

**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.

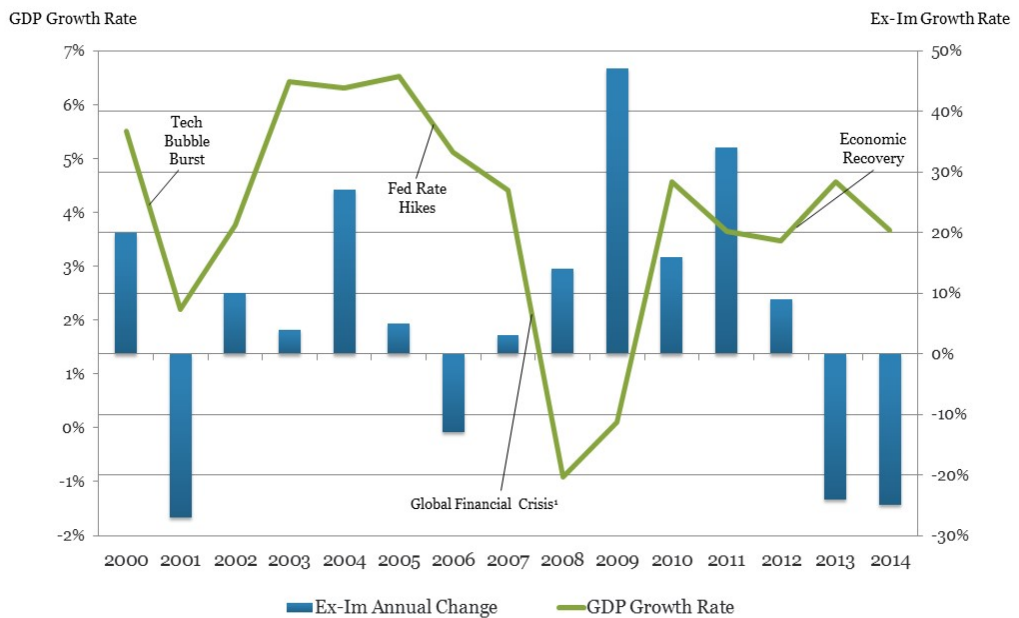
Ex-Im fulfills its mission to support U.S. jobs in two ways. First, Ex-Im fills the gaps when the private sector is unable or unwilling to provide financing for U.S. exports—a particularly important role for American small businesses, which often find it difficult to obtain export financing from their 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.

### Ex-Im Authorizations & Market Cycles



\* 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).

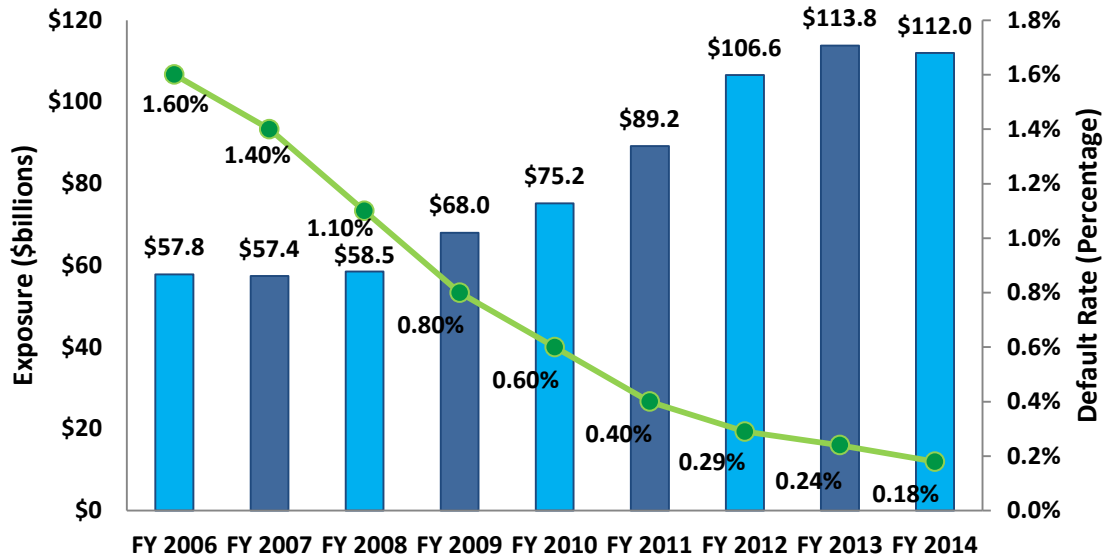
Our focus on comprehensive risk management is demonstrated by our low default rate of 0.174% as of December 31, 2014.<sup>1</sup> As a result of the 2012 reauthorization, we now report our default rate to Congress every quarter. As illustrated in the chart below, Ex-Im's default rate remained low during 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.

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<sup>1</sup> 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.



## FY 2006 - FY 2014 Exposure and Default Rate



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.