

**WRITTEN TESTIMONY OF
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EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE HOUSE COMMITTEE ON FINANCIAL SERVICES**

**“Examining Reauthorization of the Export-Import Bank: Corporate Necessity or
Corporate Welfare?”
June 25, 2014**

Chairman Hensarling, Ranking Member Waters, and distinguished members of the Financial Services Committee, thank you for inviting me to testify before you as the Committee considers the progress that the Export-Import Bank of the United States (“Ex-Im Bank” or “the Bank”) has made in supporting U.S. jobs through exports since our last reauthorization just two short years ago.

The Administration is requesting a five year reauthorization of the Export-Import Bank of the United States and a cap of \$160 billion. This proposal reflects a stepped increase totaling \$20 billion above the FY 2014 exposure cap of \$140 billion. The proposal reflects a 2.9% annual increase over the FY 2014 exposure cap level, a 14% increase over all 5 years. The Bank’s mission is to support jobs in the United States by facilitating the export of U.S. goods and services. The reauthorization of the Bank at the \$160 billion cap supports an estimated 1.3 million U.S. jobs between 2015 and 2019. The Bank has looked at the current and expected macroeconomic environment and identified four main macroeconomic factors (competition from other Export Credit Agencies (ECAs), financing for small business exporters, financing for developing/emerging markets, and increasing regulations) that show the continued need for Ex-Im Bank financing support for U.S. exports. Ex-Im evaluated several scenarios, and determined that the \$160 billion requested level will provide the needed capacity to continue supporting small business, and fill gaps in trade-financing.

I am proud of the work our 400+ employees do each day to empower U.S. companies and support American job growth. Since our last reauthorization in 2012, Ex-Im Bank has supported nearly half a million American export-backed jobs, while generating nearly two billion dollars for the taxpayers and maintaining a low default rate of .211percent¹ as of March 31, 2014. For perspective, our default rates over the last five years, during the height of the financial crisis shown below illustrate a very responsible approach to our portfolio.

	2006	2007	2008	2009	2010	2011	2012	2013
Default Rate	1.6%	1.4%	1.1%	0.8%	0.6%	0.4%	0.3%	0.3%

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.

I would like to focus today on three primary issues.

- Requirements set forth in our last reauthorization, including our enhanced risk posture.
- Our impact on small business.
- The heightened need for a robust Ex-Im Bank given the brutally competitive global trade environment faced by American businesses.

Reforms set forth in our last reauthorization, including our enhanced risk posture.

Since our last reauthorization, Ex-Im Bank has met all of the reporting requirements set forth in our reauthorization bill. We produced numerous reports for this Committee, including:

1. The Bank's Business Plan
2. The Bank's Small Business Report
3. The Bank's Content Review
4. The Bank's Report on Financing of Textiles
5. The Bank's Quarterly Default Rate Reports, including incorporating additional requests from the Committee staff.

The Bank has also implemented a number of reforms, including:

6. Providing notice in the Federal Register and an opportunity for comment prior to any approval of all transactions of \$100 million or more
7. An economic impact procedures review and posting of policies on our website
8. Implementing enhanced Iran sanctions provisions
9. Added a textile industry representative to our Advisory Committee
10. Implemented Know Your Customer (KYC) provisions and due diligence standards

And the Bank implemented additional reforms aimed at ease of service and minimizing any negative effects on U.S. industry including:

11. Increased access to co-financing to better support globalized supply chains
12. Streamlined content procedures by providing for annual certifications
13. Revised economic impact procedures to airline services

Ex-Im Bank fills gaps in private sector financing and only gets involved when the private sector is unable or unwilling to provide financing or when there is foreign ECA competition. Last year, Ex-Im Bank provided \$27.3 billion in authorizations, down from the previous year. This supported \$37.4 billion in export value.

We have worked well with the Government Accountability Office (GAO) on several reports that they were tasked with, including:

- A review of the Bank's Business Plan
- A review of the Bank's jobs calculation methodology
- A review of the Bank's risk management

I met with Comptroller General Gene Dodaro to indicate my personal commitment to working cooperatively and in an open and transparent fashion with the GAO on audits. The Comptroller General thanked me for arranging the meeting and noted that very few agency heads take the time to come meet with him. He also added that his staff indicated they have a good working relationship with Ex-Im Bank staff.

We have also made a number of changes as a result of recommendations from our Inspector General (IG) and the GAO reviews. These include, but are not limited to:

1. As recommended by the Inspector General's 2012 report, we created the position of, and hired, a Chief Risk Officer (CRO) who reports directly to me as the President and Chairman. I committed to this in your June 2013 oversight hearing of the House Financial Services Committee and the CRO was on board before the end of the year.
2. As recommended by the Inspector General's 2012 report, we established a risk committee called the Enterprise Risk Committee (ERC) that assesses comprehensive risk issues and reports semi-annually to the Bank's Board of Directors, while providing the other Directors and me with monthly updates. In fact, the CRO reported to Directors on the Bank's Audit Committee just last week.
3. Exposure Forecasting: as recommended by the GAO, we are comparing previous forecasts and key assumptions with actual results to provide additional accuracy.
4. Stress Testing: as recommended by the Inspector General, we have implemented stress testing of our portfolio
5. Stress Testing: As recommended by the GAO in their Risk Review, we are reporting the results of our stress testing to Congress.
6. Risk Modeling: as recommended by the GAO, we have implemented point-in-time data as well as our historical data for risk modeling.
7. Financial Performance of the Portfolio: as recommended by the GAO, we are keeping point-in-time data which we are using along with historical data to compare performance of the newer book of business with the more seasoned books at comparable points in time.
8. Sub-portfolio Reporting (mandates from Congress): as recommended by the GAO, we are reporting sub-portfolio financial performance to Congress in our default reports.
9. As recommended by IG, we have incorporated qualitative analysis into our budgetary cost methodology.
10. The GAO reviewed our jobs calculation methodology and per their request, we are providing detail about jobs calculation limitations in our Annual Report.

Our Positive Impact on Small Business

As a small businessman for 20 years and as a former Acting Administrator of the Small Business Administration, I place a premium on the role that small businesses play in our economy. One of the core

missions of Ex-Im Bank is ensuring that small businesses are at the forefront of U.S. exports. We cannot grow our economy without fully supporting the small businesses of America in competing globally.

In 2013, the Bank financed a record 3,413 small businesses—nearly 90 percent of Ex-Im’s transactions. This amounted to \$5.2 billion in direct small business financing. When you examine the export value of small business exports as a percentage of our overall portfolio export value, of the \$37 billion of exports supported by Ex-Im Bank, nearly 33 percent were small businesses.

In addition, Ex-Im financed more small businesses over the last five years than in the prior eight years combined. The Bank also financed more minority- and woman-owned businesses in the last five years than over the prior sixteen years combined.

The Bank also supports tens of thousands of small businesses whose goods are incorporated into larger export products such as transportation, heavy machinery, oil and gas facilities and other manufactured goods. Industry frequently refers to these small business exporters as “hidden exporters”. It is important to note that the manufacturing process in the United States has changed significantly over the last few decades. Many more companies use vast supply chains to produce finished goods, as evidenced by our largest exporters. When you see the name of a large company on a name plate of finished goods, there are thousands of small businesses that contributed to that finished product.

Ex-Im Bank supports American jobs in countless cities and towns across America. Since 2009, Ex-Im Bank supported \$20 billion in authorizations for Texas businesses and no city in the nation exported more Ex-Im Bank financed goods and services than Houston. We also financed \$9 billion in authorizations for California businesses, \$1 billion in authorizations for South Carolina businesses, and approximately \$500 million in authorizations for Missouri businesses over the past five years—just to name a few. Ex-Im Bank supports exports in all 50 States and Territories.

The need for Ex-Im Bank given the brutally competitive global trade environment

There are some 60 Export Credit Agencies (ECAs) around the world. Every industrialized country has its own version of Ex-Im, and each is tasked with supporting the domestic exports of their respective nations.

The mission of Ex-Im Bank is to empower U.S. companies—large and small—to turn export opportunities into sales that maintain and create U.S. jobs and contribute to a stronger national economy. When private sector funding is unavailable or there is foreign ECA involvement, Ex-Im Bank provides export financing through its loan, guarantee, and insurance programs in order to level the playing field for U.S. businesses.

Let me provide a few examples.

On a recent visit to Chicago, I met with Mary Howe, a fourth generation small business owner and owner of Howe Corporation. We provide trade credit insurance to Howe Corporation so they can export their ice

making machines around the globe. Trade credit insurance enables U.S. exporters, most of them small businesses, to compete and sell overseas with their receivables insured for loss. We provide insurance when the private sector does not, because frequently the dollar volume of small businesses is too small to be of interest to private insurers. Credit insurance is part of running a responsible business, just like fire or theft insurance.

Another example is the working capital guarantee Ex-Im provides to Auburn Leather in Auburn, Kentucky, a town with a population of 1,332 people as of 2012. Auburn Leather makes the laces that are in baseball gloves and boat shoes. Over the years, I've come to know the owner, Lisa Howlett and I was delighted that Ex-Im could provide a working capital guarantee so that her business could have the liquidity to meet large foreign purchase orders. Ex-Im exists to fill gaps in private sector financing. Nowhere else does this show itself than in insurance for small businesses. These small businesses often grow out of needing Ex-Im Bank and will later obtain private sector financing – which we encourage.

In this global economy, buyers will make procurement decisions based on the availability and attractiveness of financing. Ex-Im Bank provides long-term direct loans and guarantees to foreign buyers of capital goods, so that their best option is to buy a product with the “Made in America” label on it. Our financing supports the export of products from U.S. companies such GE Transportation, so that the sales and jobs arising from their locomotives will benefit workers in Erie and Grove City, Pennsylvania, rather than in Beijing, China.

Ex-Im Bank also provides support, if necessary, to level the playing field when financing is provided by foreign governments to their companies who compete against U.S. exporters. Critics of the Bank argue that Ex-Im should not be involved in helping to level the playing field for U.S. businesses and that the private sector should handle this. I concur. When the private sector can provide financing, we prefer that course of action. Ex-Im Bank does not compete with private sector lenders, but rather provides financing for transactions that would otherwise not take place because commercial lenders are either unable or unwilling to provide financing support. Often, private lenders do not want to get involved with small business exports because the dollar value is too low. Another area is structured finance, which generally requires more than twelve years of financing.

The last five years have seen major shifts in the global financing landscape that could have a serious impact on American competitiveness and economic growth in the years ahead. But despite the global recovery, commercial banks still have not fully regained their appetites for offering the kind of long-term financing necessary to fuel many export projects. As banks withdraw from important areas of export finance just as exports become more vital to economic growth worldwide, ECAs are rising in importance for many nations. More and more, export financing is occurring outside of the international standards put in place by the OECD to avoid a financing ‘race to the bottom.’ The OECD Arrangement on Officially Supported Export Credits, while not perfect, constitutes the international export credit framework that sets the most generous terms and conditions governments may provide when financing exports. Countries like Russia and China that are not members of the OECD and do not operate within the international export credit framework may offer financing terms that distort the global market. The effect of this can be an increasingly unlevelled playing field for American exporters. When the private sector is unable or

unwilling to provide financing support, Ex-Im Bank steps in to level the playing field so that American businesses can win their fair share of export orders.

Conclusion

I want to thank this committee for their work on our charter in 2012, and stress the importance of a timely reauthorization in 2014. As I mentioned earlier, there are some 60 Export Credit Agencies around the globe. Make no mistake, these foreign governments want for themselves the 205,000 American jobs Ex-Im financing helped support last year.

As I travel the world on behalf of American companies, I know that my counterparts in China, Brazil, Russia, South Korea, and many others are right behind me, fighting for business. These nations, and many others, are serious competitors in the global marketplace—and each supports its exporters aggressively.

For example, the South Korean ECA, supporting an economy less than one tenth of our size, finances more than 3 times the exports for South Korean companies than the Ex-Im Bank finances for U.S. companies. A few weeks ago, we heard from one exporter at a Capitol Hill roundtable whose business was adversely impacted by the actions of a foreign ECA. Steve Wilburn is a veteran whose small renewable energy company, FirmGreen, has created 165 jobs in California and at suppliers in seven other states since partnering with Ex-Im. A \$48 million loan from Ex-Im empowered FirmGreen to bring their innovative ideas, equipment, and services to Brazil. And the Novo Gramacho biogas project will convert dirty methane gas into clean, compressed biomethane gas. That is not just good for the environment. It is good for the U.S. economy, and the communities across America made stronger thanks to an infusion of new jobs.

I had the opportunity to visit the Novo Gramacho site not long ago—this is a game-changing technology. Steve is looking at two more sites in Brazil. His company has emerged as a global leader in its field.

But two months ago, Steve was stunned to hear that he lost out on a \$57 million project in the Philippines. He had been told he was the preferred supplier. He thought he had it in the bag. But he lost out because his competitor from Korea convinced the buyer that Steve's business might not have the financing to get it done. They pointed to the debate surrounding Ex-Im's reauthorization, and they said: 'There's too much uncertainty there—you can't rely on America.'

Can't rely on America? That's just wrong.

There is a strong drive to increase exports from many countries around the globe. We need to send the same signal to competitor nations that we stand behind American workers and exporters—and ensure that products stamped “made in the U.S.A.” are able to compete on a level playing field. In order for U.S. businesses to be able to compete based on the price and quality of their exports, Ex-Im needs to be there to level the playing field when it comes to meeting foreign ECA competition.

The thousands of businesses that benefit from Ex-Im Bank financing—almost 90 percent of which are small businesses—appreciate the fact that Congress was able to reach an agreement to reauthorize the Bank in 2012. They need to know that we will be around in the years ahead to support them as they face off against increasingly intense foreign competition, grow their exports, and create more jobs here at home.

Every other country is strengthening the capacity of their ECAs to support their domestic exporters. Only the United States is having a conversation about actually making Ex-Im Bank less robust in response to global trends. This uncertainty is only emboldening foreign ECAs in their effort to take jobs away from U.S. businesses.

I thank you for this opportunity to provide you with an update on the excellent work Ex-Im Bank is doing to support U.S. jobs. I want to again commend the outstanding, professional work of our 400+ employees who are committed to supporting American jobs and increasing U.S. exports. I look forward to working with you to reauthorize the Bank and continue to support U.S. exports, create more American jobs, , and keep our economy strong in a global age.