access to a proprietary, established networks of providers. Lenders can now focus more time on their core competencies, including developing more business opportunities rather than tracking down reports from their vendors.

But not all firms are the same. What does this mean? There are very few companies in the industry that truly work as a dedicated risk consultant to the lender. The more typical scenario is as a vendor that offers specific services (i.e. Phase I, remediation, asbestos removal, environmental data, etc.) to the lender. By contrast, the "outsourced" risk management department would actually procure products and services on behalf of the lenders from outside firms. While it might appear to be a narrow difference, in practice it is an entirely different business model since the providers are not employees of the outsourced company which removes the conflict of interest. Other factors to consider when evaluating outsourcing your environmental program to a firm are:

• A solid understanding of both the environmental and the business aspects, of the loan process.

• Familiarity with current government regulations and relationships within those organizations.

• A good understanding of the Small Business Administration (SBA) SOP 50-10 5;

• Established relationships with proven vendors to provide the most cost effective and proven products and services;

• Experience as an internal environmental risk officer within a financial institution to better understand the dynamics involved is extremely helpful.

The bottom line (which always needs to be a priority) is that by outsourcing their environmental risk management process, lenders are now able to free themselves from the often difficult, tedious and high liability process of environmental due diligence. Instead, they can focus on what they enjoy and profit from the most - building relationships and their businesses.

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