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How to Read a Phase I Environmental Site Assessment Report Like a Lender

Our Friends · Wednesday, October 14th, 2026

Most lenders read the last two pages of a Phase I report and call it done. That habit is how you end up funding a strip center sitting on a former dry cleaner, then explaining a six figure cleanup to your credit committee eighteen months later.

A Phase I is not a contamination test. It's a records and site history opinion, and it reads more like a title commitment than a lab result. Once you know the [phase I environmental site assessment process](#), you can move through a sixty page PDF in about twenty minutes and know exactly which paragraphs deserve a phone call. Here's how I read them when I'm the one signing the commitment.

What a Phase I report actually is, and what it isn't

The report follows a recognized practice standard, and its purpose is to identify recognized environmental conditions, or RECs, on and near the property. It's built from historical aerial photos, fire insurance maps, regulatory database searches, a site visit, and interviews with people who've been around the property. Nothing gets sampled. No soil is disturbed.

That matters because a clean Phase I doesn't mean clean dirt. It means nobody found a documented reason to suspect contamination. If a current or former gas station, auto shop, print shop, or dry cleaner shows up in the history, the consultant can't clear it with a walk around the block. That's what a Phase II investigation is for, and a lender should assume a Phase II is coming whenever that history appears.

Here's my stance, and it's not a popular one with borrowers: I'd rather see a Phase I with one clearly explained REC than a spotless report from a consultant I've never heard of. The first one tells me the consultant looked hard.

The Four-Question Read: my shortcut through any report

Skip the executive summary on round one. It's written to be reassuring, and reassuring is the opposite of useful when you're pricing risk. Instead, open the report and answer four questions in order. I call this the Four-Question Read, and it's saved me from a bad loan more than once.

1. Who wrote it and when? Check the signature date, the field inspection date, and the date the database search was run. Real estate due diligence has a shelf life, and a report assembled from

stale records tells you nothing about the property today.

2. What did the historical records show? Go straight to the historical use table. Look for any prior occupant that handled solvents, fuels, or metals. A vacant lot in 1994 that was a laundry in 1974 is still a laundry site.
3. What does the database search flag within the search radius? Read every listed off-site facility and the consultant's distance note. A leaking underground storage tank two blocks away on the opposite groundwater flow direction is noise. Three lots uphill is not.
4. What did the consultant actually conclude? Find the REC section and read the language word for word. "No RECs identified" and "no further investigation recommended" are two different statements. You want both, and you want them stated plainly.

If you can't answer all four after one pass, the report isn't weak. Your read is. Go back to the REC section and start there.

Where the red flags usually hide

Three sections carry most of the weight, and they're almost never the ones borrowers forward first.

The historical use table

This is where deals die quietly. Scan the left column for years and the right column for occupant type. Any entry tied to automotive, dry cleaning, printing, or industrial work deserves a second look, even if the business closed decades ago. Contamination doesn't retire when the tenant does.

Regulatory database listings

According to the [Environmental Protection Agency](#), releases from underground storage tanks and hazardous waste sites are tracked in public federal and state databases, which is exactly where the consultant pulled these listings. The skill here is triage. Note the facility, the distance, and whether the listing shows a confirmed release or just a registered tank. Registered is common. Confirmed release nearby is a conversation.

Recommendations and limitations

Read the limitations paragraph twice. Consultants use careful language to describe what they couldn't see: inaccessible areas, missing historical records, a tenant who declined an interview. Those caveats are the honest part of the document, and they tell you where your risk actually sits. A report with no limitations section is a report I don't trust.

What to do when the report flags something

Don't kill the deal on the first REC. Request the consultant's scope and cost estimate for a Phase II, then decide whether the number is material to your loan amount. Small business borrowers sometimes qualify for cleanup financing through the [Small Business Administration](#), which is worth mentioning before a borrower walks away from a workable project.

Here's the request I send when something flags, and it takes about three minutes to write:

- The consultant's written scope and estimated cost for a Phase II, plus a timeline.
- A revised report if the first one was based on incomplete records.

- A borrower acknowledgment that remediation costs, if any, are theirs, not a surprise line item in your loan file.
- Confirmation that the borrower didn't shop consultants until they found a favorable opinion, which is a real pattern and a real problem.

One more thing worth knowing: if the loan involves a federal agency, the environmental review obligations sit with the lender, not the borrower. The framework lives with the **Department of Housing and Urban Development** for its programs, and any lender working in that space should know where those obligations land before closing.

Quick pre-funding checklist

Check	What you're looking for
Dates	Inspection and database search both recent enough to reflect current conditions
Historical use	No solvent, fuel, or metals handling in any prior occupant
Database listings	No confirmed release in the search radius on the same groundwater flow direction
REC language	"No RECs identified" alongside "no further investigation recommended"
Limitations	Caveats disclosed and understood, not buried
Consultant	Recognized firm, signed report, contactable author

Print that table, tape it inside your deal folder, and you'll stop missing the same three things every lender misses.

Reading it like a lender, not a borrower

Borrowers read a Phase I looking for a green light. Lenders should read it looking for the paragraph that costs money. The phase i environmental site assessment is a risk document, and the whole point of reading it carefully is to price that risk before the loan closes, not after a tenant complains about fumes in the parking lot.

So here's my challenge to you: pull the last Phase I you approved and reread it using the Four-Question Read. I'd bet you find one thing you skimmed past. What was it?

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