WRITTEN TESTIMONY OF
FRED P. HOCHBERG - PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM, SUBCOMMITTEE ON ECONOMIC GROWTH, JOB CREATION, AND REGULATORY AFFAIRS AND HOUSE FINANCIAL SERVICES COMMITTEE, SUBCOMMITTEE ON MONETARY POLICY AND TRADE

"Assessing Reforms at the Export-Import Bank"

April 15, 2015

Chairman Huizenga, Chairman Jordan, Ranking Member Moore, Ranking Member Cartwright, and distinguished members of the Subcommittees, thank you for inviting me to testify before you today.

ABOUT EXIM BANK

For the past six years, I have had the honor of overseeing a small, yet extremely effective government agency whose approximately 450 employees are passionate about empowering businesses to create more American private sector jobs, while serving as responsible stewards of taxpayer dollars.

In the course of my tenure, I have seen the Bank's role both expand and contract as a natural response to the needs and demands of the free market—as it was designed to do. I have also had the opportunity to oversee a number of reforms and improvements, which is what we are here today to discuss.

In May 2012, the Export-Import Bank Reauthorization Act of 2012 (P.L. 112-122) was passed by Congress with overwhelming bipartisan support in both chambers – 330 Republicans and Democrats in the House and 78 in the Senate. The vote carried on a long tradition of bipartisan support that has existed since 1934, when the Bank was established. I fully respect and would like to thank the Committees, Congress, the Office of the Inspector General, the Government Accountability Office, as well as, the Ex-Im Bank employees, all of whom have played an integral role in ensuring effective oversight of the Bank. This attention and oversight has helped the Bank to become a better institution and has allowed us to better achieve our shared goals of serving and protecting your constituents and American taxpayers. Over the past several years, the Bank has become more transparent, heightened its focus on risk, expanded its attention on small business and textiles, and is increasingly mindful of global competition – all of which has made the Bank a better institution supporting job growth.

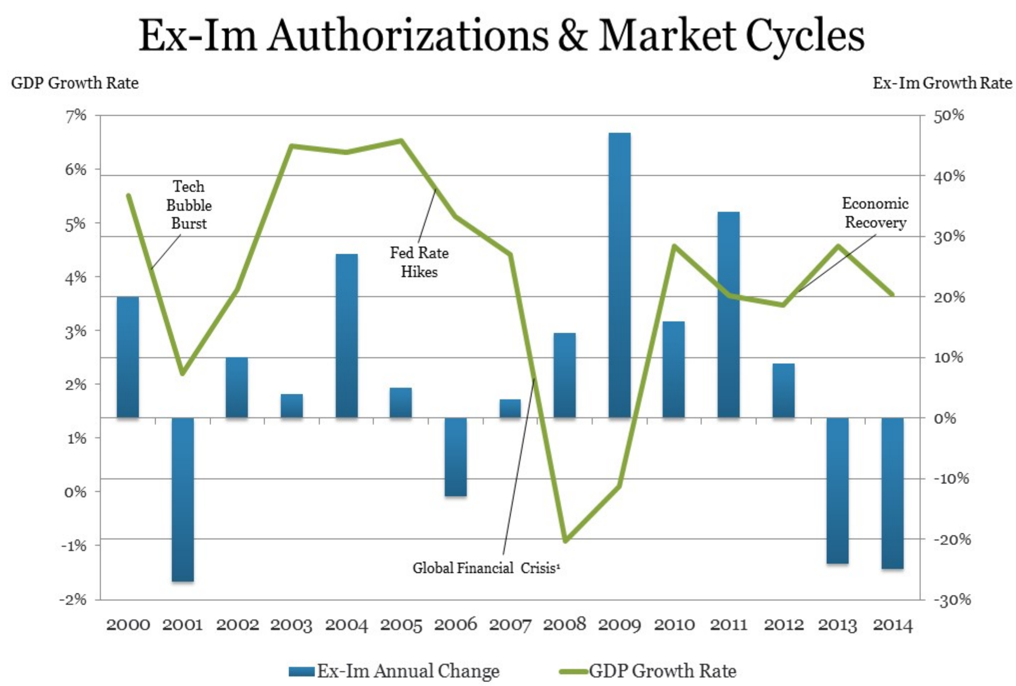
Ex-Im was created to support American job growth by financing the export of U.S. goods and services. Since its inception 81 years ago, Ex-Im has been supported by thirteen consecutive presidential administrations—six Republican and seven Democratic. The Bank is a self-sustaining agency that charges interest and fees to fund its transactions. As a result, over the past two decades Ex-Im has sent approximately $7 billion in excess revenues to the U.S. Treasury.

Ex-Im fulfills its mission to support U.S. jobs in two ways. First, Ex-Im fills the gaps when the private sector is unable or unwilling to provide financing for U.S. exports—a particularly important role for American small businesses, which often find it difficult to obtain export financing from their local bank, and for exports to the developing world, which accounted for 68 percent of Ex-Im's authorizations in 2014. Second, it seeks to ensure a level playing field for U.S. exports in the hyper-competitive global marketplace by making available financing that encourages buyers to make decisions based on free market factors such as price and quality, rather than on foreign competitors' state-sponsored or cut-rate financing.

FACILITATING EXPORTS & PROMOTING DOMESTIC JOB GROWTH

America's private sector is the highest-functioning, most efficient in the world, and does a tremendous job of financing U.S. exports. However, commercial banks and insurers do not always have the capacity or willingness to equip American businesses that want to sell their goods and services overseas.

Ex-Im Bank's role is to complement and work with commercial lenders and brokers in order to fill any market gaps. These gaps might be linked to limited risk appetite, high capital requirements, or unwillingness to extend longer-term credit. The Bank does not compete with the private sector. In fact, approximately 98 percent of the Bank's transactions include a partnering private financial entity. Ex-Im provides a vital backstop to ensure that the American export economy remains vibrant in a world of fluctuating markets. Indicative of this point is the fact that new Ex-Im Bank authorizations are down by 45% from two years ago; in direct correlation to the improving economy and return of the commercial markets. The following graph highlights the impact of major economic events on GDP and business cycles and Ex-Im's corresponding activity.



[1] Bear Stearns and Lehman Brothers collapsed in 2007 & 2008, respectively, setting off the Global Financial Crisis.

Ex-Im Bank is entirely demand driven. The Bank is also countercyclical, as evidenced by the 2008 financial crisis. When market liquidity was weak during the financial crisis and the years that followed, Ex-Im Bank support increased dramatically. However, Ex-Im financing has recently declined as private market financing has cycled back to stronger health. This is particularly true in the aircraft sector. In FY 2014, the number of commercial aircraft authorized was less than half the number financed during the peak of the financial crisis, while at the same time overall commercial aircraft deliveries were up approximately 20 percent. This decline in Ex-Im financing occurring at a time of increased overall sales growth further demonstrates that as commercial financing markets become healthier, Ex-Im engages only when necessary.

FOCUSING ON SMALL BUSINESS

Even in stronger economic periods, small businesses frequently have difficulty securing working capital loans or insurance packages from banks and insurers to support their exports. Each year, Ex-Im equips thousands of U.S. companies to convert international sales opportunities into economic growth and new jobs here at home. In FY 2014, Ex-Im supported 164,000 U.S. jobs through financing approximately $20.5 billion worth of exports.

Companies like:

- Cytozyme Laboratories, a family-owned small business exporting agricultural nutrients in Salt Lake City, Utah, that has used Ex-Im Bank's working capital loan guarantee to expand its exports to more countries, and as a result is increasing its workforce by 10 new jobs;

and

- Fritz-Pak in Mesquite, Texas, a minority-owned small, family business that manufactures cement additives, who when facing layoffs and potential closure, used Ex-Im Bank's multi-buyer insurance policy to reach new markets, compete, and win. The employees that Fritz-Pak had to let go when the financial crisis hit the construction industry have now been hired back thanks to those newfound export sales.

To these and thousands of other Main Street America small businesses, Ex-Im provides peace of mind, so that entrepreneurs can focus on beating out foreign competition with high quality, innovative products rather than worrying about whether lack of financing will keep them out of the game. Supporting U.S. small businesses is at the heart of Ex-Im's work. In FY 2014, nearly 90 percent of Ex-Im's authorizations directly served small businesses, as defined by the Small Business Administration. Nearly a quarter – 24.7 percent – of Ex-Im's authorizations by dollar value went directly to small business exports, and small businesses accounted for 39 percent of the total value of all exports supported by Ex-Im Bank. Those figures do not include the tens of thousands of additional U.S. small businesses in the supply chains of larger American exporters who see their sales go up each time an American company beats out a rival for a big deal overseas.

U.S. businesses small and large operate in a global economy. As such, Ex-Im's practices adhere to competitiveness and transparency standards established by the Organization for Economic Cooperation and Development (OECD) Arrangement on Guidelines for Officially Supported Export Credits. In an effort to promote a level global playing field for exports based on free market competition, the OECD Arrangement put into place responsible lending and transparency rules, which governed the totality (100 percent) of official export credit support worldwide for decades. Today, the share of official export support that still falls under these guidelines has dropped to 34 percent (this includes tied and untied financing), as countries such as China and Russia, which are outside of the OECD Arrangement, have begun to aggressively back their domestic exporters with unregulated, opaque financing. Even among countries that adhere to the OECD rules, competition is increasing. South Korea's export credit agencies, to take one example, equipped Korean companies with over $2 billion more in financing support in 2014 than Ex-Im Bank did for U.S. companies – despite Korea having an economy less than one tenth the size of America's.

EXPORT-IMPORT BANK REAUTHORIZATION ACT OF 2012 (P.L. 112-122)

In 2012, an overwhelming bipartisan majority in the House and the Senate voted to reauthorize the Export-Import Bank with an increased lending cap and a number of requirements. We are grateful for the opportunity to discuss how we have implemented each and every one of those requirements, and have implemented additional reforms that were not mandated by Congress. We also appreciate the opportunity to discuss our efforts to continually improve our service to your constituents and to taxpayers across the country.

In 2012, the Bank was asked to implement 18 requirements (Section 4 through Section 21). As you can see in Attachment 1, every action and study has been completed and implemented, or is being compiled on an ongoing basis. From submitting a business plan to Congress to monitoring and reporting default rates to providing public notices for transactions exceeding $100 million dollars, the Bank has worked to complete all of the requirements asked of it. The last reauthorization provided the Bank with the opportunity to review a number of its operations, and as a result we have been able to improve the services we provide to companies like Boyle Energy Services & Technology in Concord, New Hampshire and Maxon Industries in Milwaukee, Wisconsin, both of which are among the thousands making use of Ex-Im financing to add more U.S. jobs through exports.

These requirements included:

- ***Updating the Bank's economic impact*** procedures and methodology. These standards were adopted in November 2012 and have been fully implemented since April 1, 2013. This went beyond the congressional request and was reported to Congress, Government Accountability Office (GAO), and the Inspector General in November 2012.

- ***Examining the Bank's support for small business***. We are continually working to enhance our outreach to small business. Nearly a quarter – 24.7 percent – of Ex-Im's authorizations by dollar value went directly to small business exports in 2014, and small businesses accounted for 39 percent of the total value of all exports supported by Ex-Im

Bank. That's in addition to the indirect support for small businesses that serve as suppliers to larger customers. We are continually looking to improve in this area, as small business represents the heart of our job growth mission.

- ***Bolstering our Advisory Committee*** to include a textile industry representative. We have made a terrific addition to our committee as a result, with the textile industry slot currently held by John Morrison White, who is the President of Morrison Textile in Fort Lawn, South Carolina.

- ***Working cooperatively with the GAO*** on numerous reports and working to close 15 of their 16 recommendations, which the Bank agreed would enhance its operations. As a result, GAO recognized in an audit of the Bank's Risk Management that "Ex-Im has been developing a more comprehensive risk-management framework." (GAO audit 13-303).

- Also, improving the Bank's ***information technology***, ***established procedures and training on Iran sanction certifications, updating our due diligence standards and "know your customer" requirements,*** and ***adding non-subordination requirements***.

Beyond these requirements, the GAO was also asked to submit reports on a variety of subjects. These reports have been completed and submitted to Congress. Since the 2012 bipartisan reauthorization of the Bank, the GAO has issued five reports containing a total of 16 recommendations. We agreed with every single recommendation. Of those 16 recommendations, Ex-Im Bank has already addressed 15 of them – subsequently, 13 have been closed by the GAO, and the GAO is currently reviewing materials provided by Ex-Im for the remaining two. Ex-Im Bank is also working to address the one remaining recommendation from the most recent GAO report. I have included a chart of our progress in Attachment 2 of my remarks.

Further to the work we do with the GAO, the Bank regularly consults with the Office of the Inspector General (OIG). For example, I meet with the acting Inspector General Mike McCarthy every month and our Chief Risk Officer meets with the IG even more frequently to discuss any issues of concern and share insights. To highlight the effectiveness of this cooperation, since early 2012, the OIG has issued 25 reports and follow-up evaluations containing a total of 142 recommendations. Of those recommendations, Ex-Im Bank has fully concurred with 140 and has fully implemented 88 to date. While we are diligently working to fully implement the remaining recommendations, 23 have been issued within just the past 90 days. On the remaining two unresolved recommendations we continue to work with the OIG on the best path forward to address concerns raised in their reports (Attachment 3).

In addition, the Export-Import Bank Reauthorization Act of 2012 directed the Secretary of the Treasury Department to initiate and pursue negotiations: to substantially reduce, with the ultimate goal of eliminating, (1) subsidized export financing programs and other forms of export subsidies; and (2) aircraft export credit financing for all aircraft covered by the 2007 Sector Understanding on Export Credits for Civil Aircraft, including any modification thereof. The Treasury Department has submitted annual reports on the progress of these negotiations, which are in Attachment 4.

ADDITIONAL PROACTIVE IMPROVEMENTS

Ex-Im Bank has a culture of continuous improvement. As a result, in addition to the requirements put forth in our last authorization, Ex-Im Bank has implemented numerous risk management improvements to further ensure that we remain effective stewards of the taxpayers we serve. Equally important is the Bank's commitment to improving how it measures, controls, and mitigates risks. The Bank has made numerous advancements in recent years, including:

1. Hiring a Chief Risk Officer;
2. Creating the Enterprise Risk Committee to examine and monitor all risk issues;
3. Creating a Special Assets unit to enhance recoveries;
4. Expanding proactive monitoring efforts;
5. Increasing staffing in our asset monitoring divisions by 33 percent;
6. Going beyond federal requirements, implementing mandatory Ethics Training for All Bank Employees,
7. Updating, streamlining, and simplifying domestic content requirements;
8. Streamlining our application process to provide better customer service and improve decision time; and
9. Enhancing the customer contact center, now operating from 8am to 8pm Monday through Friday with a team of trained operators.

Ex-Im Bank is constantly seeking out new ways to serve its customers more efficiently and without compromising our underwriting standards. Expanding on the 2012 reauthorization efforts to improve our IT infrastructure, we have taken additional steps to meet industry standards and focus on data quality. With a new Chief Information Officer, the Bank is proactively working to improve these practices. Alongside this effort to improve technology, Ex-Im has streamlined its application processing, which has seen the number of days needed to reach an authorization decision cut in half since 2009.

Additionally, as part of our ongoing efforts to enhance the customer experience for current and prospective exporters, Ex-Im Bank initiated a new and improved customer contact center that includes an improved 1-800 number experience, along with a new email response system. The contact center also has online chat capabilities that allows small businesses to get questions answered quickly. The new contact center is the latest Ex-Im Bank initiative aimed at bringing our customers "government at the speed of business." In addition, to improve the quality, reliability, and accuracy of the data we collect, we are in the process of updating our application processes to require certain data be included prior to accepting an application, such as number of employees, annual sales volumes, and the NAICS code. Previously much of this information has been voluntary or done through outside agencies to confirm. By requiring this information we are working to improve our data quality as well as enhance the support we provide to our customers, your constituents.

Ex-Im Bank is committed to operating under the highest ethical standards. The agency's ethics program is fully compliant with all laws, regulations, and policies that govern this aspect of our work. We conduct comprehensive ethics training for all employees and foster an environment where employees are encouraged to ask questions and report suspected unethical behavior. Among other duties, our ethics staff:

- Reviews 265 Confidential Financial Disclosure (450) forms and 28 Public Financial Disclosure forms (278) and conducts conflicts reviews
- Reviews outside activity requests from Bank employees
- Provides advice to employees on questions about ethical questions
- Provides advice on post-employment restrictions for current and former employees
- Provides travel guideline advice
- Monitors the Bank's "Ethics Advice" email account which was created to provide employees quick and discreet ethics advice on basic ethics questions.

Furthermore, all new employees receive introductory ethics training upon arrival and mandatory training annually thereafter. The Bank brings in the Office of Special Counsel (OSC) to conduct Hatch Act training as well. Our ethics staff ensures 100% participation of all employees (above and beyond the minimum requirement of GS-11 and above mandated by the ethics regulations) by tracking who attends the training and following up with employee supervisors to ensure attendance. Employees who are unable to attend live sessions take an electronic course through the AGLearn online learning program.

Last year, the Bank introduced the "Ethics Guide for Federal Government Employees" a pocket sized guide to provide a quick reference for employees to refer to ethics rules. We incorporated the use of the guides into the 2013 training module, and we distribute the guides to all new employees. The guides have been well-received by the staff and resulted in increased employee engagement in ethics rules.

Ex-Im Bank continues to review both external and internal policies. To that end, we have taken steps to strengthen the Bank's risk management program. The Bank established the Enterprise Risk Committee (ERC), comprised of Senior Vice Presidents of the Bank and chaired by the Bank's Chief Risk Officer. The mandate of the ERC is to maintain oversight of the comprehensive and systematic risk management regime within the Bank. The regime extends beyond repayment risk in the portfolio to include operational risks as well as the full range of legal, market, and strategic risks faced by the Bank. The ERC was established to foster the development of enterprise risk awareness, promote open discussion regarding risk, integrate robust risk management into the Bank's broader goals, and create a culture of risk awareness and management at all levels of the Bank. The ERC meets monthly and more frequently if needed, and incorporates oversight of several subordinate committees focused on specific areas of risk.

The Bank continues to implement advice and suggestions from previous findings from the Bank's internal analysis, outside expert advice, and audit recommendations from the GAO and Ex-Im Bank's Office of Inspector General (OIG). To assess the efficacy of Ex-Im Bank's comprehensive risk management framework, various external parties review Ex-Im Bank's practices for managing risks at the transaction and portfolio levels. Since May 2012, Ex-Im Bank has been audited by the GAO and the OIG 32 times. Also, Ex-Im Bank undergoes internal audits, as well as an annual financial audit from Deloitte. In FY 2014, the Bank (excluding the OIG) spent $1.2 million on external audit and compliance contracts to promote efficiency and effectiveness in the administration and management of the Bank's programs. Bearing in mind that sound underwriting is our first line of defense, the Bank dedicates nearly a quarter of its staff specifically to risk management and compliance activities.

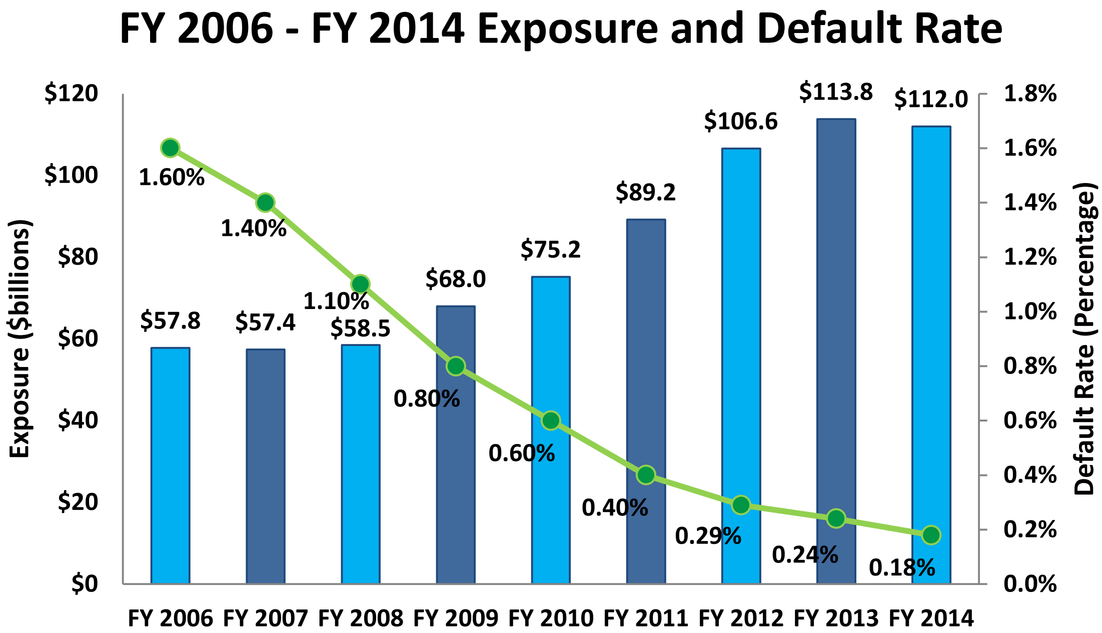
PROTECTING AMERICAN TAXPAYERS

In the course of executing its jobs mission, Ex-Im takes its responsibility to protect the U.S. taxpayer seriously. Due in part to increasingly thorough underwriting and exposure monitoring, an active stance towards fraud prevention in cooperation with our Inspector General, and a robust, comprehensive risk management regime, Ex-Im reduced the amount of claims paid out by 60 percent to $84 million in FY 2014 during the two-year period from FY 2012 when the portfolio grew by 90 percent to $112 billion. In those rare instances where there is a default, they are covered by the fees and interest paid to the Bank by our customers, not taxpayers.

Essential to protecting the taxpayers' investment in entrepreneurship is a solid risk management framework which has a foundation built on effective underwriting and that satisfies the Bank's Congressional mandate that every authorization comes with "a reasonable assurance of repayment." Once a new credit is authorized, the Bank focuses on proactive monitoring of the credit, through both thorough due diligence and documentation. This proactive management framework prevents potential defaults and allows the Bank to recover on actual defaults, as noted in a recent GAO audit (GAO-13-446).

Our focus on comprehensive risk management is demonstrated by our low default rate of 0.174% as of December 31, 2014.[1] As a result of the 2012 reauthorization, we now report our default rate to Congress every quarter. As illustrated in the chart below, Ex-Im's default rate remained low during the "real life" stress test of the financial crisis, and has declined since that time. In addition, in FY 2014, almost 80 percent of the Bank's exposure was backed by collateral or a sovereign guarantee. The Bank's risk management framework has ensured a low number of defaults, coupled with high recovery rates on those credits that have entered into default. Since the Federal Credit Reform Act went into effect in 1992, the Bank has succeeded in recovering approximately 50 cents for every dollar defaulted in the portfolio. Claims are paid from fees collected from the Bank's customers. In six of the past ten fiscal years, Ex-Im recovered more money than it paid out in claims.

[1] This default rate is different than the default rates published in the annual Budget Appendix due to differing definitions. The reported rate in the Budget Appendix reflects projected defaults over the life of the loan while the default rate in this report reflects actual defaults at a particular point in time.



Last year, the Bank supported manufacturing exports of nearly $16.6 billion. Sixty-eight percent of total authorizations in FY 2014 went to projects in developing markets, up from 62 percent in FY 2013. The Bank authorized more than $2 billion for U.S exports to sub-Saharan Africa, an all-time high.

In addition to closely monitoring its exposures, Ex-Im Bank performs regular stress testing of its portfolio to identify how the current portfolio may perform in the future under stressed scenarios.

Stress testing provides a forward-looking assessment of the potential impact of various adverse scenarios that could impact a banking institution's financial condition and capital adequacy. Ex-Im Bank's stress testing builds capacity to understand the Bank's risks and the potential impact of stressful events and circumstances on the Bank's financial condition. Stress testing is an important tool for portfolio management and risk mitigation. Ex-Im Bank's Inspector General recommended – and Ex-Im accepted – that "Ex-Im Bank should develop a systematic approach to stress testing and should conduct stress testing at least annually as part of its re-estimate process." The Bank will continue to monitor and report the results of these future stress test scenarios to the U.S. Congress.

CONCLUSION

We appreciate the widespread bipartisan support of Ex-Im and are eager to continue to support American jobs, as the Bank has done effectively and efficiently for more than eight decades. Providing long-term certainty to U.S. businesses seeking to compete in overseas markets is imperative as they make long-term plans to grow their global sales, to hire more workers, and to invest in innovation. Deciding to export is not a last-minute decision, but one that requires extensive planning. For companies like Bassett Ice Cream in Philadelphia, L&H

Industrial in Gillette, Wyoming, or Murray Equipment in Fort Wayne, Indiana, Ex-Im Bank plays a critical role – and one that by definition would not be filled by the private sector.

Companies face a variety of challenges in competing for a sale. The U.S. government should be there to tear down barriers wherever we can, not to put up more road blocks. We know that export-backed jobs pay up to 18 percent more on average than other jobs. We also know that exports have accounted for nearly one-third of our total economic growth over the past five years. Right now, exports are amongst record levels, representing over 13% of our GDP, but I think we can do better, which is why the President is trying to open more markets for American goods with bipartisan free trade agreements, and why Ex-Im works to fill in private sector gaps in order to encourage more U.S. exports.

Selling goods across borders is not the same as selling goods domestically. Access to credit is frequently what makes global projects happen. When U.S. companies compete for international, large-scale infrastructure projects, there are more limited financial options. The larger the project, the greater the impact on a company's day-to-day cash flow. Zeeco, a combustion technology company in Broken Arrow, Oklahoma knows this fact very well. Zeeco started as a small business, but due to export sales has been able to triple its size and grow into a medium-sized business. This was primarily due to the superior products they provide, but also a result of the guarantee they were able to obtain from Ex-Im Bank. That guarantee allowed them to effectively compete with foreign rivals who were offering financing packages as a part of their sales pitch. When I visited Zeeco last month, they told me that commercial banks get nervous about making loans on international transactions, and that unless you are investment-grade, the commercial sector would not extend credit without a guarantee. Zeeco is a great example of where Ex-Im Bank has been able to simultaneously fill the gap and level the playing field.

Rising competition and an ever-globalizing world have made Ex-Im Bank more vital than ever for reducing the risks faced by American exporters so that they can unleash opportunity in the form of new jobs. I look forward to continuing to work with you on empowering your constituents to export, grow, and hire more American workers.

Bio of Fred P. Hochberg

Fred P. Hochberg is Chairman and President of the Export-Import Bank of the United States (Ex-Im Bank). During his six years of leadership, Ex-Im Bank has supported nearly 1.3 million American jobs and financed exports with a value exceeding $200 billion, while generating more than $2 billion in surplus revenue for U.S. taxpayers and reducing costs by 15 percent.

Prior to his two terms as the head of Ex-Im Bank, Chairman Hochberg was dean of the Milano School of Management and Urban Policy at The New School in New York City. From 1998 to 2001, he served as deputy, and then acting administrator of the Small Business Administration (SBA), where he quadrupled lending to minority- and women-owned small businesses.

Prior to his service at SBA, Hochberg was the long-time President and Chief Operating Officer of the Lillian Vernon Corporation, where he led the transformation of a small, family mail order company into an international, publicly traded direct marketing corporation, making him one of the highest ranking business leaders in the Obama Administration.

Export-Import Bank Reauthorization Act of 2012: Every Reform Completed

Less than three years ago, Congress voted to reauthorize the Export-Import Bank of the United States, including a number of reforms (P.L. 112-122). Ex-Im Bank has now completed and implemented **every single reform**. But reforming and improving our operations doesn't begin or end with a bill's passage. At Ex-Im Bank, we pride ourselves on "government at the speed of business," and we've taken a number of steps in recent years to improve the customer experience for small business exporters, streamline operations, manage risk, and improve transparency.

Section by Section: Export-Import Bank Reauthorization Act of 2012 Status

Section 1: Short Title; Table of Contents . . . . No Action Required

Section 2: Extension of Authority . . . . No Action Required

Section 3: Limitations on Outstanding Loans, Guarantees, and Insurance . . . . Completed

Ex-Im Bank met all conditions for an increase in its exposure cap to $130 billion in 2013 and an increase to $140 billion in 2014 (see sections 4-6, 11).

Section 4: Export-Import Bank Exposure Limit Business Plan. . . . . Completed

Ex-Im Bank sent its final business plan to Congress and the Comptroller General on September 28, 2012.

Section 5: Study by the Comptroller General on the Role of the Bank in the World Economy and the Bank's Risk Management . . . . Completed

GAO submitted its report to Congress in March 2013. The Bank submitted its report to Congress on the implementation of GAO's recommendations in July 2013.

Section 6: Monitoring of Default Rates on Bank Financing; Reports on Default Rates; Safety and Soundness Review . . . . Completed Quarterly

Ex-Im Bank submits a default rate report to Congress each quarter.

Section 7: Improvement and Clarification of Due Diligence Standards for Lender Partners . . . . Completed

Ex-Im Bank updated its due diligence standards and "know your customer" requirements on May 30, 2014.

Section 8: Non-Subordination Requirement . . . . Completed

Ex-Im Bank added this requirement to its Policy Handbook and completed training of Ex-Im Bank staff.

Section 9: Notice and Comment for Bank Transactions Exceeding $100,000,000 . . . . Ongoing

Notices are regularly published in the Federal Register as required.

Section 10: Categorization of Purpose of Loans and Long-Term Guarantees in Annual Report . . . . Completed

Ex-Im Bank first included a categorization of long-term loans and guarantees in its FY 2012 Annual Report. The categorization will continue to be included in all future Ex-Im Bank Annual Reports.

Section 11: Negotiations to End Export Credit Financing . . . . Completed Annually by U.S. Department of Treasury

Completion of this reform was assigned by Congress to the U.S. Department of the Treasury. Treasury provides a report on export credit financing to Congress annually.

Section 12: Publication of Guidelines for Economic Impact Analyses and Documentation of Such Analyses . . . . Completed

Updated economic impact procedures and methodology were approved by Board on November 19, 2012. They were published online and reported to Congress, GAO, and the Inspector General on November 26, 2012.

Continued:

Section by Section: Export-Import Bank Reauthorization Act of 2012 Status

Section 13: Report on Implementation of Recommendations of the Government Accountability Office . . . Completed

Ex-Im Bank submitted this report to Congress on November 26, 2012.

Section 14: Examination of Bank Support for Small Business. . . . . Completed

Ex-Im Bank's Small Business Report was submitted to Congress on November 26, 2012.

Section 15: Review and Report on Domestic Content Policy . . . . Completed

Ex-Im Bank's report to Congress on domestic content policy was submitted on May 30, 2013.

Section 16: Improvement of Method for Calculating the Effects of Bank Financing on Job Creation and Maintenance in the United States . . . . Completed

GAO submitted its report on May 23, 2013.

Section 17: Periodic Audits of Bank Transactions. . . . . Initial Audit Completed

GAO completed an initial audit of underwriting guidelines, lending policies, due diligence procedures, content guidelines, and fraud controls. It was sent to Congress on September 9, 2014. Future audits will take place periodically.

Section 18: Prohibitions on Financing for Certain Persons Involved in Sanctionable Activities with Respect to Iran . . . . Completed

Procedures and certificates have been posted on Ex-Im Bank's website, and training of Ex-Im Bank staff has been completed. Certificates are being collected as required.

Section 19: Use of Portion of Bank Surplus to Update Information Technology Systems . . . . Ongoing

Ex-Im Bank is modernizing its IT systems.

Section 20: Modifications Relating to the Advisory Committee . . . . Completed

Beginning in 2013, each Ex-Im Bank Advisory Committee has included a textile industry representative. That member helps ensure that the Advisory Committee is working to advise Ex-Im Bank on how to increase support for the U.S. textile industry.

Section 21: Financing for Goods Manufactured in the United States Used in Global Textile and Apparel Supply Chains . . . . Completed

Ex-Im Bank's Report on Global Textile and Apparel Supply Chains was sent to Congress on November 30, 2012.

Section 22: Technical Correction . . . . No Action Required

Section 23: Sub-Saharan Africa Advisory Committee . . . . No Action Required

Section 24: Dual-Use Exports . . . . No Action Required

Section 25: Effective Date . . . . No Action Required

Ex-Im Bank has also enacted a number of additional voluntary improvements to better serve exporters and protect taxpayers:

- Realigned internally by industry sector to respond to market trends and better serve U.S. exporters.
- Improved customer service for U.S. exporters through the new Customer Contact Center at 1-800-565-EXIM.
- Established the office of Chief Risk Officer and created the Enterprise Risk Committee to maintain comprehensive and systematic risk management.
- Mandated ethics training for every single Ex-Im Bank employee, resulting in a 100% participation rate.

Export-Import Bank Reauthorization Act of 2012: Working with GAO to Keep Improving

Since the last Ex-Im Bank reauthorization, the GAO has issued five reports containing a total of 16 recommendations. **Of those 16 recommendations, Ex-Im Bank has agreed with all 16 and has addressed 15 of them** – subsequently 13 have been closed by GAO, and GAO is currently reviewing materials provided by Ex-Im for two. Ex-Im Bank is also working diligently to address the one remaining recommendation from the most recent GAO report.

March 28, 2013 - Recent Growth Underscores Need for Continued Improvement in Risk Management (GAO-13-303)

- **Recommendation 1 –** Improve reliability of loss estimation model – **CLOSED**
- **Recommendation 2 –** Retain point in time data on credit performance – **CLOSED**
- **Recommendation 3 –** Report stress test scenarios to Congress – **CLOSED**
- **Recommendation 4 –** Develop and monitor workload benchmarks – **CLOSED**

May 23, 2013 - More Detailed Information about its Jobs Calculation Methodology Could Improve Transparency (GAO-13-446)

- **Recommendation 1 –** Increase transparency of the methodology to calculate number of jobs Ex-Im supports – **CLOSED**

May 30, 2013 - Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources (GAO-13-620)

- **Recommendation 1 –** Adjust Bank's forecast models – **CLOSED**
- **Recommendation 2 –** Report financial performance at sub-portfolio level – **CLOSED**
- **Recommendation 3 –** Assess sensitivity of the exposure forecast model – **CLOSED**
- **Recommendation 4 –** Provide additional information on the resources associated with meeting the mandated target – **CLOSED**

August 28, 2014 - Monitoring of Dual-Use Exports Should Be Improved (GAO-14-719)

- **Recommendation 1 –** Strengthen Ex-Im guidance for monitoring end use – **RESPONDED**

(over)

Continued:

September 9, 2014 - Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes (GAO-14-574)

- **Recommendation 1 –** Develop and implement procedures prior to loan guarantee approval **– RESPONDED**
- **Recommendation 2 –** Establish mechanisms to oversee compliance with Ex-Im's existing procedures **– CLOSED**
- **Recommendation 3 –** Develop and implement detailed instructions prior to loan guarantee approval **– CLOSED**
- **Recommendation 4 –** Update CRTI review process **– WORKING TO ADDRESS**
- **Recommendation 5 –** Document risk-based approach for scheduling delegated authority lender examinations **– CLOSED**
- **Recommendation 6 –** Document overall fraud process **– CLOSED**

Export-Import Bank Reauthorization Act of 2012: Working with OIG to Keep Improving

Since early 2012, the Office of Inspector General has issued 25 reports and follow-up evaluations containing a total of 142 recommendations. **Of those 142 recommendations, Ex-Im Bank has fully concurred with 140** and has implemented 88 to date, while we are diligently working to implement the remaining 52 (23 of which have been issued in the past 90 days). On the remaining two unresolved recommendations we continue to work with the OIG on the best path forward to address concerns raised in the reports.

September 17, 2010 - Economic Impact Procedures (OIG-EV-10-03)

- **Recommendation 1 –** Present the available quantitative and qualitative information a concise balancing format – **FULLY IMPLEMENTED**
- **Recommendation 2** – Consider guidance provided by OMB in developing specifications for its analysis and reports to the Board – **FULLY IMPLEMENTED**
- **Recommendation 3** – Reliance on trade flow analysis or any other quantitative methods should be made subject to Board approval – **FULLY IMPLEMENTED**
- **Recommendation 4** – Trade flow analysis should not be the sole or primary criterion for deciding economic impact cases – **FULLY IMPLEMENTED**
- **Recommendation 5** – Develop additional criteria for analysis of economic impact – **FULLY IMPLEMENTED**
- **Recommendation 6** – Provide for a periodic backward-looking empirical review – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Reevaluate the "sensitive commercial sectors list" – **FULLY IMPLEMENTED**
- **Recommendation 8** – Include more information about the PPG staff's methodology and publish it on the Bank's website – **FULLY IMPLEMENTED**
- **Recommendation 9** – Revise the Bank's internal procedures in preparing economic impact reports – **FULLY IMPLEMENTED**
- **Recommendation 10** – Make economic impact reports publicly available – **FULLY IMPLEMENTED**
- **Recommendation 11** – Develop and make public a methodology to identify at an early stage low risk transactions – **FULLY IMPLEMENTED**
- **Recommendation 12** – Request exporters of capital equipment to provide relevant data to support an accelerated review – **FULLY IMPLEMENTED**

(over)

- **Recommendation 13** – Inviting proponents of transactions subject to formal economic impact review to submit white paper analyses – **FULLY IMPLEMENTED**
- **Recommendation 14** – Provide earlier notice to Congress and the Reviewing Agencies of the initiation of economic impact review – **FULLY IMPLEMENTED**
- **Recommendation 15** – Implementing a policy with the Reviewing Agencies that would set a specified limited time period – **FULLY IMPLEMENTED**
- **Recommendation 16** – Hire a trained economist to assist in implementing the improvements suggested in this Report – **FULLY IMPLEMENTED**

June 7, 2011 - Review of the Ex-Im Bank Nigeria Banking Facility (OIG-SR-11-01)

- **Recommendation 1 –** Develop policies and procedures clearly defining when a Special Delegation of Authority is beneficial – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2** – Develop policies and procedures describing how credit facilities would be established – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3** – Establish an anti-corruption hotline – **FULLY IMPLEMENTED**

January 24, 2012 – Information Technology Support for Ex-Im Bank's Mission (OIG-AR-12-04)

- **Recommendation 1 –** Have business owners individually and in aggregate reevaluate their business requirements – **FULLY IMPLEMENTED**
- **Recommendation 2** – Develop a formal working file document management policy – **FULLY IMPLEMENTED**
- **Recommendation 3** – Implement a unique identifier to ensure that all participants can be readily identified with their historical transactions – **FULLY IMPLEMENTED**
- **Recommendation 4** – Revise required minimum participant data necessary to process an application – **FULLY IMPLEMENTED**
- **Recommendation 5** – Develop a formal data management policy and procedures to ensure complete and accurate participant data – **FULLY IMPLEMENTED**
- **Recommendation 6** – Require that the formal data management policy and procedures be communicated, reviewed and readily accessible – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Develop a process for creating a clear and comprehensive IT Strategic Plan – **FULLY IMPLEMENTED**
- **Recommendation 8** – Classify requested and authorized IT funds according to OMB's CIRCULAR A–11 – **FULLY IMPLEMENTED**
- **Recommendation 9** – Enhance or replace the AAA system to provide information on actual versus planned IT – **FULLY IMPLEMENTED**

- **Recommendation 10** – Formally direct the CIO on the implementation of requirements in OMB's M-11-29, Chief Information Officer Authorities – **FULLY IMPLEMENTED**

- **Recommendation 11** – Ensure Ex-Im Bank's SDLC process is consistently followed when implementing major systems – **FULLY IMPLEMENTED**

March 27, 2012 – Performance Metrics & Operational Efficiency (OIG-INS-12-01)

- **Recommendation 1 –** Develop a systematic approach to defining and measuring customer satisfaction via annual survey – **FULLY IMPLEMENTED**

- **Recommendation 2 –** Develop a customer service plan in accordance with Executive Order 1357 on improving customer service – **FULLY IMPLEMENTED**

- **Recommendation 3 –** Participate in an inter-ECA dialogue on operational performance and customer service. Promote ECA best practices – **FULLY IMPLEMENTED**

- **Recommendation 4 –** Implement performance standards throughout the agency in accordance with GPRA Modernization Act of 2010 – **FULLY IMPLEMENTED**

- **Recommendation 5 –** Redefine performance measures and implement a balanced score card, incorporating quantitative and qualitative metrics – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 6 –** Solicit customer input and revisit its metrics and customer service response time levels to reflect customer expectations – **FULLY IMPLEMENTED**

- **Recommendation 7** – Develop uniform response time cycle – **FULLY IMPLEMENTED**

- **Recommendation 8** – Implement improved monitoring procedures and appropriate response time targets for long-term guarantees and loans – **FULLY IMPLEMENTED**

September 26, 2012 – Audit of Export-Import Bank's Purchase Card Program (OIG-AR-12-06)

- **Recommendation 1 –** Verify that all purchase card program participants complete required purchase card training – **FULLY IMPLEMENTED**

- **Recommendation 2 –** Establish a process and recordkeeping system for tracking and verifying completion of required training – **FULLY IMPLEMENTED**

- **Recommendation 3 –** Provide a current Delegation of Procurement Authority to purchase cardholders – **FULLY IMPLEMENTED**

- **Recommendation 4 –** Develop Bank specific purchase card training to supplement refresher training offered by GSA – **FULLY IMPLEMENTED**

- **Recommendation 5 –** Revise Ex-Im Bank's Purchase Card Policy to more clearly describe restrictions on use of convenience checks – **FULLY IMPLEMENTED**

- **Recommendation 6 –** Perform random audits of cardholder accounts and conduct annual review of the purchase card program – **FULLY IMPLEMENTED**

September 27, 2012 – Portfolio Risk and Loss Reserve Allocation Policies (OIG-INS-12-02)

- **Recommendation 1 –** Develop a systematic approach to identifying, measuring, pricing, and reserving for portfolio risk – **FULLY IMPLEMENTED**
- **Recommendation 2 –** OCFO should design and implement a formal governance framework for the use of financial models – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3 –** Develop a systematic approach to stress testing and conduct stress testing annually as part of its re-estimate process – **FULLY IMPLEMENTED**
- **Recommendation 4 –** Implement soft portfolio concentration sub-limits based on industry, geography, or asset class – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 5 –** Create the position of Chief Risk Officer to oversee the design and implementation of an agency-wide risk management – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6 –** Amend bylaws to broaden the responsibility of the Audit Committee to oversight of agency-wide risk management – **CONTINUE TO WORK WITH OIG**
- **Recommendation 7** – Review current risk metrics and reporting procedures to enhance transparency and to better inform key stakeholders – **FULLY IMPLEMENTED**

September 28, 2012 – Export-Import Bank's Short Term Insurance Program (OIG-AR-12-05)

- **Recommendation 1 –** Document policies and procedures through management directives, administrative policies, and operating manuals – **FULLY IMPLEMENTED**
- **Recommendation 2 –** Implement enhanced due diligence procedures for insurance applications that may have elevated business risks – **FULLY IMPLEMENTED**
- **Recommendation 3 –** Ensure that individuals with delegated authority verify that CRTI due diligence is performed before approving a policy – **FULLY IMPLEMENTED**
- **Recommendation 4 –** Implement a monitoring process for periodically reviewing a sample of short-term insurance program authorizations – **FULLY IMPLEMENTED**
- **Recommendation 5 –** Implement a due-diligence procedure checklist that is completed by individuals with delegated authority – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6** – Develop and implement a monitoring process for periodically reviewing a sample of authorizations – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7** – Perform separate underwriting for all new multi-buyer policies, all new SBCLs over $5,000, and all enhanced assignments – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 8 –** Perform separate underwriting for all policy renewals with a limit over $1 million – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 9** – Implement periodic reviews of authorizations underwritten and approved by the same individual – **FULLY IMPLEMENTED**

- **Recommendation 10** – Implement controls to ensure that EOL's exporter score calculations used during underwriting are accurate – **FULLY IMPLEMENTED**

January 23, 2013 – FY2012 Financial Statement Audit – Management Letter (OIG-AR-13-02)

- **Recommendation 1 –** Enhance the review process from TPMD prior to submission of the risk rating to the VP of TPMD for approval – **FULLY IMPLEMENTED**

- **Recommendation 2 –** Review changes made in the LGA after August 31 by Office of the Controller to ensure BCL risk ratings are appropriate – **FULLY IMPLEMENTED**

- **Recommendation 3 –** Review and compare information for transactions in LGA against the final approved executed agreements / amendments – **FULLY IMPLEMENTED**

- **Recommendation 4 –** Add a second level of review on the subsidy calculation prior to releasing approved or amended transactions into the LGA – **FULLY IMPLEMENTED**

- **Recommendation 5 –** Perform a thorough review of "accrual" status of loans on a regular basis – **FULLY IMPLEMENTED**

- **Recommendation 6 –** Enhance controls around the journal entry review process to detect any misstatements that may potentially occur – **FULLY IMPLEMENTED**

- **Recommendation 7** – Perform a more detailed review of the formulas used in in the allowance for loan loss methodology – **FULLY IMPLEMENTED**

- **Recommendation 8** – Ensure all actions taken on the Daily Security Monitoring report are documented and retained – **FULLY IMPLEMENTED**

March 14, 2013 – Improper Payments Reporting (OIG-AR-13-03)

- **Recommendation 1 –** Revise procedures to ensure improper payments assessment correctly calculates improper payment rates – **FULLY IMPLEMENTED**

- **Recommendation 2 –** Address the potential elevated risk of improper loan disbursements or management's acceptance of the risk – **FULLY IMPLEMENTED**

- **Recommendation 3 –** Modify the method used to score improper payments risk assessment questionnaires – **FULLY IMPLEMENTED**

- **Recommendation 4 –** Include a reasonable estimate of fraudulent insurance claim payments or obtain OMB's written approval to exclude – **FULLY IMPLEMENTED**

- **Recommendation 5 –** Consider the cost effectiveness of conducting payment recapture audits and additional periodic testing to prevent – **FULLY IMPLEMENTED**

March 22, 2013 – FY2012 Information Security Program and Practices Audit (OIG-AR-13-04)

- **Recommendation 1 –** Currently only have access to redacted version without recommendations – **FULLY IMPLEMENTED**

- **Recommendation 2 –** Currently only have access to redacted version without recommendations – **FULLY IMPLEMENTED**

- **Recommendation 3 –** Currently only have access to redacted version without recommendations – **FULLY IMPLEMENTED**

September 26, 2013 – Export-Import Bank's Management of Direct Loans and Related Challenges (OIG-AR-13-05)

- **Recommendation 1 –** Develop a systematic quality control review program to correct Bank staff noncompliance with credit program policy – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 2 –** Identify operational risks and impacts on Ex-Im Bank's ability to achieve credit program goals and objectives – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 3 –** Require loan officers to maintain detailed documentation regarding the need for Ex-Im Bank support – **FULLY IMPLEMENTED**

- **Recommendation 4 –** Adopt applicable Federal credit program policies and guidance – **FULLY IMPLEMENTED**

September 30, 2013 – Minera y Metalurica del Boleo S.A. (OIG-INS-13-01)

- **Recommendation 1 –** Conduct a comprehensive review of its credit analysis and approval procedures by benchmarking credit review – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 2 –** Consider the implementation of a risk–based approach to monitoring – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 3 –** Establish a streamlined, automated electronic invoice submittal system with a client web portal – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 4 –** Enhance the KYC/CRTI process, perform a full check (including local media sources) – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 5 –** Evaluate current fraud prevention practices for local costs by benchmarking best practices – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6 –** Increase staff in both the pre- and post-operative transaction monitoring teams and related internal resources – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7 –** Conduct a post–mortem review of the structural issues encountered in the Boleo transaction – **FULLY IMPLEMENTED**

December 11, 2013 – Report on Export-Import Bank's Content Policy (OIG-AR-14-01)

- **Recommendation 1 –** Implement procedures to verify exporter self-certifications of content throughout each fiscal year – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2 –** Obtain resolution on the 2001 requirement to provide an Annual Report on Content Trends – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3 –** Require loan officers to maintain detailed documentation regarding the need for Ex-Im Bank support – **CONCUR, WORKING TO IMPLEMENT**

December 13, 2013 – Audit of Export Import Bank of the United States Fiscal Year 2013 Financial Statements (OIG-AR-14-02)

- No recommendations resulted from this report.

March 21, 2014 – FY 2013 Financial Statement Audit Management Letter (OIG-AR-14-04) G-AR-14-01)

- **Recommendation 1 –** Enhance the review process of the working capital guarantee information entered by staff members – **FULLY IMPLEMENTED**
- **Recommendation 2 –** Institute policies for the application of proper invoice date according to the Prompt Payment Act – **FULLY IMPLEMENTED**
- **Recommendation 3 –** Review of the subsidy re-estimate spreadsheet be performed to detect any material misstatements in a timely manner – **FULLY IMPLEMENTED**
- **Recommendation 4 –** Perform a review of the inputs used in the macro prior to performing the calculation of the subsidy re-estimate – **FULLY IMPLEMENTED**
- **Recommendation 5 –** Implement controls to ensure that the proper journal entry is recorded to write off the rescheduled loan – **FULLY IMPLEMENTED**
- **Recommendation 6 –** Perform a review of transactions in the portfolio to ensure that they are assigned to appropriate monitoring divisions – **FULLY IMPLEMENTED**
- **Recommendation 7 –** Focus on the execution of access changes in relation to the annual access review – **FULLY IMPLEMENTED**

March 26, 2014 – FY 2013 Information Security Program and Practices Audit (OIG-AR-14-03)

- **Recommendation 1 –** Implement the use of PIV cards to achieve multifactor authentication – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2 –** Document policies and procedures for information security oversight of externally hosted services and systems – **FULLY IMPLEMENTED**
- **Recommendation 3 –** Ensure that individuals with significant security responsibilities complete annual security training – **FULLY IMPLEMENTED**
- **Recommendation 4 –** Clearly define, document, and review a list of events required to be captured by the system – **FULLY IMPLEMENTED**
- **Recommendation 5 –** Ensure that inactive accounts are disabled after a 90 days and terminated individuals are removed immediately – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6 –** Follow the established security assessment and authorization policy and procedures document – **FULLY IMPLEMENTED**

April 15, 2014 – Improper Payments Reporting (OIG-AR-14-06)

- **Recommendation 1 –** State in the Annual Financial Report (AFR) the decision whether or not to perform payment recapture audits – **FULLY IMPLEMENTED**
- **Recommendation 2 –** Ensure that OGC reports all required payments received from non-Federal sources – **CONCUR, WORKING TO IMPLEMENT**

April 23, 2014 – Ex-Im Bank's Sponsored Travel (OIG-AR-14-05)

- **Recommendation 1 –** Establish reporting procedures over sponsored travel – **FULLY IMPLEMENTED**
- **Recommendation 2 –** Ensure that OGC reports all required payments received from non-Federal sources – **FULLY IMPLEMENTED**
- **Recommendation 3 –** Establish effective control activities over submission of the sponsored travel vouchers – **FULLY IMPLEMENTED**

June 18, 2014 – PNG LNG Project (OIG-INS-14-01)

- **Recommendation 1 –** Strengthen the effectiveness and transparency of the CRTI/KYC due diligence – **FULLY IMPLEMENTED**
- **Recommendation 2 –** Strengthen compliance with Ex-Im Bank Policies and to enhance transparency in the financing of local goods and services – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3 –** Establish a streamlined, automated electronic invoice submittal system with a client web portal – **CONCUR, WORKING TO IMPLEMENT**

September 30, 2014 – Punj Lloyd Solar Power, Ltd. (OIG-INS-14-02)

- **Recommendation 1 –** Review and evaluate its current CRTI policies and procedures – **FULLY IMPLEMENTED**
- **Recommendation 2 –** Evaluate its current Post-Operative Monitoring Policy – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3 –** Consider obtaining a credit reference or sharing information with the other federal credit programs – **CONCUR, WORKING TO IMPLEMENT**

January 14, 2015 – FY 2014 Financial Statement Audit Management Letter (OIG-AR-15-02)

- **Recommendation 1 –** Enhance the effectiveness of the review processes over the ESS risk rating and CSC2 input form – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2 –** Enhance the process for removing user access as part of the employee separation process – **FULLY IMPLEMENTED**
- **Recommendation 3 –** Expand its review process over the privileged access groups – **FULLY IMPLEMENTED**
- **Recommendation 4 –** Establish a review process for privileged access to the application servers – **FULLY IMPLEMENTED**
- **Recommendation 5 –** Configure the password settings for its servers in accordance with its Access Control Policy – **CONCUR, WORKING TO IMPLEMENT**

February 9, 2015 – Independent Audit of Ex-Im Bank's Information Security Program for FY 2014 (OIG-AR-15-03)

- **Recommendation 1 –** Deploy mobile phone security controls – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2 –** Improve Controls over Remote Access – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3 –** Establish effective control activities over submission of the sponsored travel vouchers – **CONCUR, WORKING TO IMPLEMENT**

March 23, 2015 – Audit of Ex-Im Bank's Short Term Multi-Buyer Insurance Program (OIG-AR-15-0)

- **Recommendation 1 –** Develop and implement procedures to ensure underwriting summaries clearly present the required information – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2 –** Ensure operating profit information is collected for Express transactions – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3 –** Develop a procedure to ensure CRTI checks are completed – **FULLY IMPLEMENTED**
- **Recommendation 4 –** Provide additional professional training and enhance communication amongst TCID underwriters and directors – **CONCUR, WORKING TO IMPLEMENT**

- **Recommendation 5 –** Consider using the full functionality of EOL to approve lower risk Short-Term Multi-Buyer transactions – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6 –** Develop procedures and internal controls such as standard reporting, a data dictionary, and periodic data analyses – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7 –** Make the necessary changes to EOL and the Manual to ensure exporter scores are properly calculated – **CONCUR, WORKING TO IMPLEMENT**

March 31, 2015 – Report on Ghana Credits: Ridge Hospital Complex & Kumawu-Mampong Water Treatment Works (OIG-INS-15-01)

- **Recommendation 1 –** Conduct a post mortem review of the Kumawu-Mampong Transaction – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2 –** Follow OECD DAC Guidelines for developmental projects that contain a Tied Aid component – **CONTINUE TO WORK WITH OIG**
- **Recommendation 3 –** Consistently adhere to the monitoring requirements set forth in the Credit Agreement – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 4 –** Establish policies and procedures for the borrower and end-user to address grievances with the Bank – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 5 –** Ensure it establishes a uniform record keeping system – **CONCUR, WORKING TO IMPLEMENT**

March 31, 2015 – Independent Audit on Ex-Im Bank's Planning and Implementation of FMS-NG (OIG-AR-15-05)

- **Recommendation 1 –** Plan and document data-conversion activities – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 2 –** Save key evidence of FMS-NG data-conversion activities – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 3 –** Centrally organize and maintain all planning, converting, testing and implementation documentation – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 4 –** Document formal account management procedures – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 5 –** Develop and implement an access request form – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 6 –** Develop and implement separation-of-duties requirements – **CONCUR, WORKING TO IMPLEMENT**
- **Recommendation 7 –** Develop and document contingencies for essential functions – **CONCUR, WORKING TO IMPLEMENT**

Treasury Report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives on Export Credit Negotiations

December 2014

*   *   *

Section 11(b) of the Export-Import Bank Reauthorization Act of 2012 (12 U.S.C. 635a-5) (the "Act") provides that the Secretary of the Treasury (the "Secretary") shall submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives, an annual report on the progress of any negotiations described in Sections 11(a)(1) and (a)(2) of the Act.

Section 11(a) directs the Secretary to initiate and pursue negotiations: to substantially reduce, with the ultimate goal of eliminating, (1) subsidized export financing programs and other forms of export subsidies; and (2) aircraft export credit financing for all aircraft covered by the 2007 Sector Understanding on Export Credits for Civil Aircraft, including any modification thereof.

*   *   *

Since last year's report, Treasury has worked to strengthen the existing international export credit guidelines, which are contained in the Arrangement on Officially Supported Export Credits ("Arrangement"), and to bring countries currently not participating in the Arrangement into a new set of guidelines. Through its focused work on these guidelines, the United States seeks to maximize private participation in export finance, limit crowding out and trade distortions, and promote a level playing field for all U.S. stakeholders.

As highlighted in last year's report, U.S. priorities on international export credit policy have historically been and continue to be guided by the following three principles:

(1) There should be a level playing field for U.S. exporters, allowing them to compete based on the quality and price of their goods and services, rather than on the generosity of any government-supported financing;

(2) China and other large emerging market countries, which now account for a major share of all official export credit support, should participate in and abide by an international, rules-based framework; and

(3) The terms and conditions of official export credit support should be as market oriented as possible in order to limit trade distortions, and help ensure that this support complements, rather than crowds out, market financing.

While seeking to discipline government export financing support through the development and strengthening of the international guidelines, we remain cognizant of the need to avoid putting U.S. exporters at a competitive disadvantage by unilaterally constraining U.S. official export credit support. Such unilateral reductions run the risk of U.S. exporters losing business to their foreign competitors that are supported by their respective governments, which would ultimately take a toll on jobs in the United States.

Consistent with the above principles, during the last year, the United States has: (1) made important progress towards bringing China and other large emerging market countries into an international framework for disciplining the provision of official export credit support; (2) seen a meaningful reduction in the use of official export credit support by aircraft purchasers, and engaged with the other providers of this support to confirm their willingness to move forward in 2015 with a review of the 2011 Aircraft Sector Understanding (ASU), thereby providing an opportunity for U.S. stakeholder views to be considered; and (3) continued to push for updating the interest rate provisions of the Arrangement to make them more reflective of what is available in the private market.

Bringing China and Other Emerging Market Countries Into A Rules-Based Framework

As detailed in past reports, the global export finance landscape has experienced fundamental change over the past decade, with China and other large emerging market countries coming to account for nearly as much official export credit support as the G-7 countries, which had dominated this space for decades. However, many of these large emerging market countries are not Participants in the Arrangement. Without these countries operating within the international export credit framework, U.S. exporters could face an unlevel playing field, and concerns about trade distortions and crowding out will remain.

The first step in disciplining official export credit support provided by China and other large emerging market countries is developing guidelines with a common set of financial terms and conditions. Accordingly, the United States has been working to establish a new set of international guidelines with these countries that would bring their official export credit activities within a set of clear financing and transparency standards. The Administration has made important progress in this regard, beginning with securing China's commitment in early-2012 to establish the International Working Group on Export Credits (IWG) to negotiate a new set of international export credit guidelines, and then securing additional important Chinese commitments in the U.S.-China Strategic and Economic Dialogue (S&ED) between 2012 and 2014.

The IWG, which includes all major providers of official export credit support,[1] convened three meetings in 2014, hosted by Brazil, the United States, and China. The next IWG meeting will occur in Brussels in early-2015. Through these meetings, IWG members have made meaningful progress toward establishment of a new set of international guidelines on official export credit support. This progress includes: (1) the launch and advancement of text-based discussions of sectoral guidelines for medical equipment and ships, which will form the basis for horizontal (*i.e.*, generally-applicable) guidelines (with the medical equipment guidelines being used as proxy for horizontal guidelines); (2) narrowing of gaps in IWG member positions in specific areas of the text proposals; (3) useful exchange of information on the rationale for the positions taken by various IWG members, which will help to further narrow gaps going forward, and (4)

[1] United States, China, European Union, Brazil, Australia, Canada, India, Indonesia, Israel, Japan, Republic of Korea, Malaysia, New Zealand, Norway, South Africa, Switzerland, Turkey, and Russia

continued technical discussions on IWG member financing practices, which has further increased transparency and mutual understanding.

Near-term U.S. priorities in the IWG are to reach consensus on: (1) a comprehensive scope of guideline coverage that limits the space for members to act outside of the guidelines, and (2) initial sectoral guidelines that position the United States to pursue robust horizontal guidelines in the future. The Administration made important progress on these priorities during President Obama's November 2014 visit to China, where it secured China's commitment to take all steps necessary to advance the IWG initiative, including by supporting the start of negotiations on horizontal guidelines as soon as possible, and by supporting comprehensive guideline coverage. This commitment and others were made possible by sustained, high-level Treasury work with its Chinese counterparts, reflect the high level of support for the IWG initiative within both the U.S. and Chinese governments, and have been welcomed by other major trading countries, as well as by U.S. stakeholders.

Minimizing Distortions in the Aircraft Export Credit Market

Over successive administrations, the United States has sought to achieve significant reforms to the international guidelines for government financing of aircraft exports, most recently in the 2011 ASU. The 2011 ASU improved upon the previous ASU in a number of ways, the most important being revision of the premium rate system to incorporate greater market benchmarking. This revision resulted in more market-oriented fees charged by export credit agencies (ECAs) to cover borrower risk. In the 2011 ASU, the Administration, reflecting the interests of all U.S. stakeholders, reached an agreement with its negotiating partners (the European Union, Canada, Japan, and Brazil) that struck a careful balance between the priorities of aircraft manufacturers and those of domestic airlines that largely rely on market financing for their aircraft purchases.

Since the 2011 ASU reform went into effect in 2013, the proportion of Boeing and Airbus large commercial aircraft deliveries supported by official export financing has declined in a meaningful way, even as the overall number of deliveries for each company has increased. Industry estimates indicate that the dollar volume of large aircraft deliveries financed with official export credit support declined from 30 to 23 percent of total deliveries in 2013, and will again decline in 2014 from 23 to 18 percent. In line with these estimates, total U.S. Export-Import Bank (Ex-Im Bank) support for Boeing large aircraft[2] exports decreased by approximately 30 percent in dollar volume terms between FY2013 and FY2014, after dropping by a similar percentage between FY2012 and FY2013. This decline in dollar volume support was accompanied by significant declines in the number of aircraft exports supported by the Ex-Im Bank, which fell by 42 percent between FY2013 and FY2014, after having declined by 32 percent between FY2012 and FY2013.

These statistics demonstrate that aircraft purchasers are relying more on private market financing and less on official export credit support. We believe that this trend stems from the more market-oriented nature of the 2011 ASU, along with the countercyclical nature of export credit agency support, which increased during the financial crisis, and has since declined as private

[2] Refers specifically to single and twin-aisle passenger aircraft.

market financing has returned and expanded for aircraft. This expansion has been driven to a significant degree by high levels of market liquidity, and growing participation by the capital markets (*e.g.*, Enhanced Equipment Trust Certificates or the EETC market). Due to differing assumptions, however, divergent views remain between U.S. aircraft manufacturers and airlines on how close to market financing the 2011 ASU is, with the former viewing 2011 ASU pricing as more expensive than market financing, and the latter viewing ASU pricing as cheaper than market financing.

As noted above, the Administration believes that the 2011 ASU is a solid improvement over the previous ASU, and has contributed to increasing use of market finance, rather than official export credit support, by aircraft purchasers. However, even with this declining demand for official support, the United States continues to engage its European counterparts on possible ways to limit this support for twin-aisle aircraft, particularly for airlines with access to market financing. This discussion continued at the most recent meeting of the ASU Participants during the week of November 17, 2014. Nonetheless, maintaining a level playing field for all U.S. stakeholders requires that reductions in U.S. financing support for twin-aisle aircraft exports be accompanied by concurrent reductions by the only other government financiers of those exports, the French, German, and British governments.

Finally, at U.S. urging, following a meeting with ASU stakeholders at the OECD in November 2014, ASU Participants confirmed their willingness to move forward in 2015 with a review of the 2011 ASU, thereby providing an opportunity for U.S. stakeholder views to be considered. In preparation for this review, the Administration will engage all U.S. stakeholders and Congress as it considers the U.S. approach.

Updating the Arrangement on Officially Supported Export Credits

The United States has consistently worked over a number of decades to make official export credit support complementary to market financing through Arrangement financing terms and conditions that are as market-oriented as possible. The most recent U.S. effort in this regard centers on the current review of the Arrangement's Commercial Interest Reference Rate (CIRR) system. The CIRR system sets the minimum interest rates at which official export credit support providers may provide direct financing, refinancing, and interest rate support under the Arrangement. The United States actively supported the Participants to the Arrangement undertaking this review, which began in late-2013. Through this review, the United States is seeking to ensure that the interest rates applied by official export credit providers are more reflective of what is available in the private market.

This important review will take time to complete. Working with U.S. stakeholders and Congress, we will seek to ensure that the Arrangement's interest rate provisions continue to contribute to the goal of official export credit support that complements private market finance, rather than crowding it out, and that promotes a level playing field.

Conclusion

Treasury's longstanding and continuing efforts to discipline the use of government export financing support in a way that maximizes private participation in export finance, limits crowding out and trade distortions, and provides a level playing field for all U.S. stakeholders remains consistent with the Congressional mandate. Over the past year, our efforts have resulted in important progress. As we seek additional progress going forward, Treasury believes that establishment of a new set of international export credit guidelines is needed to replicate the success of the Arrangement in achieving meaningful discipline on government export financing support. Over the coming year, we will continue to seek to ensure that U.S. businesses and workers can compete for export opportunities on the basis of the quality and price of their products, rather than on the terms of government financing support, and to make significant progress in building the comprehensive framework necessary for disciplining the export financing programs of all major official export credit providers.

Treasury Report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives on Export Credit Negotiations

December 2013

* * *

Pursuant to Section 11(b) of the Export-Import Bank Reauthorization Act of 2012 (12 U.S.C. 635a-5) (the "Act"), the Secretary of the Treasury (the "Secretary") shall submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives, an annual report on the progress of any negotiations described in Sections 11(a)(1) and (a)(2) of the Act.

Section 11(a) calls on the Secretary to initiate and pursue negotiations: to substantially reduce, with the ultimate goal of eliminating, (1) subsidized export financing programs and other forms of export subsidies; and (2) aircraft export credit financing for all aircraft covered by the 2007 Sector Understanding on Export Credits for Civil Aircraft, including any modification thereof.

* * *

Since last year's report, the Treasury Department has diligently continued its long-running efforts to discipline the use of official export financing in a way that minimizes trade distortions, helps ensure that official export credit support does not crowd out market finance, and provides a level playing field for all U.S. stakeholders. During the past year, the United States has: (1) advanced the multilateral effort to establish a new international framework for disciplining the provision of official export credits by all major providers (including China); (2) preliminarily evaluated the new guidelines that set the terms and conditions for the financing of commercial aircraft sales to determine their comparability to the market, and seen a dramatic reduction in the reliance on official export credits by aircraft purchasers, particularly purchasers with stronger access to commercial financing; and (3) launched an effort to review the interest rate provisions of the current international framework governing official export credits to help ensure that there is a level playing field, and that official export credit financing does not crowd out the market.

As highlighted in last year's report, the Administration's priorities on international export credit policy have historically been and continue to be guided by the following three principles:

(1) There should be a level playing field for U.S. exporters, allowing them to compete based on the quality and price of their goods and services, rather than on the generosity of any officially-supported financing;

(2) China and other emerging markets, which now provide nearly half of all official export credit financing, should be parties to and abide by an international, rules-based framework; and

(3) The terms and conditions of official export credits should be as market oriented as possible in order to minimize trade distortions, and help ensure that they complement, rather than crowd out market financing.

These principles complement each other in minimizing trade distortion – to the benefit of U.S. exporters and consumers – while ensuring that official export financing does not impose a burden on the taxpayer. As we continue to be guided by these principles, we remain cognizant of the need to avoid putting U.S. exporters at a competitive disadvantage through unilateral reductions in official export financing. Such unilateral reductions run the risk of U.S. exporters losing business to their foreign competitors that are supported by their respective governments.

Making China and Other Emerging Market Countries Play by the Rules

Treasury's efforts to discipline the use of government export financing programs over the past year have been shaped by fundamental changes in the global export financing landscape. These changes are highlighted by the evolution of the major official export credit providers from a group dominated by the G-7 countries, to one in which major emerging market countries, including China, India, and Brazil, now provide about as much official export credit support for their own exports as the G-7 countries. *See* U.S. Export-Import Bank (Ex-Im Bank) 2012 Competitiveness Report, Chapter 7. Without China and other emerging market providers of official export credits operating within the international export credit framework, there can be no level playing field for U.S. exporters.

Past U.S. experience has demonstrated that disciplining the use of government export financing programs is possible, but that these disciplines must proceed from a common set of financial terms and conditions, and be implemented in a coordinated manner. Therefore, getting all of the major providers of official export credits to agree to a common set of terms and conditions is the essential first step in the process of achieving such disciplines. Accordingly, the Administration has been working to bring emerging market countries, including particularly China, within the international guidelines on the provision of official export credits, thereby subjecting their official export credit activities to clear financing and transparency guidelines.

A major step forward in bringing China within a new set of international guidelines was achieved as part of then-Vice President (now President) Xi's visit to Washington, D.C., in February 2012, and at the fourth meeting of the U.S.-China Strategic and Economic Dialogue (S&ED) in May 2012. During these events, the United States secured a commitment from China that the two countries would establish an international working group to make progress towards a new set of international guidelines on the provision of official export financing that apply to all major providers. Most recently, at the July 2013 S&ED, the United States and China welcomed the progress that had already been made, and reaffirmed the goal of concluding an agreement by 2014. These commitments were made possible by sustained, high-level Treasury work with its Chinese counterparts, reflect the high level of support for this initiative within both the U.S. and Chinese governments, and have been welcomed by other major trading countries, as well as by U.S. exporters.

Specifically, in November 2012, the United States and China successfully launched the International Working Group on Export Credits (IWG), which includes all major providers of official export credits.[1] This year, there have been three further IWG meetings – two full meetings (hosted by China in May and the European Union in September) and one technical meeting (hosted by Germany in March).

Thus far, IWG members have taken a number of necessary and important steps on the path to the establishment of a new set of international guidelines on official export credits. These include the: (1) decision to first negotiate new guidelines for the ships and medical equipment sectors, which will form the basis for horizontal (*i.e.*, broadly-applicable) guidelines; (2) robust exchange of information on IWG members' respective export credit practices and policies; (3) delineation of preliminary IWG member positions on the different elements that will be included in the new set of international guidelines; and (4) identification of gaps in those positions, along with discussion of how to narrow them. Near-term U.S. priorities at the IWG are to reach agreement on a concrete plan and timeline for further advancing negotiations, and to continue to narrow the gaps in the positions of IWG members. While progress at the IWG will depend largely on the ability of its members to reach consensus on the necessary elements of new international export credit guidelines, a solid base for reaching this consensus has been established.

Minimizing Distortions in the Aircraft Export Credit Market

While small and large single-aisle aircraft export credit competition involves countries that participate in the current international framework (*i.e.*, the Arrangement on Officially Supported Export Credits [the Arrangement]) and those that do not, twin-aisle commercial aircraft are only produced by two manufacturers: Boeing and Airbus. Official export financing support for both of these manufacturers is only provided by countries abiding by the Arrangement (*i.e.*, the United States for Boeing, and France, Germany, and the United Kingdom for Airbus). For years and in past negotiations, the United States has sought to limit official export credit financing for twin-aisle aircraft and worked to make the international guidelines setting the terms and conditions for official export credits for all aircraft track more closely those of the market. This occurred most recently during the negotiation of the 2011 Aircraft Sector Understanding (ASU). In the 2011 ASU, which went fully into effect at the start of 2013, the Administration, reflecting the interests of all U.S. stakeholders, reached an agreement with its negotiating partners (the European Union, Canada, Japan, and Brazil) that reflects the interests of the aircraft manufacturers and domestic airlines that largely rely on market financing for their aircraft purchases.

In the 2011 ASU negotiations, the Airbus export credit agency countries (France, Germany, and the United Kingdom), as well as Canada, Japan, and Brazil, were willing to revise the premium rate system under the ASU into one that resets rates quarterly, based on market benchmarks. As of the most recent adjustment, the exposure fees (*i.e.*, those charged to cover borrower risk) ranged from 5.49 percent to 14.21 percent, up substantially from the fixed 4 to 7.5 percent range embodied in the previous version of the ASU. These higher fees, coupled with the greater

[1] United States, China, European Union, Brazil, Australia, Canada, India, Indonesia, Israel, Japan, Republic of Korea, Malaysia, New Zealand, Norway, South Africa, Switzerland, Turkey, and Russia

market benchmarking in their construction, should help to ensure that official financing support for aircraft exports complements the commercial markets, rather than crowding them out.

Moreover, demand for aircraft exports has continued to grow at a robust pace, while demand for official financing to support those exports has declined since the 2011 ASU went fully into effect. According to industry estimates, around 23 percent of all aircraft deliveries will be financed by official export credits in 2013, down from an average of around 30 percent in the years following the financial crisis. For Boeing, only 22 percent of 2013 deliveries are projected to be financed by official export credits from the Ex-Im Bank, down from 29 percent in 2012. This decline has led to a similar decline in total Ex-Im Bank support for Boeing aircraft exports of approximately 30 percent in dollar volume terms between FY2012 and FY2013. In addition, this reduction in Ex-Im Bank support for Boeing aircraft exports has been most pronounced for the most creditworthy borrowers (*i.e.*, Category 1 in the ASU). Use of Ex-Im Bank support for aircraft by this borrower group declined by over 60 percent in dollar volume terms between FY2012 and FY2013.

This reduced demand for official export credit financing for aircraft, including among more creditworthy borrowers, appears to stem from: (1) an increasing reliance by aircraft purchasers on the capital markets (*e.g.*, Enhanced Equipment Trust Certificates or the EETC market), (2) the increasing role of aircraft leasing companies in the financing of aircraft deliveries, and (3) and a meaningful increase in commercial bank financing for aircraft. The more market oriented nature of 2011 ASU pricing has also likely been a contributing factor. However, due to differing assumptions regarding market pricing, divergent views remain between aircraft manufacturers, which argue that 2011 ASU pricing is on the high end of commercial market financing, and domestic airlines, which argue that ASU pricing is cheaper than commercial market financing. Over the coming year, the Administration will continue to work with the aircraft manufacturers, airlines, and private market financiers to benchmark 2011 ASU pricing against commercial market financing to gain a fuller understanding of how well 2011 ASU pricing compares to that available in the commercial markets. The results of this exercise will inform the U.S. position on possible future refinements to the 2011 ASU.

Even with the reduced demand for official support for aircraft financing in 2013, the United States will continue to discuss with its European counterparts possible limitations on official export credits for twin-aisle aircraft, particularly for airlines with access to commercial market financing. This discussion continued at the most recent meeting of the ASU participants during the week of November 18, 2013. As we move forward, we continue to recognize that maintenance of a level playing field for all U.S. stakeholders requires that reductions in U.S. financing support for twin-aisle aircraft exports be accompanied by concurrent reductions by the only other government financiers of those exports, the French, German, and British governments.

Updating the Arrangement on Officially Supported Export Credits

For decades, successive administrations have pursued the objective of minimizing the impact on U.S. exporters of foreign government financing of their exports. Since the 1970s, the United States has done so primarily through the Arrangement on Officially Supported Export Credits at the Organisation of Economic Cooperation and Development (OECD). Elements of the

Arrangement also have been incorporated into the World Trade Organization (WTO) disciplines on export subsidies, as set forth in the WTO Agreement on Subsidies and Countervailing Measures.

Specifically, the Arrangement seeks to establish a level playing field for government-supported export credits by providing limits on the most generous financing terms and conditions that governments may offer foreign buyers of their national exports. In so doing, it seeks to prevent an export credit race to the bottom in which exporters compete for sales on the basis of the generosity of officially-supported financing from their respective governments, rather than on the quality and price of their products.

Over the decades, the transparency of and disciplines on official export credits have steadily expanded to include all of the components of official support, which the United States has consistently and strongly supported. During this period, the United States also has consistently pressed to make official export credits complementary to market financing through good governance rules and financing terms that are as market oriented as possible. The most recent U.S. effort in this regard centers on review of the Arrangement interest rate provisions, or the CIRR (Commercial Interest Reference Rate) system. This system sets the minimum interest rates under the Arrangement at which export credit agencies may provide direct loans, and its main purpose is to help ensure that official export credit support complements commercial financing.

The CIRR system has not been substantively updated in years as direct lending was largely unused until the financial crisis, and given the rapidly changing export finance landscape since the financial crisis, members of the Arrangement decided to seek a review of the Arrangement interest rate provisions. The United States actively supported undertaking this review, which began very recently, and will take time to complete. Working with U.S. stakeholders and Congress, we will seek to ensure through this review that the Arrangement's interest rate provisions continue to contribute to the goals of a level playing field and official export credits that complement commercial finance, rather than crowding it out.

Conclusion

Treasury's longstanding policy and continued efforts to discipline the use of government export financing programs in a way that minimizes trade distortions, helps ensure that official export credit support does not crowd out market finance, and provides a level playing field for all U.S. stakeholders remains consistent with the Congressional mandate. Our strategy to accomplish this goal must be tailored to the current international economic circumstances. The conditions that led to competitive export credit imbalances among G-7 countries in the 1970s have reemerged as China and other major emerging market countries have entered the global export and export-credit markets.

Consequently, Treasury believes a new international successor arrangement is needed to replicate the success of the Arrangement in creating a level playing field for all major providers of official export credits and their respective exporters. Experience has shown that a common set of guidelines and transparency measures for official export financing is the essential first step in disciplining the use of government export financing programs. Treasury's efforts over the past year have created a solid basis for the establishment of such a new arrangement. Over the coming year, the Administration will continue to seek to ensure that U.S. businesses and workers can compete for export opportunities on the basis of the quality and price of their products, and to make significant progress in building a comprehensive framework necessary for disciplining the export financing programs of all major official export credit providers.

Treasury Report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives on Export Credit Negotiations

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Pursuant to Section 11(b) of the Export-Import Bank Reauthorization Act of 2012 (12 U.S.C. 635a-5) (the "Act"), the Secretary of the Treasury (the "Secretary") shall submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives, an annual report on the progress of any negotiations described in Sections 11(a)(1) and (a)(2) of the Act.

Section 11(a) calls on the Secretary to initiate and pursue negotiations: to substantially reduce, with the ultimate goal of eliminating, (1) subsidized export financing programs and other forms of export subsidies; and (2) aircraft export credit financing for all aircraft covered by the 2007 Sector Understanding on Export Credits for Civil Aircraft, including any modification thereof.

* * *

Governments first began offering official export credits to their exporters in order to provide financing support to those countries where there was a lack of commercial financing, but for which there nonetheless was a reasonable assurance of repayment. Over the years, this predominantly continues to be the case, although there are now more countries providing support to their exporters and even a few that in fact are competing with the commercial market. Consequently, the Administration's priorities on international export credit policy have been guided by the following principles:

1. There should be a level playing field for U.S. exporters, allowing them to compete based on the quality and price of their goods and services, rather than on the quality of any officially-supported financing;

2. China and other emerging markets, which now provide nearly half of all official export credit financing, should be parties to and abide by an international, rules-based framework; and

3. The terms and conditions of official export credits should be as market oriented as possible in order to minimize trade distortions.

The Administration has sought to ensure that export credit support neither displaces available commercial financing nor imposes a burden on the taxpayer. While the United States could unilaterally disarm by ceasing its official export credit program, this would only hurt U.S. exporters who would be at a competitive disadvantage and likely lose business to their foreign competitors that are supported by their respective official export credit programs. In today's global market, the major U.S. exporters may have no choice then but to shift production overseas to remain competitive in foreign markets.

During the past two years, the Treasury Department has made two significant policy advancements in this area: the establishment of a new international working group to negotiate an export credit framework that would include all major providers of export financing (including China); and a revised arrangement that sets the terms and conditions for the financing of commercial aircraft sales more in line with the market.

Making China and Other Emerging Market Countries Play by the Rules

In the last decade, the major providers of official export credits have evolved from a group dominated by the G-7 countries, which historically provided about 85 percent of all medium- and long-term export credits, to one in which major emerging market countries, including China, India, and Brazil, now provide about as many official export credits to support their own exports as the G-7. (See Ex-Im Bank 2011 Competitiveness Report, Chapter 8.) For instance, over this time period, China has grown from a minor player to one of the largest providers of official export credits. Without China and other emerging market providers of official export credits operating within the international export credit rules, there can be no level playing field for U.S. exporters.

As one of its top bilateral priorities, the Administration has been working to bring China's financing programs within the international guidelines on the provision of official export credits, thereby subjecting China's export credit activity to clear financing and transparency rules. A transparent and level playing field for official export credits is key to ensuring that government-supported export financing does not result in trade distortions. Market-oriented disciplines seek to ensure that official export credits complement market financing but do not displace it.

As part of Vice President Xi's visit to Washington in February 2012, and at the fourth meeting of the U.S.-China Strategic and Economic Dialogue (S&ED) in May 2012, the United States secured a commitment from China that the countries will "establish an international working group of major providers of export financing to make concrete progress towards a set of international guidelines on the provision of official export financing that are consistent with international best practices, with the goal of concluding an agreement by 2014." China and the United States further committed that the first meeting of the International Working Group on Export Credits would take place in mid-2012. Treasury has worked consistently over the last few years with its Chinese counterparts to secure these May 2012 commitments, and currently is working to successfully launch the International Working Group. As part of this process, Treasury also has consulted with other major trading countries, so as to ensure the widest possible participation in this effort.

The first meeting of the International Working Group took place in Washington, D.C., in November 2012. Eighteen delegations representing the major providers of export credits were invited to the meeting: Australia, Brazil, Canada, China, the EU, India, Indonesia, Israel, Japan, Korea, Malaysia, New Zealand Norway, Russia, South Africa, Switzerland, Turkey, and the United States. At that meeting, the International Working Group agreed to a schedule of meetings for 2013 that will allow for substantial progress towards an outcome.

The launching of the International Working Group represents a long-term effort to bring China and other emerging economies into a rule-based framework for official export credits. Getting all of the major providers of official export credits around the table to negotiate common rules is the first step in the process of reducing, with the ultimate goal of eliminating, subsidized export financing programs. This initiative has also been welcomed by U.S. exporters that are competing against foreign companies supported by government financing, including from China.

Minimizing Distortions in the Aircraft Export Credit Market

Unlike small and large aircraft export credit competition, which involves countries that participate in the current international framework (that is, the OECD Arrangement on Officially Supported Export Credits [the Arrangement]) and those that are not, heavy aircraft are only produced by two manufacturers – Boeing and Airbus – both supported by countries abiding by the Arrangement. The United States has sought to reduce official export credit financing for heavy aircraft in past negotiations, most recently during the negotiation of the 2011 Aircraft Sector Understanding (ASU). In doing so, the Administration, responding to the interests of all U.S. stakeholders, reached an agreement with its negotiating partners that reflects the interests of both the aircraft manufacturers and domestic airlines that largely rely on market financing for their aircraft purchases.

The history of export credit rules for large aircraft shows the progress that the United States has made in bringing more market-oriented rules to the Arrangement. In the mid-1980s, the parties negotiated the Large Aircraft Sector Understanding (LASU). The LASU set out maximum repayment terms and interest rate rules, but included neither fee nor financial structuring disciplines. A minimum three percent upfront fee for all borrowers (regardless of risk) was informally agreed to between the Airbus export credit agencies and Ex-Im Bank, but risk-adjusted fees would have to wait until the 2007 ASU.

Notwithstanding the lack of financial structuring disciplines under the LASU, Ex-Im Bank underwriting took a disciplined approach to aircraft financing. For example, Ex-Im Bank financed only the actual costs of the aircraft and not its list price (as done at times by its competitors and the commercial markets). It also insisted on cross-collateralization and financing lease structures for maximum protection of the taxpayer.

In negotiating the 2007 ASU, the United States successfully brought these structuring disciplines into the rules for all aircraft financing, encouraging export credit agencies to behave more like commercial lenders. In addition, exposure fees were raised from the longstanding informal three percent fee for all borrowers to a range of from four percent to 7.5 percent, depending on the airline's credit rating. Subsequently, in the 2011 ASU negotiations, while not agreeing to any U.S.-proposed capacity limitations on export credit support for such aircraft, the Airbus countries (France, Germany, and the United Kingdom) were willing to revise the premium rate system under the ASU into one that resets rates quarterly, based on market benchmarks. As of the most recent adjustment, the fees ranged from 8.01 percent to 17.92 percent, a more-than-doubling of the costs of export credit support. The 2011 ASU goes fully into effect in January 2013.

While demand for official export credits for aircraft remains strong given the current financial climate, the demand for official export credits is expected to decline once private sources of financing return. Even with the potential for less demand, the United States will continue to discuss with its European counterparts possible limitations on official export credit support for heavy aircraft, which it did at the most recent meeting of the ASU participants during the week of November 11, 2012. It is important that demand for official export credit support arise only from a lack of market financing and not the mere presence of competing official export credit offers. As part of this effort, the United States and its European counterparts are coordinating with aircraft manufacturers, airlines, and financiers to benchmark the 2011 ASU fee rates against commercial-market financing of aircraft. Once we have a clear understanding of how well the 2011 ASU pricing compares to that available in the commercial markets, we will be in a position to further refine the ASU so that it complements the commercial markets without crowding them out.

Historical Context of the Arrangement on Officially Supported Export Credits

For decades, successive administrations have pursued the objective of minimizing the impact on U.S. exporters of trade-distorting foreign government financing of their exports. Since the 1970s, the United States has done so primarily through the development and negotiation of an international set of disciplines – known as the Arrangement on Officially Supported Export Credits – at the Organisation of Economic Cooperation and Development (OECD). Elements of the Arrangement also have been incorporated into the World Trade Organization (WTO) disciplines on export subsidies, as set forth in the WTO Agreement on Subsidies and Countervailing Measures.[1]

The Arrangement arose at a time when many developed countries were engaged in an export credit war in support of their national exports. The major exporting countries at the time, the United States, Japan, and the European Community, had different approaches to offering official export credits, with some offering only insurance, while the United States could offer direct loans. As each country had certain advantages – the Europeans would provide support for low interest rates by banks, while the U.S. Ex-Im Bank could offer longer repayment terms – competition in financing terms caused each side to use increasing amounts of budget support to compete. Without an international set of disciplines, foreign buyers reaped the benefits at national taxpayers' expense. To end the downward spiral of more and more generous terms, in 1978 the major exporting countries of the OECD negotiated the Arrangement, which sets out the terms and conditions for official government export financing. As part of Ex-Im Bank's reauthorization in 1978, Representative Jim Leach (R-IA) proposed language instructing the Administration to upgrade the ongoing negotiations to end predatory financing programs. This mandate is found in Section 635a-1 of Ex-Im Bank's Charter. (See Pub. L. 95–630, title XIX, §1908, Nov. 10, 1978, 92 Stat. 3725.)

Specifically, the Arrangement seeks to establish a level playing field for government-supported export credits by providing limits on the maximum financing terms and conditions that governments may offer foreign buyers of their national exports. In so doing, it seeks to prevent an export credit race to the bottom in which exporters compete for sales on the basis of the

[1] It is contemplated that any new arrangement would need to provide at least comparable disciplines and transparency in order to be a successor undertaking to the current international guidelines within the meaning of the WTO Agreement on Subsidies and Countervailing Measures.

amount of officially-supported financing from their respective governments, rather than on the quality and price of their products.

Over the decades, transparency of and disciplines on official export credits have steadily expanded to include all of the components of support, which the United States has consistently and strongly supported. For instance, the first disciplines on official interest rates for export credit loans set specific minimum lending rates, which over time had fallen below governments' costs of borrowing. As such, even when official export credit loans were repaid, the governments providing the loans bore substantial interest rate costs. Thus, the participants to the Arrangement negotiated the CIRR (Commercial Interest Reference Rates) system, which sets official interest rates at the cost of funds plus a margin, thereby ensuring that official lending rates at least reflected governments' actual costs of funds and more closely approximated market rates.

The interest rate rules were followed by rules on tied aid to require minimum concessionality and to exclude tied aid for commercially viable projects or for rich countries. The next major rules negotiated set minimum premium rates (exposure fees) to ensure that export credit programs charged fees sufficient to cover long-term operating costs and losses. In addition, the United States led the effort to negotiate environmental guidelines and anti-bribery rules. Throughout these negotiations, the United States has pursued discipline and transparency, and sought to make official export credits complementary to market financing through good governance rules and financing terms that are as market oriented as possible.

Conclusion

The international conditions that led to competitive export credit imbalances among G-7 countries in the 1970s have intensified since major emerging market countries have entered the global export and export-credit markets. Seeking the reduction or the elimination of export credits with just our OECD counterparts would leave out too many key players given the growth of non-OECD export credit support. Consequently, Treasury supports a new international successor arrangement to replicate the success of the Arrangement in creating a level playing field for all major providers of official export credits and their respective exporters. Such an arrangement would ensure that U.S. businesses and workers can compete for export opportunities on the basis of the quality and price of their products, and would provide a framework within which to negotiate substantial reductions in (and eventual elimination of) subsidized export financing programs. As we create export opportunities for our businesses and workers, the Administration will continue to ensure that U.S. exporters have a level global playing field on which to compete.