

Small Borrowers and Big Financiers: The Urban Redevelopment Conundrum

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A great deal of urban redevelopment is undertaken by relatively small entities: small businesses looking for relatively low cost sites for operations, community development corporations concerned with neighborhood revitalization, institutions formed for micro-lending and small business financial support and the like tend to be the predominant actors. Showcase redevelopment undertaken by large firms and public-private entities may get the most press, but they engage in a small fraction of the total real estate transactions that constitute the regeneration process. More important, the neighborhood-level revitalization essential to broad regeneration and increased urban economic activity and property values has historically not benefited from the showcase projects and depends on the ability of the small developers to get project financing.

However, in recent years, the financial institutions that these actors need to engage in support of their efforts have been getting ever larger (Meyer and Reaves 1997). The numbers are stark. In 1988, after one wave of mergers, there remained 4,139 FDIC-chartered banks with under \$25 million in assets and only 40 banks with assets greater than \$10 billion. By 1995, these numbers had shifted to 1,755 and 74 [FDIC 1989, 1996]. The 37.4 percent rise in bank assets over this period lagged behind the 43.5 percent rise in the US GDP as individuals became more active investors in financial markets. Moreover, 94.4 percent of banks' new assets flowed into banks with over \$10 billion in assets in 1995, as their share of total bank assets rose from 37.3 to 52.6 percent.

These comparisons obscure massive concentration associated with further combinations of the giant banks themselves, exemplified in the \$37.7 billion in mergers logged by *US Banker* in the first half of 1995 alone [Holliday 1995, 30]. Finally, all these figures obscure the role of bank holding companies (BHCs), reputed to control around 8,000 of the 10,840 commercial bank charters reported by the FDIC in 1994, with the top 25 BHCs controlling an estimated 35% of the industry's assets [Streeter and Cocheo 1994, 48, 50].

The claims of increased efficiencies of larger banks, holding companies and large retirement trusts and insurance pools are questionable [Houston and Ryngaert 1994; Rhoades 1994; Boyle 1994, 32; Webber 1995]. Such praise for mergers, moreover, by and large ignores the concentration of power that accompanies such mergers. Accompanying this power are rising transaction costs and concerns over risk avoidance that combine to render small loans, especially on potentially or actually contaminated lands, that is previously used urban brownfields, increasingly unattractive. Loans that a local bank would have made (projects that a branch bank manager recommended and a branch operations loan committee approved) may now be rejected at the home office level.

The FDIC data document the associated decline in retail banking: In 1988, the microbanks, with assets under \$25 million, exhibited an aggregate deposit-to-asset ratio of 88 percent while that of the megabanks, with assets over \$10 billion, showed 72 percent. By 1995, the figures shifted to 86 and 64 percent. In addition, commercial and investment banks roughly trebled their market turnover rates between 1966 and 1987, reflecting "the emergence of a financial culture based on transactions rather than relationships" [Goldstein 1995, 732, 741]. Overall, then, the availability of bank capital for small scale urban redevelopment efforts may have suffered a substantial decline attributable to the forces limiting the expansion of retail and commercial banking activity.

The large bank - small borrower interaction is characterized by differences in business style as well as scale, and these differences are compounded by spatial as well as organizational distance between borrowers and lenders. In this paper, we draw on extensive series of interviews conducted over the past year to identify the problems encountered by small borrowers pursuing brownfield redevelopment. Our argument proceeds as follows. First, we describe the general problems of urban redevelopment and the particular difficulties facing so-called "environmental brownfields." Next, we describe the data on which we draw, identifying the types of people interviewed and the characteristics of the interview schedules used. Third, we examine the information demands of large financial institutions relative to the ability of the potential borrowers to provide the data needed for review of their proposed projects without incurring excessive costs. Based on these findings and other data on institutional impediments to small scale lending, we summarize the factors that impede small redevelopment projects. Finally, we consider some of the mechanisms to facilitate the flow of funds toward the actors that are the key to neighborhood revitalization, renewal and sustainability that appear promising deriving these conclusions from both positive experiences and the record of unsuccessful redevelopment efforts described by our interviewees.

The Urban Brownfields Problem

Federal economic development efforts targeted to depressed areas date back to responses to the Depression of the 1930s, and have deep roots in a number of different programs. The focus on the relative disadvantage of brownfield sites emerged gradually, as development policies came to recognize that, as developed facilities, they were saddled with buildings and facilities from earlier industrial periods that were liabilities, not assets, since they often could not serve new types of businesses. Other things being equal, they were economically inferior to their greenfield competition as new production facilities. They required building removal and land clearing, possibly the acquisition of many smaller plots to form a single large site for modern single-story production facilities, and otherwise engendered costs for redevelopment not encountered on sites that had not previously been used for industrial or commercial purposes.

This relative disadvantage has been made more severe by the growth in environmental concerns in recent years. The recognized residue of prior economic activity broadened from merely buildings that needed to be cleared for new uses to include chemicals stored on the properties and spilled into the soil. Thus older industrial areas - often major portions of the land areas of historically significant urban centers that continue to house large proportions of the population - face growing problems in attracting the new investment and development capital essential to sustaining income and jobs in an increasingly global economy. Whatever the biologically determinable ecological or human health impacts of the chemical leftovers from earlier productive activities, such "contaminated lands" engendered growing economic, social, and, ultimately, political problems. However important redevelopment may be as an economic policy priority for urban areas, the central problem may be the presence or apparent risk of environmental hazards threatening nearby residents and the need to stimulate investment in cleanups.

Central city industrial decline, combined with (often federally-subsidized) suburbanization, posed broader environmental and economic efficiency issues as well: the growth of urban sprawl, increased reliance on single occupancy cars for travel to work and loss of leisure time to commuting. Urban fiscal problems have been exacerbated by loss of revenues from abandoned lands while environmental hazards on those sites may have driven up local healthcare costs. Successful reclamation, redevelopment and reuse of brownfields can therefore be expected to not only reduce broadscale urban environmental problems (such as air quality, affected by the smog associated with high automobile use), but also enhance metropolitan area economic capacity, by making more sites available and bringing more properties back onto the tax roles.

Predictably, the most active group of developers and investors interested in re-using brownfield sites have been those who has few alternatives available to them:

- Sole proprietors moving out of home businesses and wanting to remain in their neighborhoods;
- Small manufacturers or retailers that wanted to expand, but who could afford neither the down time associated with moving nor the loss of a community base that provided sales, contacts, or even employees;
- Small scale renovators and redevelopers whose borrowing capacity limits the size of their projects, making typical suburban projects too large for them to undertake efficiently;
- Neighborhood development groups or other community-based organizations interested in increasing the amenity and property values in a part of a city; or,
- Speculators, looking for under-valued assets that they could turn around to capture major capital gains in a short time period.

The first three groups of potential redevelopers are small, virtually by definition; the fourth is also small and even more problematic, being either a non-profit or, more often than not, perceived as such by financiers; the last is potentially large, but has no lasting commitment to a community, and is not likely to be interested in small scattered brownfield sites, but rather major concentrations.

The majority of the one-quarter to one-half a million brownfields sites are thus likely to need the action of small operators to remediate damage and otherwise return them to positive and productive uses. Such economic actors, however, will need to borrow funds in order to be able to conduct redevelopment and reclamations. And this is where the conundrum arises, given the increasing concentration of financial institutions.

The Interviews with Redevelopment Actors

Against this background of need for capital for brownfield reclamation, to different studies were funded in whole or in part by EPA to address means of facilitating investments. We draw on interviews conducted under both in the comments and characterizations here. The first, actually a department of Housing and Urban Development contract with the Urban Institute for work partially funded by EPA, involved study of brownfield redevelopment efforts in twelve cities across four states to address "The Impact of Environmental Hazards and Regulations on Urban Redevelopment." The second is an EPA project for the design of a manual for small-scale would-be borrowers for projects on potentially contaminated sites. Both projects relied on extensive open-ended interviews with different participants in the redevelopment process.

The first research effort focussed on comparisons of terminated and completed redevelopment projects on individual parcels of land, with the intent that we isolate the factors that made the difference between them. We talked with developers, financiers, local economic development and environmental regulatory personnel, site engineers, lawyers, real estate agents and community representatives, to the extent that any of them were involved with a project, and thus got a variety of different perspectives on the causes for termination or completion of the redevelopment efforts. One problem encountered in this work was the limited information available from financial institutions, none of which would share their decision-making processes or criteria as they applied to specific investment proposals.

This problem was addressed in the second research effort, since we turned to banks and other lenders to tell us what they wanted in loan applications from borrowers as the means for us to write the manual. Not having to discuss particular projects, parcels of loan applications, the financiers shared their loan environmental screening protocols with us and discuss their attitudes towards contaminated sites at some length. We conducted interviews with loan officers, environmental risk management personnel, inside and outside appraisers and providers of environmental risk insurance products that could reduce uncertainties or risks and increase willingness to lend. In addition, we met with small business advisors and community development bankers to ascertain their clients' needs for information.

Lender Information Requirements and Redevelopment Project Viability

As originally enacted, the 1980 U.S. Comprehensive Environmental Reform, Compensation and Liability Act (CERCLA, also known erroneously as "Superfund") contained a "secured creditor exemption" that provided legal liability protection for lenders. The reliability of this protection was undermined by a number of court decisions: some courts ruled that lenders could lose their liability exemption by foreclosing on a property (thus becoming an owner) or by participating in the daily management of a business. These legal decisions generated virtual lending institution paranoia [Yount and Meyer, 1994]. The 1996 amendments to CERCLA formalized as law a "lender liability rule" that had previously been passed as a regulation by the EPA. Although the full effects of the new laws are still uncertain, they are expected to encourage greater lender willingness to offer loans on previously used properties. Lenders, however, will still require attention to environmental issues for several reasons:

- Concern about the ability of borrowers to repay the loan since a borrower's ability to do so may be jeopardized by cleanup costs;
- Fears that if they do have to foreclose, environmental problems will lower the value of their collateral;
- The danger that they may still be liable, especially if, after foreclosure, they are forced to get involved in removing hazardous substances from a site;
- The lender liability that still could arise under some 25 other federal environmental laws and myriad state laws; and,
- The risk of litigation against lenders by other private parties trying to tap financial 'deep pockets' to recoup cleanup expenses imposed on them.

All these concerns lead to exceptional information demands from lenders that add to project costs, sometimes unnecessarily and excessively [Meyer and Yount 1994]. These data requirements raise the transaction costs of small projects proportionally more than for large ones.

Within the US context, standards derived from one of the engineering associations engaged in such benchmarking have evolved as the norm for the data collection associated with "environmental due diligence." The ASTM standard for a CERCLA "Phase I" site assessment - an investigation designed to determine the probability of contamination - is now widely accepted. It has been modified for use as an "environmental transaction screen" by many lenders. Table 1 is a composite of the screen used by a number of commercial banks that shared their screens with us. Since some institutions have added material to the ASTM minimum, this list goes beyond the Phase I norm in some ways, although it is not ordinarily filled out by a qualified professional engineer, as would be required for a Phase I assessment.

The transaction costs associated with fulfilling due diligence expectations on previously used sites due to fears of past environmental contamination should be obvious from this Table. The amount of information requested clearly exceeds that associated with "routine" real estate purchases, such as of residential properties - or relatively pristine farm, forest or open space properties. But these initial information costs are really just the beginning of the demands to be made. This is especially true for loans subject to some nonlocal clearance and approvals by major financial institutions.

The very idea of a standardized list may well be inappropriate for local decision-makers with in-depth information on their area. (Many might be able to answer a significant proportion of the questions in the Table from their own knowledge, for example.) However, the major banks generally have created centralized environmental risk management offices to address their concerns about liability exposures. Missing information on this list can have three effects for local borrowers: (a) it results in an out-and-out rejection of the project; (b) it leads to a demand for additional data collection, perhaps even a full Phase I study, undertaken at the borrower's expense, or (c) it does not impede the loan, *per se*, but may affect the conditions of lending: demands for a lower loan to value ratio, additional collateral, or specific forms of supplemental insurance, and changes in either interest rates or loan repayment terms. (Since certain environmental insurance policies have maximum terms of three to five years, lenders may peg mortgages to the same periods, to assure that the borrower is never uninsured when in debt to the institution.)

Redevelopment project viability may be better judged with all the information from table 1 in hand. It may be judged even more accurately with full site assessments. However, every step toward amassing the information to satisfy the requirements that all risks be fully quantifiable undermines viability by raising transaction costs. The demand for quantifiable risks is, in itself, a function and

consequence of bank centralization and conglomeration: when banking involved relationships, not just transactions, local lenders knew their clients, knew their track records and had informed opinions about the judgement and capacity of loan applicants. Similar relationships might now exist between the megabanks and massive corporate establishments in other sectors. However, the knowledge link on which judgement decisions could be based has been lost between large financial institutions and small borrowers.

What Goldstein [1995, 732, 741] has labelled "the emergence of a financial culture based on transactions rather than relationships" has thus produced the demand for formulaic decisions. Indicative of the problems associated with rigid decision rules, implemented in offices far from the development projects proposed is the derogatory label applied to that process by local loan officers: "form-based decision-making." Quantification has its place, but, in the case of central city redevelopment efforts, excessive reliance on rigid rules due either to ignorance of the local scene and local property development actors or to fear engendered by concerns over liability and possible financial losses tends to undercut the perceived viability of projects.

One example of form-based decisions suffices to make the point: under formulaic loan application assessments, there is an acceptable range for the proportion of total costs devoted to site preparation (or, sometimes, an allowable cost per acre). Many brownfield projects violate these standards due to high mitigation costs. A form-based assessment fails to note that acreage required for a given project is lower in a city with all utilities in place than in suburban areas, and may also fail to incorporate any reduction in purchase price per acre, whether due to market adjustments or public sector subsidies.

TABLE 1
SAMPLE ENVIRONMENTAL CHECKLIST ITEMS

1. Has the site (or an adjacent one) ever been used in the past or is it currently used for industrial or manufacturing purposes? Or has the site (or an adjacent one) ever been used in the past or is it currently used as ...
 - ... a gas station, motor repair facility, vehicle sales facility?
 - ... commercial printer, dry cleaners, photo developing laboratory?
 - ... junkyard, landfill, or waste treatment, storage, disposal or recycling facility?
2. Were any of the following ever stored on site, or are they currently on site?
 - ... discarded automotive or industrial batteries, paints, pesticides or other chemicals?
 - ... industrial drums, barrels, or sacks of chemicals?
3. Is there any evidence of ...
 - ... land fill materials brought from off-site?
 - ... liquid waste facilities on site such as pits, ponds or lagoons?
 - ... significantly stained soils (or "distressed" vegetation) at the property?
4. Are there presently or have there ever been any underground or above ground storage tanks at the property, or are there vent pipes, fill pipes, pavement repairs or other evidence of underground storage tanks (USTs) at the property?
5. Are there stains in buildings on the property that emit foul odors?
6. Does the property have a private well? Was it ever contaminated?
7. Does the property have an on-site septic or sewage pre-treatment facility?
8. Does the owner or current occupant of the property know of (or have records of) any...
 - ... government action regarding violations of environmental laws or regulations on site?
 - ... existence of petroleum products or hazardous substances on-site?
 - ... prior site assessments that indicated contamination present or recommended further assessment of the property?
 - ... lawsuits or administrative actions involving releases of hazardous substances on site?
9. Is there any reason to suspect, or is there evidence of...
 - ... hazardous or petroleum products, tires, automobile batteries or other waste having been buried or burned on site?
 - ... transformers, capacitors or hydraulic equipment on site showing signs of leaking, especially those for which records indicate they may contain PCBs?
10. Is there any evidence of asbestos present on the property - or any records of asbestos removal or abatement in the past?
11. For residential structures, what is the condition of interior painted surfaces and what is the extent of paint peeling?
12. Is the property or an adjacent one on record in any of the automated government data bases?
13. Are any properties on the following government environmental action databases within the specified distances from the site?
 - NPL (National Priorities List or Superfund Sites) -- 1 mile
 - CERCLIS List (EPA site investigation list) -- 0.25 mile
 - RCRIS TSD Facilities (licensed hazardous waste facilities) -- 0.25 mile

Factors Impeding Small Scale Redevelopment

The dominant factor that affects the possibility of small scale urban regeneration successes is access to capital. Large developers with many on-going projects may be heavily indebted, or may be self-financing, using income streams from completed developments to finance (or at least debt-service) new activities. Moreover, established developers have access to different capital streams, including pension funds, trusts, and direct financing from public placements, while small operators in most instances have no alternative to commercial bank real estate or small business lending departments.

The increasing scale of commercial bank operations poses a particular problem for small projects, regardless of the size of the developer, in that many institutions have minimum loan requirements that may exceed the capital needs of a project. These loan minima derive from the transaction costs associated with application processing and may be a function of the degree of centralization of loan approval decision-making. The specialized environmental risk management offices established by major financial institutions, including virtually all the BHCs that are coming to dominate the industry, engender increased loan processing costs. Thus, there is a barrier to access to capital from such institutions, the fixed costs that must be recovered by the lender before any profit can be made on a loan. In principle, the barrier could be overcome by higher interest rates or adjustments in other loan conditions imposed by lenders; in practice, the institutions have taken the simpler step of excluding loans below some dollar minimum, reported to us as ranging from \$250,000 to \$1,000,000 for real estate redevelopment projects.

Smaller institutions, on the other hand, cannot afford to command the expertise needed to incorporate environmental risk into lending decisions. Researchers assessing the impact of environmental liability on small businesses (Public Policy Associates 1996) reported that, "Given the complexity of the issues involved, these smaller banks often find it even more difficult to determine the liability risk posed by a particular firm and thus are less likely to be able to extend a loan to borrowers with potential environmental problems." Our interviews indicate that many such institutions "solve" this problem by imposing blanket policies precluding any lending at all on environmentally suspect sites. Yet, as of 1994, banks with assets of under \$250 million accounted for almost 60 percent of all real estate lending (and roughly half the commercial and industrial loans) on projects with values under \$250,000 [US Small Business Administration 1995]. This dependence on small lenders, combined with their unwillingness to lend on brownfields, suggests an acute shortage of capital for would-be small scale redevelopers of whatever variety.

But institutional impediments in access to capital, however critical, are not the only factors that impede small scale redevelopment. Other factors arise as significant even if we assume away the problems of differential scale of small developers and large lenders. These issues emerge from the three concerns that any lender has with regard to any loan involving environmentally suspect properties, the different varieties of risk:

- Loan or credit risk, the likelihood that borrowers will be able to make loan payments. Risk assessment involves looking at the financials of the project, and at the credit rating of the borrower.
- Collateral risk, the possibility that the lender will not recoup the value of the loan if default and foreclosure occurs. It is often controlled by reducing loan-to-value ratios if the value of the collateral is uncertain or by requirements that special forms of insurance are purchased.

- Liability risk, the danger that a lender will be somehow exposed to liability claims associated with past contamination, a risk that was reduced a great deal by the 1996 legislation, but still needs to be controlled through careful exercise of environmental "due diligence."

We can examine the problems generated by each type of risk in turn.

The first item is clearly one that disadvantages smaller, less stable or less long-standing enterprises more than their larger counterparts, simply because they are less likely to have well-developed credit ratings (even if they do not have questionable credit records). Sole proprietors seeking to expand out of home based businesses may have no credit rating at all. In many instances, such would-be redevelopers may not even own their own homes, a situation most likely to prevail in larger cities with a preponderance of apartments over single family dwellings at their core. Small manufacturers or retailers seeking to expand may similarly have limited real estate borrowing records, often seeking to move from rental properties to ownership in the process of expansion. Small scale redevelopers may have a track record to show, but are the most likely to be overextended in borrowing or have experienced problems in debt servicing in the past. Neighborhood development groups, even if they have extensive records as redevelopers, suffer from some bias against non-profits as well as lender concerns about the stability of cash flow to the organizations independent of any real estate deals, given dependence on voluntary contributions, foundation grants or government subsidies.

The second form of risk may be divided into two distinct components, the first associated with the characteristics of the site and project, and the second with neighborhood effects. The smaller the loan, the higher the fixed costs of foreclosure and resale in the event of default as a proportion of the loan, and thus the greater the risk that all costs will not be recouped, other things being equal. Thus, even if lenders assume no difference in the probability of default (credit risk), the first component of collateral risk would be higher for smaller projects. However, it is the issue of neighborhood effects that really distinguishes small from large projects. Redevelopment efforts that involve small portions of city blocks will not generally have the effect of transforming neighborhoods or property values in an area of a city, while the regeneration of larger industrial or commercial facilities could have such impacts. There is thus a far greater probability that local community factors over which the developer and lender have no control would adversely affect recovery of collateral in small projects than in larger ones.

The third item, ironically, may just have been resolved to a substantial degree by the "Asset Conservation, Lender Liability, and Deposit Insurance Protection Act," passed as part of the Omnibus Consolidated Appropriations Act on September 30, 1996 (US House of Representatives 1996). To the extent that environmental liability exposures are proportional to the size of a project, the lower the concern over such risks, the more relative weight the two other risk factors carry in decisions, and the worse off small borrowers become relative to larger loan applicants. Since much of the fear of liability is associated with third party lawsuits by private interests, and larger parcels and projects are likely to affect more other properties and people, such proportionality is a plausible assumption. In reducing the risk of lawsuits and claims for contributions to cleanups or compensation of damaged parties, then, the 1996 law may have contributed to, not relieved, the relative disadvantage of smaller redevelopment efforts.

While all three risk concerns may have exceptional impacts on small developers, all can be addressed through creative public policy at the local or regional level, possibly with some federal or state level contributions to costs or guarantees. We turn next to such possibilities.

Overcoming the Obstacles - Resolving the Conundrum

Proposing policy is always dangerous, as it raises issues of political priorities as well as assumptions about effectiveness. It is even more so for this subject at this point in time: we know, as this is written, that the Clinton Administration is on the verge of announcing its Brownfields Initiative. (This paper, therefore, must be transformed before any submission for publication.) At the risk of seeming foolish - or as flacks for the current administration, we offer some suggestions towards resolution of the conundrum.

First, addressing the problem of transaction costs, we note the obvious problem posed by the costs of information, the public value of solid environmental data, and the potential for public action. Site assessments could be conducted by the public sector, as a public service. Admittedly, prospective and successful redevelopers reported such costs to be relatively unimportant to them - but these parties were looking at assessments as a proportion of projected or experienced total project costs. When assessments are considered as a proportion of loan processing or investment decision transaction costs, they weigh more heavily. Nonetheless, the response to our interviews with developers suggests that site assessments could contribute to more rapid small scale regeneration only if they are combined with a broader program of incentives and support for urban economic redevelopment as a whole.

Next, to overcome small borrowers' relative disadvantage with respect to loan or credit risk, we need policies which overcome both perceived riskiness in the redevelopment project and in the debt service capacities of the developer. There is not likely to be a single public intervention that successfully reduces both forms of risk. Even if there were, targeted efforts may well be more efficient in overcoming specific obstacles.

Project risks exist for any development effort. Small scale brownfield redevelopments are distinguished by two characteristics: (a) cost uncertainties, especially for projects involving site mitigations, and (b) fears of stigma, that is, of investment returns below those warranted by the new development were it on a greenfield, due to the bias of potential purchasers or lessors toward a previously contaminated site. Unexpected cleanup costs or reduced revenues from completed projects both could undermine developers' capacity to service debts.

The first problem may be overcome by facilitating access to insurance against unexpected costs. The insurance industry has developed "stop loss" products, protecting developers from cost overruns on cleanups. High fixed underwriting costs have, until recently, precluded the use of these policies for small scale projects. A new product, offered to municipalities and redevelopment districts or agencies, offers a lower cost per dollar of coverage to developers with fixed costs underwritten by the public or quasi-public entity promoting local economic development. Federal intervention could take the form of subsidy to such local provision of lower cost polled insurance coverage.

Stigma, while feared, and while extensively claimed, has yet to be documented. Empirical appraisal studies have never provided evidence that property value loss due to stigmatization, even for lands immediately adjacent to waste disposal sites. [Mundy, 1992; Zeiss & Atwater, 1989]. Nonetheless, the authoritative Appraisal Institute [1994] appears to promote an approach that double-counts environmental risk factors. This problem of exaggeration of the probability and effects of stigma is exceptionally evident in the formulas proposed by Chalmers and Roehr [1993, 31] and Neustein [1992, 283-284] that both deduct environmental costs and risk factors from annual net

operating income projections and add a risk premium to the discount rate employed. Worse yet is Patchin's [1994] attribution of all post discovery and cleanup property value loss to stigma with no consideration of probabilistic real costs. There is little, other than education, that any public effort can do to overcome this bias. The more successful redevelopments occur in spite of exaggerated stigma fears, the less credible the claims will be, so action to overcome other obstacles will, in time address this one as well.

Turning to the credit risk associated with the specific borrower, rather than the project, we note the availability of a well known and previously employed tool, loan guarantees. The great advantage of guarantees over direct subsidies is that they are relatively costless for successful projects, only coming into play if a borrower runs into unexpected trouble. A danger in provision of guarantees, however, is that they may lead lenders to be less selective in screening applications since they know some or all of their capital is not at risk. Thus a plausible federal policy may be to guarantee some proportion of loans to small scale redevelopers, but to do so only for defaults attributable to a specified list of causes, including factors such as undiscovered contamination (if not covered by insurance), but not the management capacities of the borrowers, so as to encourage banks and other lenders to continue to screen applicants (and projects) for economic potential and appropriate financial returns.

Collateral risk, our third concern, is severely reduced by the provision of any loan guarantees, since foreclosure by the institution would not be needed - or the return on the foreclosure assured. To the extent that loan guarantees do not protect investors from all possible defaults, however, this form of risk remains. We noted above that smaller scale redevelopment efforts suffer relative to larger ones in this dimension due to their inability to transform and regenerate property values in a neighborhood. However, if the incentives to brownfield redevelopment in an urban setting are systematically targeted to one area at a time, the synergistic effects of such support could reclaim whole neighborhoods and thus reduce collateral risk for any one small project that is part of the overall effort. A number of cities today already exhibit such targeting in the Empowerment Zone or Enterprise Community program efforts, and others may be encouraged to pursue this strategic use of federal support.

Finally, we return to liability risk, which most emphatically has not been eradicated by the recent amendment to CERCLA. We find few grounds for further federal action on this front today, for a number of different reasons:

- (1) The impact of the 1996 amendment is not yet clear, and further action should await evidence of the effects of provision of partial liability relief;
- (2) As we have already argued, the effect of reduction in liability risk was to increase the relative significance of other forms of risk, and we have just identified actions that could be taken to increase the competitiveness of small scale redevelopments with respect to those factors;
- (3) Some residual environmental liability risk exposure is desirable in light of the comments of a number of parties, especially attorneys, attesting to the utility of such concerns in motivating lenders to act as environmental enforcement agents; and,
- (4) Liability risks are associated with any development or redevelopment project, and it is not clear that the environmental liabilities that remain after the passage of the 1996 Act constitute a significantly greater exposure than would exist on a greenfield project.

These issues may need to be reexamined at a future date in light of greater evidence and experience.

We conclude, then, with the observation that we have identified a conundrum that has posed serious problems for American cities for most of the past twenty years. The dilemmas posed have been accentuated by the tendencies towards agglomeration and concentration in financial markets in general and financial institutions in particular. Means of resolving the conflicts through Federal action are available. It is beyond the purview of this paper to detail the arguments over the cost-effectiveness of such interventions and their rationale on environmental equity grounds, both of which are strong. The major impediment to the implementation of the needed policies to stimulate small scale brownfield redevelopment projects is political and ideological: the drive to minimize the overt role of Federal policy in the American economy and the size of the Federal budget.

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