

## Why are dry cleaners an environmental risk?

Dry cleaners are considered high risk for environmental due diligence for several reasons: Dry cleaners often use solvents like perchloroethylene (PCE) and trichloroethylene (TCE), which are volatile organic compounds (VOCs). These chemicals can be harmful to human health and the environment. Due to common poor housekeeping and equipment leaks, dry cleaners have a high frequency of spills and discharges. These can lead to soil, soil vapor, and groundwater contamination. Chemicals used in dry cleaning can migrate through even uncracked concrete foundations and into the underlying subsurface environment. Vapor-phase solvents can enter back up into buildings, leading to indoor air quality issues. Dry cleaners often lack the resources for proper environmental management and may not have environmental insurance, making them a liability for property owners.

## How often does contamination occur?

Studies conducted by the Environmental Protection Agency (EPA) and the State Coalition for Remediation of Dry Cleaners found that an estimated *75% of the approximately 30,000 dry cleaners currently in operation* have some level of contamination. Furthermore, a 2002 study in Florida found that contamination had migrated off-site at *57% of the contaminated sites*. The Environmental Protection Agency (EPA) has also reported that *90% of dry cleaner contamination plumes exceed 100 feet* in length.

## What does all of this mean for lenders?

All these factors make it crucial to conduct thorough environmental due diligence when dealing with properties that have been used as dry cleaners. If a property is contaminated, the cleanup costs can be substantial. Lenders and other potentially vested parties might find themselves responsible for these costs if the borrower defaults, particularly if the contamination impacts the property's value. Contaminated properties also have reduced market value. This impacts the lender's collateral and increases the risk of losing money on the loan if the borrower defaults. Stakeholders expect lenders to be diligent and responsible in their lending practices, including environmental considerations.

## What due diligence should lenders consider?

Here are some key steps:

1. **Phase 1 Environmental Site Assessment (ESA):** This initial assessment involves reviewing historical records, regulatory databases, and conducting site inspections to identify potential environmental risks. It helps recognize any Recognized Environmental Conditions (RECs). Understanding the historical operations of the dry

cleaner, including the types of solvents used and waste disposal practices, can help assess the extent of potential contamination

2. **Phase 2 Environmental Site Assessment (ESA):** If the Phase 1 ESA identifies potential risks, a Phase 2 ESA involves subsurface testing and sampling to confirm the presence of contaminants. Since dry cleaners often use solvents that can vaporize and migrate into buildings, it's important to assess the risk of vapor intrusion, where vapors enter indoor spaces through cracks in the foundation. Testing the soil and groundwater around the property for contaminants may also be prudent in some circumstances, as dry cleaners can cause significant soil and groundwater contamination.
3. **Consultation with Environmental Experts:** Engaging environmental consultants or attorneys can provide specialized knowledge and ensure compliance with local regulations and guidelines.

By following these steps, lenders can better understand the environmental risks associated with a dry cleaner property and make informed decisions.

If you have questions or would like additional information regarding Phase I ESA viability, user reliance, or other factors affecting CERCLA protection, please feel free to contact GIEIM at 855-277-5307.

### **Disclaimer**

*Green Environmental Management has provided this summary of dry-cleaning concerns and what lenders should know for the purpose of provided valuable information of our clients. This white paper has been generated with a generic application in mind without regard to data specific to any given property. Green Environmental Management assumes no liability for errors or omissions contained within the provided information.*