OVERSIGHT OF EFFORTS TO REFORM THE EXPORT-IMPORT BANK OF THE UNITED STATES

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON MONETARY POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES

AND THE

SUBCOMMITTEE ON HEALTH CARE, BENEFITS AND ADMINISTRATIVE RULES

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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OVERSIGHT OF EFFORTS TO REFORM THE EXPORT-IMPORT BANK OF THE UNITED STATES

Wednesday, April 15, 2015

U.S. House of Representatives,
Subcommittee on Monetary
Policy and Trade,
Committee on Financial Services,
joint with the
Subcommittee on Health Care,
Benefits and Administrative Rules,
Committee on Oversight and
Government Reform
Washington, D.C.

The subcommittees met, pursuant to notice, at 10:01 a.m., in room 2154, Rayburn House Office Building, Hon. Jim Jordan [chairman of the Health Care, Benefits and Administrative Rules Subcommittee] presiding.

Members present from the Monetary Policy and Trade Subcommittee: Representatives Huizenga, Mulvaney, Lucas, Pearce, Stutzman, Pittenger, Messer, Schweikert, Guinta, Love; Moore, Foster, Carney, Sewell, Murphy, Kildee, and Heck.

Members present from the Health Care, Benefits and Administrative Rules Subcommittee: Representatives Jordan, Walberg, DesJarlais, Gowdy, Meadows, DeSantis, Mulvaney, Walker, Hice, Carter; Cartwright, and Watson Coleman.

Ex officio present: Representatives Hensarling, Chaffetz, Waters, and Cummings.

Also present: Representatives Posey, Duffy, Blum, Clay, and Green.

Chairman Jordan. The subcommittees will come to order. We have interest from several of the members of the respective full committees who would like to participate. So I ask unanimous consent that those colleagues be allowed to fully participate in today's hearing. Without objection, it is so ordered.

I want to welcome our witnesses today. We will get to your introductions in just a minute. But we want to start—and you know how this works. Most of you have done this before. We will start with opening statements.

So I recognize the gentleman from Michigan, the chairman of the Monetary Policy and Trade Subcommittee, Mr. Huizenga.

Chairman HUIZENGA. Thanks, Chairman Jordan. I appreciate your willingness to hold this joint hearing on this important issue to discuss the Export-Import Bank.

This hearing will examine the role of the Ex-Im Bank, the 2012 authorization of the Bank by Congress, and Ex-Im's progress on implementing the reforms and recommendations made by the GAO and the Ex-Im Bank's Office of Inspector General.

Many of this, we all know. We are familiar with the history. The Bank was established by Executive Order in 1934, and became an independent agency in 1945 with the mission to support domestic job creation in the United States. The Export-Import Bank is intended to facilitate the export of U.S. goods and services to international markets by providing working capital guarantees, export credit insurance, loan guarantees, and direct loans.

Since its creation, Ex-Im's taxpayer subsidy has grown exponentially to a whopping $140 billion cap. As the national debt continues to climb over $18 trillion, many fear that these taxpayer-backed loan guarantees put taxpayer dollars at significant risk and raise concern that the Ex-Im is looming towards yet another bailout that the American people simply cannot afford.

It has been claimed that while the Export-Import Bank is a self-sustaining agency that receives a net appropriation of zero from Congress, because these Bank loans are backed by the full faith and credit of the U.S. Government, I believe, as do many others, that the U.S. taxpayers are at risk if the Bank's projects fail.

It is important to note that the Bank has already received a congressional bailout. The Export-Import Bank operated at a loss every year from 1982 to 1985. And by 1991, the Bank's accumulated deficit hit $7.5 billion.

In fact, I was an intern here on the Hill in the spring of 1991. And it was a raging debate, what was happening and what to do about it. And many will recall that it was the closing days of the George H.W. Bush Administration. Democrats were firmly in control of both the House and the Senate and were trying to figure out what to do.

The solution was that from 1992 to 1996, Ex-Im received $9.92 billion in direct appropriations from Congress and the American taxpayers. In 2012, Congress reauthorized Ex-Im while also mandating several modest reform provisions that shared broad bipartisan support. These reform provisions required that the Ex-Im Bank submit a business plan to Congress, as well as respond to a review of Ex-Im's risk management practices conducted by GAO.

Additionally, the reauthorization directed the Treasury Secretary to initiate—I think that is a key word—and pursue multilateral negotiations to reduce, with the ultimate goal of eliminating, all trade-distorting export subsidies, including those for aircraft, which has been a central theme in this discussion.

The reauthorization further required that the Ex-Im Bank categorize each loan and long-term guarantee, classifying them as necessary to either: one, assume risk that the private sector would not undertake, in other words, be that lender of last resort; two, overcome limits in private finance; or three, meet competition from foreign export credit agencies.

Although these reforms were intended to better protect taxpayers and make the Export-Import Bank more accountable, the Bank, and I believe Treasury, continue to ignore congressional intent and instead operate with too little accountability and too little regard for the interests of hardworking American taxpayers.

The most recent authorization of the Ex-Im Bank's charter occurred in September of 2014 and expires this June 30th. As Congress continues its robust oversight of the Export-Import Bank, it is important to note that the Ex-Im Bank cannot engage in new business without congressional authorization; however, if the authorization does lapse, Ex-Im would be obligated to honor all of its existing loans and guarantees. In other words, nothing would change. But it would be prohibited from entering into new business.

Today, I look forward to hearing from our chairman of the Export-Import Bank; the Treasury Under Secretary for International Affairs; both the acting and assistant inspectors general; and the GAO in regards to the Bank's progress or, frankly, lack thereof on implementing these clearly-defined reforms that had come out at the last authorization.

So thank you, Mr. Chairman. With that, I yield back.

Chairman JORDAN. I thank the chairman for his statement.

We now recognize the gentlelady from Wisconsin, Ms. Moore, ranking member on the Monetary Policy and Trade Subcommittee.

Ms. MOORE. Thank you so much, Mr. Chairman. And what a privilege it is to be here with our guests today.

Before I get into the substance of my comments, I feel really compelled to address some of the mischaracterizations of the Bank. And I am very disturbed that this debate been hijacked by strawmen arguments.

I struggled to understand how this debate had become so dispatched from the reality of how the Bank operates, that is until I read the story in the Hill about Senator Cruz's lack of support of the Bank, despite strong support of the Bank from small businessmen in Texas, and his characterization of this being "low-hanging fruit." Low-hanging fruit, of course, being proxy language for the Bank being low-hanging fruit in pursuit of a larger goal of really dismantling any kind of governmental assistance. Really, that is the sort of Tea Party argument that government should not help anybody. And really, the larger goal of dismantling Social Security, Medicare, and the entire social safety net. Okay, tangent is over.

So in response to the realities of global competition and business, and in recognition that the Bank is a U.S. job creation engine, reauthorization in the past has been bipartisan. And we have very little legislative time before the current authorization expires on June 30th. We have a majority in the House, not a majority of Democrats, a majority in the House supportive of reauthorization. We have legislative language with cosponsors demonstrating that.

And I hope that this hearing will reset the debate and be grounded in fact. The Bank is not a government-funded utility that offers below-market financing terms. It is not.

I will yield the rest of my time to the gentlelady from California, the ranking member of the full Financial Services Committee, Ms. Waters.

Ms. WATERS. Thank you very much, Ms. Moore. And thank you, Mr. Chairman.

I am sure the irony of today's hearing to discuss the implementation of the 2012 reauthorization of the Ex-Im Bank is not lost on anyone. Today, not one, but two committees are holding this hearing on the progress of a 3-year-old law, just as we are only 32 legislative days away from the expiration of the Bank's charter.

Despite this imminent threat to our economic recovery and to American workers, the Financial Services Committee has yet to hold a single legislative hearing to reauthorize the Bank. Over the course of its 80-year history, the Bank's charter has been renewed 16 times, supporting hundreds of thousands of jobs and leveling the playing field for American businesses large and small so they can compete for business in the global marketplace.

Earlier this year, my colleagues Gwen Moore, Denny Heck, minority whip Steny Hoyer, and I introduced legislation to reform and reauthorize the Bank. The proposal has the support of 190 House Democrats. Another proposal introduced this year to reauthorize the Bank has garnered the support of 61 House GOP Members.

With the majority of House lawmakers officially on record in support of the Bank, it is clear that this Congress could pass an extension of the Bank's charter today. This begs the question, what exactly are we doing here? Unfortunately, the answer is evident. We are wasting time while the anti-government, anti-American-worker wing of the Republican party works desperately to let the clock run out on the Ex-Im Bank, on U.S. businesses, and on the many American taxpayers whose jobs and families count on its support.

Over the past few years, the Bank has become more transparent, more efficient, and more accountable to the American public, while at the same time the Republican party by every one of these measures has become increasingly less so.

And what is so surprising is that my colleagues on the opposite side of the aisle talk about support of business. Yesterday, we were engaged on the Floor where they came up with measures supposedly in support of businesses. They didn't want banks to go out of business because they feel that they should be able to charge as high interest rates as they want on manufactured housing, and on and on and on. Business, business, business, support for business.

But what are we doing now? We are literally saying to those businesses that are supported by Ex-Im and all of the suppliers that go along with that, that this government does not care about them and their ability to do business, they don't care about job creation, and they don't care that China and other countries are cleaning our clock as they support their export interests.

So I yield back the balance of my time. And I guess I will continue to waste my time and stay here to see what some are talking about. Because I just don't get it. I don't understand it. I yield back.

Chairman JORDAN. I thank the gentlelady.

I now recognize the chairman of the full Oversight and Government Reform Committee, the gentleman from Utah, Mr. Chaffetz.

Chairman CHAFFETZ. Thank you. I appreciate both bodies here. I think this is a very worthwhile exercise to hear out the issues. Because this is a group, an institution, the Export-Import Bank, that has been fraught with problems and fraud and lack of oversight.

The fundamental question is, should Americans continue to subsidize the risk that is incurred by this Bank? It has failed consistently to meet its congressionally-imposed mandates. The Bank continues to attracts controversy. Just last night, I was reading articles about the Justice Department charging a former Ex-Im Bank official with bribery. That literally happened yesterday. On 19 different occasions, it cites in the article. And the inspector general stated that there are numerous open fraud investigations. It begs a lot of questions in support for this hearing. I am glad we are doing this jointly with the Financial Services Committee.

With that, I yield back.

Chairman JORDAN. I now recognize the gentleman from Pennsylvania, the ranking member of the Health Care, Benefits and Administrative Rules Subcommittee, Mr. Cartwright.

Mr. CARTWRIGHT. Thank you, Mr. Chairman. And welcome to all of our witnesses. I do look forward to your testimony today.

Today's hearing is intended to examine the Ex-Im Bank's effort to implement congressionally-mandated reforms, as well as the implementation of recommendations provided by GAO and the Bank's inspector general.

The Ex-Im Bank's transactions support billions of dollars in exports and hundreds of thousands of American jobs by supporting U.S. companies that export to foreign markets. The Bank has been a stellar steward of taxpayer funds, maintaining a portfolio with a default rate of just 0.175 percent. And the Bank generates a surplus to the U.S. Treasury that results in deficit reduction.

Since 2012, the Bank has implemented all of the requirements in the 2012 reauthorization. It has addressed 15 of the 16 GAO recommendations. It has concurred with 140 of 142 IG recommendations. The Bank continues to work with GAO on the one remaining recommendation and the IG on the two unresolved recommendations.

The Ex-Im Bank plays a role in leveling the playing field for American businesses competing in the global marketplace. There are 60 other countries with foreign-export credit agencies that seek to ensure their home country businesses are winning at export sales. The Ex-Im Bank makes financing available to U.S. businesses to compete with these foreign manufacturers on the merits of their goods and services and not government-backed cut-rate financing.

In Fiscal Year 2014, 89 percent of Bank transactions benefited small business exporters of U.S.-made goods and services. These are deals that could not and would not be done by the private sector alone, and are the perfect example of the kinds of public-private partnerships we need to continue to do in order to grow our economy. In my own district in northwestern Pennsylvania, the Bank supports over $63 million in exports, benefiting 8 companies and over 400 jobs.

For most of its 80 years, the Ex-Im Bank has received support from both Republicans and Democrats. In fact, Congress has consistently reauthorized this Bank 16 times without fail. The Bank's reauthorization is supported by a diverse coalition, including the

U.S. Chamber of Commerce, the National Waste and Recycling Association, and Air Products and Chemicals, Inc., which has two large plants in my district.

But this year, a group I referred to in the past as the "shutdown crowd" has decided to the hold the Bank's reauthorization hostage. Look, playing such a dangerous game is bad for American businesses, American exports, and, most importantly, American jobs. Honest congressional oversight is an extremely effective tool for achieving government reforms. Today's hearing provides an opportunity effectively to examine the Bank's efforts to strengthen its policies and procedures, while holding the Bank accountable for implementation of reforms and assuring the American public that this Bank continues to contribute to our economy.

And with that, Mr. Chairman, I am going to yield 1 minute to our colleague, Mr. Heck, of the Financial Services Committee.

Mr. HECK. Thank you, sir. And thank you, Mr. Chairman.

That sound you hear in the background is the ticking of the clock. There are, count them, exactly 32 legislative days until the Ex-Im Bank expires. And yet, it has been 1,394 days since the committee last held a markup on reauthorization. You don't have to be a math savant to figure out that is 3 years and 10 months for what was a 2-year reauthorization.

I welcome Chairman Huizenga's albeit belated attention to the most urgent legislative deadline before the Financial Services Committee. Bar none, no exception. There are two long-term reauthorization bills in the House. They have 250 sponsors between the 2 of them. There is a full majority in this committee who wants to pass it out. There is a full majority of the House who wants to pass it out. It is way past time to schedule a legislative markup on reauthorization of the Export-Import Bank, period.

Mr. CARTWRIGHT. Thank you, Mr. Heck.

Mr. Chairman, I hope today's hearing will highlight the good work of the Ex-Im Bank, resolve any outstanding questions concerning the 2012 reforms, and provide additional support for the Bank's continuing reauthorization.

Thank you, Mr. Chairman. And I yield back.

Chairman JORDAN. I thank the gentleman. And I actually hope for a different outcome.

Today's hearing is exactly what the Oversight Committee is supposed to focus on, and frankly, what Congress is supposed to focus on: eliminating waste, fraud, and abuse, things that have been going on at the Ex-Im Bank for a long, long time.

The Export-Import Bank is little more than a fund for corporate welfare. Those aren't my words. Those are the words of Senator Barack Obama in 2006. He was right. The Bank was and is corrupt beyond repair. And everyone knows it. But 9 years later, the Bank still exists. Why? The answer to that question represents the worst of politics.

Every time the Bank is up for reauthorization, deep pockets of special interest and their friends on K Street descend on Washington with "Chicken Little" fables about how small businesses across America will suffer if the Bank's charter is allowed to expire.

The reality is that 99.9 percent of small businesses across America get no assistance from the Ex-Im Bank. The Bank's beneficiaries are some of the largest companies in America. And I don't fault large companies. They are great. We are glad they are here. We are glad they do the great things they do in our economy. But they don't need middle-class taxpayers' help to succeed.

And, of course, one company has received most of the assistance from the Bank, and that is Boeing. Many have called Ex-Im the "Bank of Boeing," and for good reason. In the last fiscal year, 40 percent of all authorized funds from the Bank went to one company: Boeing. That is ½ times more support than was received by all of the small businesses combined.

And the degree to which small business are actually small is not entirely clear. In November 2014, a Reuters analysis revealed that the Bank listed companies owned by billionaires Warren Buffett and Mexico's Carlos Slim as small businesses.

Besides big corporations who don't need the support, the other main beneficiaries are Ex-Im Bank employees themselves. Recently, Michael Whalen was hired by the Bank as the vice president of structured finance. He comes from Solar Reserve, which had a junk bond rating, but still received $737 million taxpayer dollars from the Obama Administration program that supported Solyndra, and has been a candidate for Ex-Im financing.

There is Tom Kiernan. He joined the Bank's advisory committee earlier this year. And he is also chief executive of the American Wind Energy Association, represents many companies that have received Ex-Im support.

The revolving door between Boeing and the government is especially troubling. Corey Golden is the senior director of Boeing. Before that, he was a loan officer at the Export-Import Bank, overseeing relationships with foreign airlines. So now think about this: He worked for Ex-Im, which gives 40 percent of its financing to Boeing, and now he works for Boeing. Such a deal.

There is also Bill Daley, who resigned from Boeing's board of directors in January 2011 to become White House Chief of Staff. And former Secretary of Commerce, John Bryson, who left Boeing's board to join the Obama cabinet.

In 2006, then-Senator Obama called the Bank out for being a fund for corporate welfare. In 2012 the President spoke at a Boeing plant and joked that he deserved a gold watch because, "I am selling your stuff all the time."

Corporate connectedness, corporate cronyism. And there is also just flat-out corruption at the Ex-Im Bank. Just yesterday, a former employee of the Bank was indicted for bribery. Last summer, this committee held a hearing related to numerous investigations into fraud at the Bank. Two officials were accused of accepting gifts and kickbacks from companies seeking export financing. One of these employees, an official with significant responsibility over decisions to award taxpayer-backed export assistance, is accused of accepting cash payments from an applicant company. That is a nice way of saying "bribes."

Two more officials were accused of improperly awarding contracts to favorite companies. All four employees referred to the Ex-Im Bank's Office of Inspector General, and the investigation is currently being handled jointly by the IG and the Department of Justice.

Given these issues, many have asked, is the Bank fixable? In 2012, Congress engaged in the noble task of attempting to reform the dysfunction at the Bank. Mr. Hochberg, our guests, and others this morning are likely to say that the Bank has implemented the reforms. I respectfully disagree. And I think the GAO has some concerns about what they haven't done, as well. The heart of the matter, however, is that the Bank's very existence is anathema to free enterprise and American values.

Members of Congress will face many difficult decisions and tough votes in the months and years ahead. But reauthorization of the Ex-Im Bank is not one of them. This is an easy call. This Bank is corrupt and it should be eliminated. It should be allowed to wind down in the natural course of events and not be reauthorized.

And with that, I yield back.

We will now recognize our witnesses. And thank you all again for being here.

We will start with Mr. Hochberg. Mr. Fred Hochberg is the chairman and president of the U.S. Export-Import Bank. The Honorable Nathan Sheets is the Under Secretary for International Affairs at the U.S. Department of the Treasury. Mr. Mike McCarthy is the acting inspector general at the U.S. Export-Import Bank. We have Mr. Mark Thorum, assistant inspector general for inspections and evaluations at the Ex-Im Bank. And Ms. Kimberly Gianopoulos is the Director of International Affairs and Trade at the U.S. Government Accountability Office.

Again, welcome to all of you. We swear folks in here in this committee. So if you will please stand, and raise your right hand.

[Witnesses sworn.]

Let the record reflect that all witnesses answered in the affirmative. Thank you. You may be seated.

Mr. Hochberg, we will start with you. You have all done this before. You get 5 minutes. You have the lighting system there, the clock in front of you. Try to keep it as close as you can because we have five witnesses, and I think four of you are actually going to be making opening statements.

Mr. Hochberg, you are recognized for your 5 minutes.

TESTIMONY OF THE HONORABLE FRED P. HOCHBERG, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. HOCHBERG. Thank you. Chairmen, Ranking Members, and distinguished members of the subcommittees, thank you for inviting me to testify about the progress that Ex-Im has made over the past several years.

In May of 2012, Ex-Im was reauthorized with overwhelming bipartisan support: 330 Members in the House; and 78 in the Senate. Since then, the Bank has continued to support U.S. private sector job growth, including 164,000 jobs in the last year alone.

We also generated revenue for the taxpayers, including $675 million we sent to Treasury for deficit reduction.

Over the past 3 years, we have implemented each and every requirement called for in our 2012 reauthorization. In 2012, Congress required Ex-Im to do the following.

Submit a business plan and a textile report. Both were submitted in the fall of 2012. I have all of those reports right here.

Monitor and report default rates. We have issued 12 quarterly reports.

Provide Federal Register notices for transactions exceeding $100 million. We have posted 88.

Publish economic impact procedures and methodology. We updated and implemented new standards in April of 2013.

Examine the Bank's support for small business and issue a report. We submitted a report in November of 2012. And small businesses directly accounted for nearly 90 percent of all transactions and about 39 percent of the exports we financed by dollar value in 2014.

Include a textile representative on our advisory committee, a position now held by the president of Morrison Textiles of Fort Lawn, South Carolina.

Develop formal due diligence and know-your-customer standards for lender partners. Both were completed in May of 2014.

Add a non-subordination requirement to our policy handbook. This was published in January of 2013.

Categorize the purpose of loans and guarantees. This is now included in the annual report.

Review and report on our content policy. That was completed in May of 2013.

Update and expand Iran sanction certifications. That was completed in September of 2012.

Update our IT systems. We have updated our computer hardware and software, and have hired a new chief information officer.

Provide a report on the implementation of GAO recommendations. That was completed in November of 2012.

Congress required Treasury to negotiate an end to export credit financing. They have issued three annual reports to Congress on their progress.

And finally, GAO and the IG were asked to do several studies, which they too completed.

In my written testimony, I have further detailed how we have implemented all of these requirements.

Having run a small business, I know how important it is to continually identify and become stronger and sleeker as an institution. The oversight provided by Congress, the IG, and the GAO has helped us to do just that.

Since the 2012 reauthorization, GAO has submitted a total of 16 recommendations, and we agreed with all of them.

Another part in our efforts to improve has been the IG. And I value the IG's role. I meet with him once a month. And our chief risk officer meets with him far more frequently. Since 2012, the IG has issued 142 recommendations. Ex-Im fully concurrs with 140, and we are working together on the last two.

Additionally, Ex-Im has proactively implemented risk management improvements to further ensure we remain faithful stewards of taxpayer dollars. I am just going to name two: we increased staffing in our asset management division by 33 percent; and we implemented mandatory ethics training for all employees that goes well beyond Federal requirements.

Let me take a moment to thank our employees, the inspector general, and the Department of Justice for the work they have done to expose and address an incident of improper activity at the Bank, which was made public yesterday. Let me repeat, we have zero tolerance for waste, fraud, and abuse at Ex-Im.

Our focus on risk management is demonstrated by our low default rate of 0.174 percent as of December 2014. While our transactions rarely default, when they do, claims are made by fees and interest paid by Bank customers, not taxpayers.

So in closing, let me add there are 59 other export credit agencies around the world aggressively fighting for jobs in their countries. While we consider past and future reforms, I trust the committee will keep in mind this global competition.

And we appreciate the committee's interest. I look forward to working with you to continue empowering your constituents to export more and hire more American workers. Thank you. And I look forward to answering your questions.

[The prepared statement of Mr. Hochberg can be found on page 89 of the appendix.]

Chairman JORDAN. Thank you.

Mr. Sheets?

TESTIMONY OF THE HONORABLE NATHAN SHEETS, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF THE TREASURY

Mr. SHEETS. Chairman Jordan, Chairman Huizenga, Ranking Member Moore, Ranking Member Cartwright, and distinguished members of the subcommittees, thank you for the opportunity to testify today on efforts of the Treasury and the Administration to discipline the use of government export financing.

Treasury has been and continues to be guided by three core principles in this effort. First, 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.

Second, China and other large emerging market economies, which now account for a major share of all official export financing, should participate in and abide by an international rules-based framework.

And third, the terms and conditions of official export credits should be as market-oriented as possible to limit trade distortions and help ensure that this support complements, rather than crowds out, market financing.

As we pursue these efforts, we recognize that curtailing U.S. export financing unilaterally could undermine our exporters' ability to compete, potentially causing them to lose business to foreign competitors whose governments continue to provide that support, as well as potentially resulting in the loss of American jobs.

Moreover, unilateral action by the United States without similar moves by foreign governments could weaken our ability to negotiate more robust disciplines with counterparts abroad.

Fundamental changes have occurred in the global export finance landscape over the past decade. Chief among them has been a dramatic increase in official export financing provided by China and other large emerging market economies that do not participate in the OECD's arrangement on officially-supported export credits. Unless these countries operate within the international export framework, U.S. exporters could face an uneven playing field.

Bringing all major providers of official export financing, including China and the large emerging market economies, into an international rules-based framework is an essential step. Consistent with this, we are making meaningful progress multilaterally through the International Working Group on Export Credits and bilaterally with China in our strategic and economic dialogue.

Most recently, during President Obama's November 2014 visit, China committed to take all steps necessary to advance the IWG initiative and to support comprehensive guideline coverage.

With respect to the aircraft sector, the United States has worked for years to make the international guidelines on official export financing more market-oriented. These efforts have led most recently to the 2011 aircraft sector understanding, which substantially improved on the previous understandings in a number of ways, the most important being adoption of a system for pricing borrower risk that adjusts quarterly in response to evolving market conditions.

We believe that the market-oriented nature of the 2011 ASU has contributed to a meaningful decline in demand for official export financing for aircraft. Even as the overall number of aircraft deliveries has increased since the 2011 ASU went fully into effect in 2013, we have seen both: one, a sharply falling proportion of large aircraft deliveries financed with official support globally; and two, a significant decline in Ex-Im Bank financing for U.S. exports of large aircraft. Even so, we will continue to explore opportunities to make additional progress.

Now, let me conclude. Since 2012, we have worked to discipline the use of government export financing support in a way that minimizes trade distortions, helps ensure that government export financing complements market financing, and contributes to a level playing field for U.S. stakeholders.

In sum, progress, although sometimes incremental, is indeed being made. And achieving further gains is a top priority for Treasury and the Administration in the period ahead.

And I am happy to take your questions.

[The prepared statement of Under Secretary Sheets can be found on page 141 of the appendix.]

Chairman JORDAN. Thank you.

Mr. McCarthy?

TESTIMONY OF MICHAEL T. MCCARTHY, ACTING INSPECTOR GENERAL, EXPORT-IMPORT BANK OF THE UNITED STATES, ACCOMPANIED BY MARK S. THORUM, ASSISTANT INSPECTOR GENERAL FOR INSPECTIONS AND EVALUATIONS, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. MCCARTHY. Thank you, Mr. Chairman.

I am pleased to be here to present the work of the Ex-Im Bank Office of Inspector General. I am joined by my colleague, Mark Thorum, who is the assistant IG for inspections and evaluations.

You have our written testimony, which highlights the work that our professional auditors, inspectors, and special agents have done to promote efficiency and detect and deter fraud at Ex-Im Bank. Let me briefly cover a few highlights.

Every year, we review our work and identify the top management challenges facing the Bank. Last fall, the OIG reported that the top challenge was managing risk, specifically, managing the Bank's core business activities to reduce the risk of loss to the Treasury and, by extension, the taxpayer.

To manage that risk, we have recommended that the Bank should design an agency-wide risk management framework so that in addition to rating the risk of any individual transaction, the Bank is also evaluating and mitigating the risks generated by the overall composition of the portfolio and any outsized exposures that the Bank has in certain regions, industry sectors, or single companies.

To accomplish this, we have recommended a chief risk officer, which the Bank has established. The Bank has also conducted stress testing and monitoring of exposure levels. We hope the Bank will build on these steps by developing and implementing key risk policies, covering both credit and non-credit risks.

We have also recommended improvements to due diligence and know-your-customer policies. And the Bank has deployed improvements in those areas.

Finally, we have previously found that internal policies providing clear guidance to staff have not been prevalent at Ex-Im Bank. So we recommended that the Bank rely more on clear policies, controls, and documentation, and less on institutional knowledge. Many of our recommendations have been for specific internal control policies, which the Bank is working on implementing.

Other critical challenges facing Ex-Im Bank are human capital management and information technology management. Without the ability to recruit and retain employees with the knowledge to execute complex financial transactions, and without an IT system that produces the data necessary to provide timely service, effectively manage and track programs, and conduct portfolio risk analysis, the Bank will be held back from accomplishing its mission of financing U.S. exports and domestic jobs.

The 2012 reauthorization legislation included several provisions to increase reporting and transparency for Ex-Im programs. We have summarized our relevant work on those provisions in the written testimony. And we are happy to answer questions on those topics.

I know the committees are interested in issues of fraud and corruption as they affect Ex-Im Bank. Our investigative unit gets results in this area. Since 2009, OIG investigations have yielded 80 criminal indictments and informations, 47 convictions, $288 million in judgments, and 600 referrals of investigative intelligence back to the Bank for enhanced due diligence.

The most common fraud schemes that we have encountered involve outside parties obtaining loans or guarantees through false representations and submission of false documents. Generally, our caseload has been external, not internal. But last summer, the committee was interested in reports that Ex-Im Bank employees had been removed or suspended based on OIG investigations. At that time, we could not provide additional information, but have since reported back to the committees on two closed administrative cases.

And earlier this week, the Justice Department filed a bribery charge against a former Ex-Im loan officer. This is part of an ongoing investigation and a pending court preceding. So I hope you will understand that I am unable to provide details beyond the public court documents on that particular case. We expect that more information will be available in the near future. And we will share that with Congress as soon as it is legal and appropriate to do to.

Mr. Chairman, this concludes my statement. And we are happy to answer questions.

[The joint prepared statement of Mr. McCarthy and Mr. Thorum can be found on page 130 of the appendix.]

Chairman JORDAN. Thank you.

Do I understand, Mr. Thorum, that you are not going to make an opening statement?

Mr. THORUM. That is correct.

Chairman JORDAN. Okay. Thank you for being here.

Ms. Gianopoulos, you are recognized for 5 minutes.

TESTIMONY OF KIMBERLY GIANOPOULOS, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. GIANOPOULOS. Thank you, Mr. Chairman.

Chairmen Jordan and Huizenga, Ranking Members Cartwright and Moore, and members of the subcommittees, thank you for the opportunity to be here today to discuss our recent work on the Export-Import Bank.

Since the Bank's 2012 reauthorization, GAO has issued several reports on the Bank's operations. In my statement today, I will cover the following three areas: first, portfolio risk management; second, underwriting and fraud prevention processes; and third, exposure forecasting and reporting on estimates of the Bank's impact on U.S. jobs.

First, I would like to talk about our work related to the Bank's portfolio risk management. In our reports dated March 2013 and May 2013, we identified a number of weaknesses related to loss estimation, vintage analysis, stress testing, sub-portfolio reporting, workload benchmarks, and resources for congressional mandates.

For example, we found that the short-term forecast the Bank used to account for global economic changes could lead to underestimation of credit subsidy costs and loss reserves and allowances. We recommended that the Bank assess whether it was using the best available data for adjusting its loss estimates. As a result, in November 2013 it incorporated a longer-term forecast of global economic change into its loss estimation model.

Overall, with regard to portfolio risk management, all six recommendations we made have been closed as implemented. Additionally, while we did not make any recommendations in our July

2014 report on wide-body jets, we reported information about the Bank's aircraft finance portfolio, as well as the financing by other credit agencies of these aircraft.

As of March 31, 2014, the Bank's financial exposure in wide-body jets was $32 billion, representing about 28 percent of its overall financial exposure.

The second area I would like to discuss is the Bank's underwriting and fraud prevention processes. In September 2014, we found that the Bank implemented many key aspects of its underwriting process. However, we identified some weaknesses in this process, as well as related documentation issues. For example, the Bank did not have procedures to ensure that applicants did not have delinquent Federal debt.

We also noted weaknesses in the Bank's documentation of overall procedures related to fraud. Based on the Bank's responses, we are taking steps to close four of the six recommendations as implemented, and we are reviewing the Bank's response to the final two recommendations.

In our August 2014 annual report on the Bank's monitoring of exports with a dual civilian and military use, we found that the Bank had financed three dual-use transactions in Fiscal Year 2012. However, we noted that the Bank did not have complete and timely information about whether the items were actually being used in accordance with the terms of the agreements and Bank policy. Therefore, we recommended that the Bank establish steps for staff to take when borrowers did not submit required documentation within required timeframes, and to ensure that these efforts are well-documented.

We are in the midst of this year's review of the Bank's dual-use monitoring. And we will assess the Bank's progress in our upcoming report.

Finally, in two reports issued during May 2013, we found weaknesses in both the Bank's exposure forecasting and its reporting of jobs supported. With regard to exposure forecasting, we noted that the Bank had not reassessed its forecasting assumptions to reflect changing conditions, nor had it conducted sensitivity analyses to assess and report the range of potential outcomes.

In response, the Bank put in place new methodologies and created statistical models to validate its forecasts. So we consider these recommendations closed.

We noted that the Bank had not reported the limitations in its calculations of the jobs supported by its financing. We recommended that the Bank improve reporting on the assumptions and limitations in the methodology and data used. The Bank's 2013 and 2014 annual reports included greater detail on these issues. And therefore, we consider this recommendation closed.

This concludes my opening remarks. Thank you again for the opportunity to testify. And I am happy to answer any questions the committees may have.

[The prepared statement of Ms. Gianopoulos can be found on page 70 of the appendix.]

Chairman JORDAN. Thank you.

The gentleman from Michigan is recognized for 5 minutes for questions.

Chairman HUIZENGA. Thanks, Mr. Chairman.

And actually, Ms. Gianopoulos, I want to make sure I heard you correctly. So, based on a 2014 report, you said that their portfolio is weighted to a 28 percent exposure to wide-body aircraft, is that correct?

Ms. GIANOPOULOS. That is correct.

Chairman HUIZENGA. Okay. Do you believe that this Bank could pass a Federal Reserve stress test?

Ms. GIANOPOULOS. I understand that the Bank is engaged in stress testing of its portfolio now. I don't know what the current status is or if it could pass those types of judgments. We haven't done work in that area.

Chairman HUIZENGA. It seems to me that portfolio risk—which has been identified multiple times—a lack of economic forecasting; if you talk to any other bank, they have multiple models that are going forward, oftentimes getting castigated that they haven't added another or used a particular one—ability to repay examinations. Have any of those things been done, to your knowledge?

Ms. GIANOPOULOS. My understanding is that the Bank has focused on its estimates for its potential losses. And I know there are some updates to the Bank's processes with regard to both our recommendations and the IG's recommendations over the past few years since the reauthorization.

Chairman HUIZENGA. How about reserve funds?

Ms. GIANOPOULOS. I am not aware of updates to the processes for reserve funds.

Chairman HUIZENGA. I guess with a taxpayer guarantee, maybe they don't have to worry about reserve funds, which would be nice for some of the other banks. I am sure that they would be interested in that.

But Mr. Sheets, a quick question for you, as well. I think you aptly laid out in 2011 that there was an "understanding" for more orderly categorization or dealing with how these wide-body aircraft deals were moving forward. It strikes me that if this is a decline, I would hate to see what an acceleration of those would be, if 28 percent of the portfolio is already weighted to wide-body aircraft.

But you didn't mention the 2012 directive in the reauthorization, which specifically mentioned a discussion with the European Union about this particular situation. Why not? Why has that not been pursued?

Mr. SHEETS. Thank you. The discussion has, in fact, been carried on with our European counterparts about wide-body aircraft.

Chairman HUIZENGA. But you didn't talk about that at all; is that just an oversight or—

Mr. SHEETS. I do believe it has, but not with the same emphasis.

At the end of last year, our lead negotiator spoke to counterparts from Germany, France, and the United Kingdom, which are the countries that are our major competitors, about the scope—

Chairman HUIZENGA. Just so I understand, at the end of 2014, Treasury finally initiated that discussion?

Mr. SHEETS. I came to Treasury in 2014. But my understanding is that this has been an ongoing dialogue that we have had. And the major challenge we have, at least so far, is that these foreign counterparts are not enthusiastic about moving in this direction. But we are vigorously—

Chairman HUIZENGA. The interesting thing is I have a fair number of contacts in Europe in the legislative branches. They are interested in pursuing that, as well. Europe is as, if not even more, broken than the United States. And I think that is absolutely imperative.

Mr. Hochberg, in my remaining minute, minute-and-a-half here—actually, before we do that—

The OIG—Mr. Thorum, it seems this might be falling into your category. You did a audit in 2012 of reauthorization, looking back at 2010 through 2012 prior to the requirement of the 2012 authorization. And according to your report, on page seven, "We found that the loan files did not include sufficient documentation to substantiate the applicant's assertions for their need for Ex-Im Bank financing. At the time, Ex-Im Bank loan officers stated that the need for Ex-Im Bank financing was done through verbal and email communications, and detailed documentation was not required."

I believe Mr. McCarthy had laid out that there had been some improvements. However, you also say at the top of that paragraph—this is the first full paragraph on page seven—the OIG has not audited Ex-Im Bank's categorization in reporting of the purpose of loans and long-term loan guarantees required by the authorization. Why in the world not?

Mr. MCCARTHY. So we had the—

Chairman HUIZENGA. My question is actually directed to Mr. Thorum, unless it is somehow more appropriate—

Mr. MCCARTHY. It is actually—it is not his report. It is one of our audit reports. And he is responsible for inspection reports.

So we did the direct loan audit. And that was based—it was after the 2012 reauthorization, but it was looking back at the 2010 to 2012 timeframe. So what we had in that report is we have had recommendations in order to put more—

Chairman HUIZENGA. So why have you not followed through on that, as you were directed to in 2012?

Mr. MCCARTHY. In the 2012 reauthorization, we are continuing to review all of these internal control issues. We haven't looked at that—

Chairman HUIZENGA. That was nearly—it was 2½ years ago. It would seem to me that if red flags went up from auditing what had happened in 2010 through 2012, and you are directed to do audits of the categorization, which it appears are well off the mark, why are you not having that done now?

Mr. MCCARTHY. I don't read that provision as a requirement. I know OIG audited that particular area. I believe it is a requirement for the Bank reporting. And we are reviewing the Bank reporting in that area and adding it to our risk-based audit planing.

Chairman HUIZENGA. Mr. Chairman, my time has expired.

Chairman JORDAN. I thank the gentleman.

The gentleman from Pennsylvania is recognized.

Mr. CARTWRIGHT. Thank you, Mr. Chairman.

Chairman Hochberg, again, thank you for being here today. I would like to ask you a few questions about the Ex-Im Bank and how it benefits Americans. The Export-Import Bank finances exports of U.S. products. Am I correct in that?

Mr. HOCHBERG. Yes, sir.

Mr. CARTWRIGHT. And Ex-Im Bank financing helps U.S. companies compete in the global marketplace, does it not?

Mr. HOCHBERG. Correct. Exactly.

Mr. CARTWRIGHT. Bank financing supports billions of dollars in exports by U.S. businesses and hundreds of thousands of American jobs. Am I correct in that?

Mr. HOCHBERG. Correct; 164,000 last year.

Mr. CARTWRIGHT. This is a Bank that operates at no cost to the U.S. taxpayer. And in Fiscal Year 2014, it actually generated a surplus to the tune of $674.7 million for U.S. taxpayers. Am I correct on that?

Mr. HOCHBERG. That is correct, as well.

Mr. CARTWRIGHT. Now, the Bank's default rate, I think you said in your testimony, was 0.174 percent. Did you say that?

Mr. HOCHBERG. That is correct.

Mr. CARTWRIGHT. You probably heard my opening statement. And I said the Bank's default rate was 0.175 percent. So I find that I have actually defamed you to the tune of one one-thousandth of a percent. And to that very extent, I apologize, Mr. Hochberg. Is it 0.174 percent?

Mr. HOCHBERG. That was the default rate as of December 2014. And we report that to Congress every 90 days.

Mr. CARTWRIGHT. My own view is this: It is hard to understand how reauthorizing this hugely successful part of our American Government, something that benefits Americans to the extent you have described and the U.S. economy the way it does, could possibly be a controversial issue. But here we are. Some people choose to ignore these facts and risk creating a disadvantage for U.S. businesses, U.S. manufacturing companies, and U.S. services seeking to compete in the global marketplace.

But the efforts of the Bank to reform and to comply with the GAO—by the way, the GAO is highly respected here in the Oversight and Government Reform Committee.

Chairman Hochberg, the Ex-Im Bank has implemented how many of the requirements in the 2012 reauthorization? I think there were 18 requirements. How many were done?

Mr. HOCHBERG. I enumerated each and every one of them. We have complied with every one of the requirements of the 2012 reauthorization.

Mr. CARTWRIGHT. And the GAO has issued 5 reports since 2012 with 16 recommendations, 15 of which have been addressed, and the Bank is working to address that one remaining recommendation. Am I correct on that?

Mr. HOCHBERG. That is correct.

Mr. CARTWRIGHT. The Ex-Im Bank inspector general has made 142 recommendations. And of 142, how many has the Ex-Im Bank concurred with?

Mr. HOCHBERG. We have concurred with 140 of the 142. The last two are in discussion, ongoing conversations.

Mr. CARTWRIGHT. And I think Mr. McCarthy mentioned that, as well, in his testimony.

Let me ask you this: Has the Bank been cooperative in working with GAO and also the IG on addressing concerns in unresolved recommendations? And can you explain what they are?

Mr. HOCHBERG. We have been working closely with the IG—the inspector general. As I mentioned, I meet with the inspector general once a month at a formal meeting. And our chief risk officer meets with him more frequently.

We have concurred with 140 recommendations. There are two outstanding ones we are still in discussion on to find the right common ground so it is workable and also meets the needs of exporters and creating jobs.

And with the Government Accountability Office, we concurred with all, and the last one we are still in discussion on. And that one was only issued last August. So it is a rather recent report from GAO.

Mr. CARTWRIGHT. Thank you, Chairman Hochberg. It is not clear what concerns exist with this Bank's efforts to reform. But I do hope Members today have learned of this Bank's high performance in implementing reforms and have some assurance that the Bank will continue to address oversight concerns that strengthen the Bank's procedures and minimize the risk of fraud or taxpayer losses.

And with that, Mr. Chairman, I yield back.

Chairman JORDAN. I thank the gentleman.

I recognize the gentleman from Oklahoma.

Mr. LUCAS. Thank you, Mr. Chairman.

Chairman Hochberg, Under Secretary Sheets, let's talk for a moment again about this set of requirements in the 2012 reauthorization bill. And specifically, let's focus on the ones that have not been implemented yet. Could you expand on what you have not done yet to fully implement the 2012 reauthorization bill?

Mr. HOCHBERG. Are you addressing me?

Mr. LUCAS. Both of you, actually, since the requirements are placed on both the Bank and on Treasury.

Mr. HOCHBERG. We have—I tried to outline each of the requirements that were set forth in 2012. And I gave a date on each one that we have either complied, sent a report, or changed our policies and procedures. And I have copies of these reports here: default reports; competitor's reports; reports on content; economic impact; Federal Register; and so forth.

Mr. LUCAS. So from your perspective, when will all of the requirements be implemented, since you say you are working diligently to implement them all?

Mr. HOCHBERG. We have implemented the requirements of Congress. The work with the Government Accountability Office and the inspector general will always be ongoing.

As I mentioned, one of the most—we got one report from GAO as recently as August. The IG, we have a large IG staff, so we are constantly getting recommendations, frankly, to make us a better bank. To make us operate better.

Mr. LUCAS. So chairman, you have implemented your requirements.

Secretary, what about the requirements for Treasury in the 2012 reauthorization?

Mr. SHEETS. As I articulated in my statement, we are working across a number of dimensions to implement the mandate, which we take extremely seriously. We are, as I described, working with the International Working Group to bring in the emerging market economies. We are working with Ex-Im to vigorously implement the ASU, which is reduce the quantity of export credits significantly. So we feel that we are on a convergent path consistent with the mandate.

Mr. LUCAS. So, Secretary, part of that is, I think, what most of the Members would refer to as a Section 11 requirement. How much enthusiasm do you truly have from your colleagues around the world about doing something in reference to their, what, 24 or so of these institutions?

Mr. SHEETS. At this stage, the negotiations in the International Working Group—which I really see as being a key part of what we are doing here, trying to bring in the emerging market economies, which are increasingly important providers of export credits—are tough, ongoing negotiations. For many of these countries, they have not been in negotiations regarding export credits before. And as a result of this, these negotiations are slow. But we are making progress.

Mr. LUCAS. So our competitors around the world at this point are willing to talk about it, but nobody is taking any concrete action in stepping away from these programs?

Mr. SHEETS. To be clear, the advanced economies that are members of the OECD are bound by the OECD understanding and are operating with similar rules.

But the objective of the IWG is for the emerging markets, to bring them in. And we are negotiating with them through the IWG. But this is also a subject of a vigorous bilateral negotiation. As I mentioned in the S&ED, when President Obama was recently in China. So we are making progress.

Mr. LUCAS. But Mr. Secretary, aren't some of the largest economic players in this non-OECD members? Say the Chinese, perhaps?

Mr. SHEETS. Exactly—

Mr. LUCAS. —with the sheer amount of resources they can throw in the fight the way they play the competitive game?

Mr. SHEETS. Yes. Yes, sir. That is why we are engaged in this new process, the IWG, which is intended to expand the periphery of countries that are bound by these export credit understandings.

Mr. LUCAS. Thank you, Mr. Secretary.

I would just note to my colleagues in what little remaining time I have, that perhaps I have a perspective slightly different than a number of my friends on both sides of the room.

But if the biggest economic players refuse to step back from this kind of a system, I have a real hesitation about giving the field away. I have a real hesitation about that. And I would say that at some point this year, this issue will be addressed legislatively. I would encourage my colleagues: Reform is the key. We have to make reforms.

But this is an institution we will be voting on before this year is out. Let's take advantage of this opportunity. A discussion about ending something that none of our competitors are willing to do doesn't seem like the rational economic choice.

I yield back the balance of my time, Mr. Chairman.

Chairman JORDAN. I thank the gentleman.

The gentlelady from Wisconsin is recognized.

Ms. MOORE. Thank you so much, Mr. Chairman.

And I, once again, want to thank all of the witnesses for appearing. It seems to me, based on all the testimony I have heard, that the Ex-Im Bank has really worked very diligently and effectively at adhering to the 2012 mandates.

I do have a question, though, for you, Mr. McCarthy. I would hope that you would return to Wisconsin at some point to engage in your birthplace's stuff. That is not why we are here today. But I would hope that you would do that.

I have been very impressed. I was impressed with your testimony with regard to the extent that the IG has looked into the operations of the Ex-Im Bank, even to the point that they have—that there has now been an indictment of an Ex-Im employee. I sure wish that you guys had gotten to the HSBC of their money laundering, drug dealers, the London will, and stopped the 2008 prices. But at least we got this one Ex-Im employee.

We have heard a lot of testimony that the Ex-Im Bank has shown favoritism for projects based on political connections and electoral politics. So I was wondering if you discovered any of that in your investigations. Crony capitalism?

Mr. MCCARTHY. Generally, our investigations have been of outside parties perpetrating fraud and money laundering schemes against the Bank. We haven't reviewed specific allegations that we have received in specific cases where there was some type of undue political influence or things of that nature.

Ms. MOORE. You have not found that?

Mr. MCCARTHY. We have not found that. Now, we do emphasize that the Bank needs to make sure that it has in place the appropriate internal controls to make sure that things like that can't happen. If you have the proper policies in place, if you have separations of duties among employees, if you have procedures in place, it lessens the risk for that type of undue influence, and also fraud cases.

Ms. MOORE. All right sir, thank you so much.

Mr. Sheets from Treasury, again, I want to thank you for your due diligence. You are currently negotiating with other countries to limit or end export credit. Were we not to reauthorize the Bank on the 30th of June, as some Members of our body would like, do you think that countries like Korea or China will voluntarily end their credit support programs? The other, what is it, 59 countries? If we were just to disappear from this space?

Mr. SHEETS. I think that would be very unlikely. And indeed, if we were to unilaterally curtail, I think that there is a risk, as I have indicated, that in negotiations going forward we will have less leverage because we won't have anything to give in those negotiations.

So I think it is important from a level playing field standpoint that we remain engaged on this. But also, if our ultimate goal is to further discipline export credits, a unilateral curtailment would very likely move in the opposite—

Ms. MOORE. Would it be catastrophic? Those are my words.

Mr. SHEETS. —from a global standpoint.

Ms. MOORE. Would it be catastrophic to our economy?

Mr. SHEETS. I think it would be very negative and adverse. How we define catastrophic—

Ms. MOORE. All right. That is my definition. I am from Milwaukee. And we are the manufacturers of the world. We have Boeing, and all of these companies with which people have issues. Boeing doesn't make any screws and bolts and nuts and—they come from Milwaukee, small businesses.

We have heard that 99 percent of the small businesses don't use Ex-Im Bank. But isn't it true that 89 percent of the loans you guys make are to small businesses, Mr. Hochberg?

Mr. HOCHBERG. Yes, they are.

Ms. MOORE. Okay. What do you mean, Mr. Hochberg, when you say that the operations at the Bank are "demand-driven?" And how do you supplement private finance? Can you walk us through that?

Mr. HOCHBERG. Certainly. Demand-driven is that companies come to us. For example, you and I visited Maxim Industries in Wisconsin, a company that makes construction equipment. They come to us when they are trying to sell overseas and can't get financing locally or their competitors overseas have government-backed loans, so they want to make sure they are on a level playing field.

So when I say "demand," they come to us, they seek us out only when they need us. And we can fill in the gap that the private—

Ms. MOORE. Maxim has 30 employees. And they have worked on projects like the Panama Canal, with 30 employees in Milwaukee.

Thank you. And I yield back.

Chairman JORDAN. Before recognizing the gentleman from South Carolina, I just want clarification on an answer. The gentlelady talked about undue political influence.

Mr. McCarthy, did you say you have not found that, or you have not looked into that?

Mr. MCCARTHY. I am saying that we haven't received specific allegations that we have substantiated on that. We are always happy to look—

Chairman JORDAN. So you have not looked into it? You don't know?

Mr. MCCARTHY. From time to time, we have looked into various allegations.

Chairman JORDAN. Which is it? You have looked into it, or you haven't looked it into?

Mr. MCCARTHY. We have looked into it from time to time, but we have not substantiated it.

Chairman JORDAN. Okay. Thank you.

The gentleman from South Carolina is recognized.

Mr. MULVANEY. Mr. Hochberg, for the benefit of my colleagues who have not had the pleasure before of sitting in on our discussions, I thought I would review and summarize some of the previous testimony you and I have gone over when you have been here, as quickly as I can.

Mr. Cartwright mentioned the low default rate at the Export-Import Bank. The Bank still has $36 million worth of pre-Castro Cuban debt on the books, don't you, as a performing loan? The answer to that is yes, you still have it. And my guess is we probably didn't address it when we changed—normalized relations. But it is still on the books as a good loan.

You talk about the 164,000 jobs that the Bank supposedly supports. It is always an interesting use of language. It doesn't create; it supports. You still don't have any clue as to how many of those are actually in the United States, do you?

Mr. HOCHBERG. All of those jobs are in the United States, sir.

Mr. MULVANEY. The GAO has said on several occasions that the method by which you count jobs does not adequately account for the jobs of the foreign components of American exports.

Mr. HOCHBERG. We actually only look at the U.S. content. And as a result of that, adjust our jobs numbers, which we receive—we use data from the Bureau of Labor—

Mr. MULVANEY. You have no idea how many of those jobs would cease to exist if the Bank is not reauthorized, do you?

Mr. HOCHBERG. No. I would differ with you on that. Companies come to us, like Maxim Industries I just mentioned, when they can't—

Mr. MULVANEY. How many would cease to exist?

Mr. HOCHBERG. Every application makes a statement in the application—

Mr. MULVANEY. How many of the 164,000 jobs that you say you support would cease to exist if the Bank is not reauthorized? You don't know the answer—

Mr. HOCHBERG. I would say all of them. Because the application requires you to state that you have come to us as the lender of last resort.

Mr. MULVANEY. I will accept "all of them" as an answer. But I will disagree with it.

You don't know how many jobs you destroyed, do you? You were here previously and heard testimony from Delta Airlines that you destroyed 7,500 jobs at Delta. You don't count that in your 164,000, do you?

Mr. HOCHBERG. We actually look at—we do an economic impact study, sir, that is required by law.

Mr. MULVANEY. You have done one of those on an airplane sale in the last 20 years. How can you say you—

Mr. HOCHBERG. We review every single transaction for economic impact. And when warranted, we do an in-depth study.

Mr. MULVANEY. Once in the last 20 years.

The GAO report said that one of the shortcomings they found at the Bank a few years ago was that when a third-party lender gets involved on an Export-Import Bank-guaranteed loan, they don't do adequate credit checks. They stop doing the credit checks. If Boeing is going to sell an airline to Ethiopia, the Bank doesn't look at the credit of Ethiopia, because they simply rely on the government guarantee. You were supposed to fix that a couple of years ago. That is one of the things you haven't fixed yet, have you?

Mr. HOCHBERG. We do a full underwriting—using the example of Ethiopian Airways—which, by the way, supports thousands and thousands of U.S. jobs, including many small businesses in the Boeing supply chain. But when we—

Mr. MULVANEY. A checklist—

Mr. HOCHBERG. —we do a full and complete financial review and underwriting of every—we do not rely on any outside source. We do it ourselves.

Mr. MULVANEY. The checklist that the IG or the GAO has required or requested you to do is one of the things that remains unfinished at the Bank, isn't?

Mr. HOCHBERG. I mentioned to you we—

Mr. MULVANEY. The answer to that question is also "yes."

The IG report in June of last year said that you can't account—this is a new one for me—for $500 million worth of costs on a PNG liquified natural gas project?

Mr. HOCHBERG. If you would like me to answer the question, I would be happy to answer the question—

Chairman JORDAN. Can you account for the—

Mr. HOCHBERG. What we do—as an example, we make an export, we finance an export. Some of those exports require local cost. In this case, Exxon Mobile was the exporter. The project certified that there was $500 million local cost, which was authorized and approved. And so there is full certification from the project sponsor that the money was indeed incurred and spent for this project.

Mr. MULVANEY. So the IG is just wrong on that one?

Mr. HOCHBERG. The IG doesn't like some of the documentation we have—

Mr. MULVANEY. And speaking of documentation—this is the last one on my list, Mr. Hochberg, and then I am finished with you. And I know you are excited about that.

Mr. HOCHBERG. I always like talking to you.

Mr. MULVANEY. I know. And we always enjoy this, but one of the places you fall short on documentation—I found this one to be interesting. One of the places they cited you was that you don't do a very good job of documenting why companies ask for Export-Import Bank participation. Why is that?

Mr. HOCHBERG. Companies come to us—like I gave an example of Maxim Industries, or I gave a number of examples here—

Mr. MULVANEY. But the IG says you don't document that. Why don't you document that?

Mr. HOCHBERG. No. Companies have to certify on their application that they need us and why do they need us. Because they can't get that loan.

Mr. MULVANEY. So Mr. McCarthy, why did you cite them for that particular shortcoming?

Mr. MCCARTHY. In the previous direct loan program audit that we did in 2012, we did find that there was not documentation in the files supporting the reason for the company needing Ex-Im financing. And so we made recommendations, and the Bank has modified its procedures.

Mr. MULVANEY. Mr. Sheets, you are the lucky one here. Because I was hoping to handle Mr. Hochberg in 2 minutes and give my other 3 minutes to you, sir, and go over some of the discussions with our competitors overseas on wide-body aircraft financing. But I am out of time.

So I thank the chairman. And I yield back.

Chairman JORDAN. I thank the gentleman.

The gentlelady from New Jersey is recognized.

Mrs. WATSON COLEMAN. Thank you very much, Mr. Chairman. I would like to read something to you, Mr. Hochberg. And I would like you to tell me whether or not this is a true statement.

"Although the reliance on Ex-Im Bank has diminished slightly over the last year amid a growing economy and improvements in the availability of private sector financing, the Bank still plays a vital role for thousands of U.S. businesses and their workers. In Fiscal Year 2014 alone, the Bank authorized $20.5 million of financing in support of $27.5 billion worth of U.S. exporters and more than 164,000 U.S. jobs. Of the Bank's 3,700 authorizations in 2014, more than 3,300—nearly 90 percent—directly served small U.S. businesses.

"Furthermore, roughly one in five authorizations completed last year directly served women- or minority-owned businesses. As noted above, the Bank operates on a self-sustaining basis to cover the cost of its operations. Ex-Im Bank charges users a fee which, over the past few decades, has generated a surplus—a surplus—resulting in payments of $6.9 billion to the U.S. Treasury. Last year alone, the Bank generated a surplus of $674.7 million for U.S. taxpayers. This directly results in U.S. deficit reduction."

In other words, the failure to reauthorize the Bank would actually cost the government money. Yes or no?

Mr. HOCHBERG. That would be yes.

Mrs. WATSON COLEMAN. To the Treasury Department, to the IG, and to the GAO. While I recognize that there were many findings that the Bank had deficiencies in operations and accountability and those kinds of things, it seemed to me from your testimony that you have been working with the Bank in a very cooperative manner and that it is, in fact, addressing, redressing, and moving forward with those recommendations primarily that have been found and made. Yes or no?

Mr. MCCARTHY. In terms of the IG recommendations, we have broken out the more recent recommendations, versus the ones that have been outstanding for 6 months or longer, so prior to October 2014. And the number on the older recommendations that we have—and there is maybe a discrepancy of one or two between what Mr. Hochberg is reporting on just on—because it changes by the day.

At that point, we were reporting that there were still 29 open and 2 unresolved recommendations, as opposed to 78 that have been closed out of the older ones.

Mrs. WATSON COLEMAN. Okay.

Mr. MCCARTHY. The newer ones, there are more that are still open, because some of those reports have just been issued within the last several weeks.

Mrs. WATSON COLEMAN. Okay. Thank you.

Ms. GIANOPOULOS. And with regard to the GAO recommendations—

Mrs. WATSON COLEMAN. Right.

Ms. GIANOPOULOS. —13 of those 16 recommendations have been closed as implemented officially. For two of the recommendations, we have gotten responses from the Bank. And we are on the road to closing those imminently. And then the final recommendation is from our report of last August, and we are working with the Bank on addressing that.

Mrs. WATSON COLEMAN. I have sat in on a lot of hearings where we have had the inspector general and the GAO speak to issues regarding departments. And this actually is the first time where I have seen so much, what seems to be supportive language, that the entity that is under discussion is moving in the right direction.

This is to Mr. Sheets from the Department of the Treasury. If the Bank isn't authorized, how will it disadvantage U.S. businesses' ability to compete in the global market? And what are some of the potential consequences of a unilateral action to end U.S. export financing?

Mr. SHEETS. My strong sense is that unilateral curtailment of export credits would play very adversely for the U.S. economy, for U.S. jobs, for U.S. workers. Because essentially what we would be doing is competing in a world where other countries are providing these credits. And even if our goods and services were of comparable quality or even better, it may be economically advantageous for buyers in our export markets to buy foreign products. So I think it would be very adverse for the U.S. economy and—

Mrs. WATSON COLEMAN. Thank you. I would just like to note that from my very small but important district of the 12th District in New Jersey, there is a total export value of $765 million. That sounds like a lot of money to me and—in my district. And I think that we can look at things—you know that old adage, half full or half empty? I believe that if we look at this in a very realistic way, we will see that there is a half-full opportunity here to support the economic growth in the State of New Jersey and jobs, and that we all should be held to the same standards, whether we are asking questions or answering questions or making statements: that we tell the truth, the whole truth, and nothing but the truth.

Thank you very much. Thank you, Mr. Chairman.

Chairman JORDAN. I thank the gentlelady.

Mr. McCarthy, who is Johnny Gutierrez?

Mr. MCCARTHY. Johnny Gutierrez is a former Ex-Im Bank loan officer.

Chairman JORDAN. And Mr. Gutierrez was under investigation by the inspector general's Office and the Department of Justice?

Mr. MCCARTHY. I can report what has been filed in the public court documents, which you referenced. On Monday, the Justice Department filed a one-count information alleging that Mr. Gutierrez accepted bribes—

Chairman JORDAN. And the Justice Department indicted Mr. Gutierrez this week?

Mr. MCCARTHY. They filed an information, which is the equivalent of an indictment.

Chairman JORDAN. According to the court filing, Mr. Gutierrez on "19 separate occasions personally and corruptly sought and accepted things of personal value, i.e. money, from another person, and entity, in return for being influenced in the performance of his official acts." And this occurred between 2006 and 2013. Is that accurate?

Mr. MCCARTHY. That is what the information alleges.

Chairman JORDAN. So this started in 2006. And he was indicted when?

Mr. MCCARTHY. On Monday.

Chairman JORDAN. On Monday, in 2015?

Mr. MCCARTHY. That is correct.

Chairman JORDAN. And is there any coincidence to the fact that he was indicted 2 days before this hearing, or did that just happen?

Mr. MCCARTHY. Mr. Chairman, that did just happen. That is a coincidence. This was in process prior to the hearing—

Chairman JORDAN. Starts stealing and taking bribes in 2006. Gets indicted 2 days before a big hearing?

Mr. MCCARTHY. The process was in place—

Chairman JORDAN. Nine years later?

Mr. MCCARTHY. —announced—being announced. DOJ makes these decisions. They will tell you that they are charging—

Chairman JORDAN. Okay. That is fine.

Mr. Hochberg, back in 2006, when Mr. Gutierrez was first starting to take bribes as an employee at your Bank, President Obama, who was then Senator Obama, said the Export-Import Bank is little more than a fund for corporate welfare. Was he wrong?

Mr. HOCHBERG. Yes. That was—people say things in campaigns, and they say different things when they are in office. So I am not going to comment what was motivating then-Senator Barack Obama—

Chairman JORDAN. That is the understatement of the year there for this Administration. Thank you.

Mr. Hochberg, who is Diane Farrell?

Mr. HOCHBERG. Diane Farrell was a former director of the Bank who was nominated by the President and confirmed by the U.S. Senate.

Chairman JORDAN. Director of the Bank means she was on your board?

Mr. HOCHBERG. Correct. She was—we have a—

Chairman JORDAN. How long was she on your board?

Mr. HOCHBERG. Her time precedes mine. So I can't tell you precisely—

Chairman JORDAN. How long have you been there?

Mr. HOCHBERG. I have been there—this May will be 6 years.

Chairman JORDAN. My understanding is that she was on the board for 8 years between 2007 and 2015. That doesn't seem like it precedes you.

Mr. HOCHBERG. No. She was not—no. Her term was up, I believe, in 2011.

Chairman JORDAN. When you have been there 6 years? If I do the math, that means you—there was some overlap?

Mr. HOCHBERG. Of course, yes. I thought you were asking—I'm sorry. I misunderstood the question.

Chairman JORDAN. No. You said she was there before you were.

Mr. HOCHBERG. She was there before I was.

Chairman JORDAN. Yes.

Mr. HOCHBERG. I arrived in 2009, she arrived sometime—

Chairman JORDAN. You served together, is what I am getting at.

Mr. HOCHBERG. Oh, yes. Of course.

Chairman JORDAN. Your answer seemed to say that you didn't.

Mr. HOCHBERG. Oh, no. I'm sorry. I misunderstood you.

Chairman JORDAN. Where is she currently employed?

Mr. HOCHBERG. She is—my recollection is that she is at the U.S. Indian American Chamber.

Chairman JORDAN. Do you know if she is on the board of Azure Power?

Mr. HOCHBERG. I have no recollection.

Chairman JORDAN. My understanding is that she is. And do you know, does Azure Power benefit from any financing from the Export-Import Bank?

Mr. HOCHBERG. Azure Power is a solar development company in India that has been a purchaser of U.S. goods. And we have financed some of their projects.

Chairman JORDAN. You have financed some of their projects? So a lady who was on your board is now working for a company for which you financed projects?

Mr. HOCHBERG. It was long after she left the Export-Import Bank.

Chairman JORDAN. She just recently left the Export-Import Bank, correct?

Mr. HOCHBERG. She left the Export-Import Bank, as I mentioned, sometime in 2011.

Chairman JORDAN. Okay. And so did Ms. Farrell work on any loans that are now benefiting the employer she is with, and that association?

Mr. HOCHBERG. I—I have—I would not be able to—

Chairman JORDAN. Could you get us that answer? That is important.

Mr. HOCHBERG. I would—we can get you that answer. I don't know off the top of my head what transactions she voted on during her time as a board member.

Chairman JORDAN. Okay. And do you know where Ms. Farrell's husband is employed? Do you happen to know?

Mr. HOCHBERG. No, I don't know.

Chairman JORDAN. He is employed at Boeing. Does that cause any concern?

Mr. HOCHBERG. Actually, now that you—when Ms. Farrell was on the board and her husband was at Boeing, she was recused from all transactions—

Chairman JORDAN. That is nice. And we would expect that. I am just making the point that she was working for the Export-Import Bank giving loans and financing to the company she now works for. And also, while she was on the board at the Export-Import Bank, her husband worked for Boeing, which gets 40 percent of the financing from the Export-Import Bank. Now, how do you think the normal taxpayer looks at that arrangement?

Mr. HOCHBERG. I will have to leave that to you, sir. But—

Chairman JORDAN. I can tell you, they talk to me about things. But this is the part of government that just drives them crazy. This kind of coziness, this kind of closeness, this kind of connectedness drives them crazy.

You have—she is on the board. Her husband is working at Boeing. And you say oh, she recuses herself from those decisions. But

40 percent of all the financing goes to one company that her husband works for. And oh, by the way, she goes to work for a company that got $15 million of export-import financing after the board approved the $15 million in financing to Azure Power. You don't find that a little strange?

Mr. HOCHBERG. First of all, Congressman, none of the financing we do goes to Boeing. It goes to overseas customers who buy U.S. products. We don't lend money to the Boeing corporation.

Chairman JORDAN. Okay. All right. So I was mistaken. All those people who come talk to me from Boeing, lobbyists who represent Boeing, they don't really care that much about the Export-Import Bank, then? You say it is not important?

Mr. HOCHBERG. We are talking about customers, overseas customers who have a choice, Congressman, between buying a Boeing airplane and an Airbus airplane. If we are looking—

Chairman JORDAN. So all the lobbying Boeing is doing is just out of the goodness of their heart to help those overseas customers, right?

Mr. HOCHBERG. We are talking about jobs in America, jobs in Toulouse, France, or Hamburg, Germany.

Chairman JORDAN. All right. My time has expired.

I now recognize the gentlelady from California.

Ms. WATERS. Thank you very much. I really don't have a lot of questions. I have worked very closely with the U.S. Chamber of Commerce, the Business Round Table, the National Foreign Trade Council, the National Association of Manufacturers. I have met with some of the businesses that are beneficiaries of the Ex-Im Bank. I have met with Mr. Hochberg. I have met with my local chambers. I have tremendous support from the California Chamber of Commerce.

And I know the Export-Import Bank pretty well. I have spent a lot of time learning about what they do and how they do it. And I am convinced of the high performance, the excellent default rate, the support for both large and small businesses and their suppliers. And I have a real appreciation for the job creation that they are doing. So I don't have any questions.

There have been representations over and over again from both sides of the aisle from various times about this Bank and the importance of this Bank. But I think I should use this time to get a little mean and to talk about the way that this Bank has been unfairly attacked.

First of all, yes, this article, "Justice Department Charges Former Export-Import Bank Official with Bribery." We don't support the people committing crimes or doing bad things. But do we want to shut down the Export-Import Bank because we have a person or a few persons who have acted improperly? I don't think so.

Because if we did that, I would have to say this: Republicans have said that individual acts of fraud or corruption at Ex-Im Bank proves that there is systemic fraud and corruption throughout the Bank and for this reason, among others, the Bank should be closed.

Let me give you some examples of fraud, corruption, and abuse of the public trust at an institution very close and dear to most people here today. I am talking about the Congress of the United States of America. From 1981–1989, under the Reagan Administration, 10 Members were convicted of bribery and conspiracy, and one Member was convicted of perjury.

From 1989–1993, under Bush, one Member was convicted of accepting illegal gifts, and one Member was convicted of bribery. Under Clinton, one Member was convicted of bribery, one Member was convicted of tax evasion and extortion, and two Members were convicted of embezzlement. Under George Bush W. Bush—2001–2009, two Members were convicted of bribery, one Member was convicted of money laundering, and one Member was convicted of financial corruption. Under the Obama Administration, two Members were convicted of wire fraud, extorting or money laundering, and one Member was convicted of tax evasion.

Does anyone believe that these individual instances of corruption by bad actors point to systemic corruption throughout the Congress? And I also wonder if any Republican Members support shutting the House down. I don't think so.

Let us take a look at what has not been done. We bailed out the biggest banks in this country. I have 15 pages of fines that have been leveled on the banks, many of whom we bailed out, from everything from market manipulation to money laundering to lending consumer practices, mortgage-backed securities fraud, on and on and on and on. We have not had one hearing. Not one hearing on any of this.

But yet, we come here today and we have Mr. Mulvaney talking about how you didn't properly do credit checks. Mr. Mulvaney, have you ever heard of no-documentation loans, no credit checks that were done by the biggest banks in America who brought us down in a subprime—

Mr. MULVANEY. Would the gentlelady yield?

Ms. WATERS. No, I won't yield.

Mr. MULVANEY. Well, you mentioned my name, so I thought I would ask—

Ms. WATERS. And so let me just say that this business of talking about this very important institution to be closed down for all of these phony reasons really is something that I cannot take seriously and the American public cannot take seriously.

And I think it was you who also said something about how our citizens, perhaps, should be very, very disappointed with us. Oh, no. Here is what you said: How does the average taxpayer look at us? You are right. How do they look at us? How do they look at us, who would attack a bank that not only is helping us to deal with building up and expanding our ability to support exports and businesses and create jobs, and then have Members sit here who have not said one word about what has happened in America with banks which are accused of and have been fined for all of these crimes?

And you ask, how should our citizens think about us? I would think they think we have no credibility and this must be political. This must be about someone who is attempting to create something that they can accuse Democrats of and make it look as if they are taking care of the taxpayers in some extraordinary way. And it doesn't wash.

I yield back the balance of any time.

Chairman JORDAN. I would just remind the gentlelady that many of us didn't vote to bail out the Banks. The Constitution requires a House of Representatives. It doesn't require an Export-Import Bank. And the most well-known case of a Congressperson getting in trouble was the cash in the freezer of Mr. Jefferson, which was related to the Export-Import Bank.

Ms. WATERS. It doesn't measure up to the acts that have been committed—

Chairman JORDAN. With that, I recognize the chairman of the full Oversight and Government Reform Committee, Mr. Chaffetz.

Chairman CHAFFETZ. I thank the chairman.

Mr. Hochberg, how many employees are there at the Bank?

Mr. HOCHBERG. About 450.

Chairman CHAFFETZ. And how many of those would be loan officers?

Mr. HOCHBERG. I would have to say in the range of maybe 75.

Chairman CHAFFETZ. Will you provide this committee a listing of—when you say 450, an organizational chart, as well as how many you have in each of those slots?

Mr. HOCHBERG. I would be happy to do so.

Chairman CHAFFETZ. Thank you. I would appreciate it.

You are aware of the Washington Examiner story that alleges that the Bank may have tipped off Boeing about a Freedom of Information Act request that was put forward by Delta Airlines. Delta Airlines had made a FOIA request, but they did not publicize it. And yet, it was revealed that Boeing knew to ask for pretty much the exact same information 2 months before that information became public. How could that be?

Mr. HOCHBERG. I am not sure I can answer that question. I don't have an answer to that—

Chairman CHAFFETZ. Are you familiar with the article on March 19th?

Mr. HOCHBERG. I am vaguely aware of the article. Yes, I am.

Chairman CHAFFETZ. So there is an article saying who at the Export-Import Bank warned Boeing about a Delta FOIA, and you are just vaguely familiar with that?

Mr. HOCHBERG. What I can say, sir, is that no employee reveals the source—

Chairman CHAFFETZ. How do you know that?

Mr. HOCHBERG. We have an—we run an ethical organization, and that is what—

Chairman CHAFFETZ. You do have more than 31 open investigations into fraud and abuse in your organization. You did have somebody who was just indicted yesterday. So what is the case to say that you run an ethical organization?

Mr. HOCHBERG. The 31, sir, are outside companies that have tried to defraud the Export-Import Bank.

Chairman CHAFFETZ. Mr. McCarthy, do you have any open investigations?

Mr. MCCARTHY. We have about 31 open investigations right now. Most of them are for external fraud. Some of them are proactive intelligence-based investigations, and some of them are internal to the Bank.

Chairman CHAFFETZ. Some of them are internal. So I would take exception to the idea that you run the most ethical organization. As Mr. Mulvaney cited, we have had problems with this Bank in the past, and we did just have an indictment yesterday, in this week.

How much did you charge Delta Airlines for their FOIA request?

Mr. HOCHBERG. I don't know the precise fees we charge. But I can say this, Congressman—

Chairman CHAFFETZ. Have you fulfilled that FOIA request?

Mr. HOCHBERG. Yes, we have fulfilled that one. And let me just—if I could add—

Chairman CHAFFETZ. There was more than one. How much have you charged Delta Airlines to gather information that rightfully they should be able to see?

Mr. HOCHBERG. I will have to get back to you. I don't know the—

Chairman CHAFFETZ. Would it be $90,000?

Mr. HOCHBERG. I don't know the charge. I can get—

Chairman CHAFFETZ. Is that a wrong number? Is it more than $90,000?

Mr. HOCHBERG. I don't know the number, sir. I don't want to mislead—

Chairman CHAFFETZ. When will you give us the number?

Mr. HOCHBERG. I can check and I will get back to you on that. I can—

Chairman CHAFFETZ. When will you get back to us?

Mr. HOCHBERG. I will have to ask my council how readily do we have that information.

I can get that to you tomorrow.

Chairman CHAFFETZ. Fair enough. Thank you.

Mr. HOCHBERG. And I can add—

Chairman CHAFFETZ. Of the FOIA requests that were issued by Delta, how much of that have you fulfilled? Have you given them 100 percent? Because part of the concern is that you have charged them and taken their $90,000-plus dollars, but you haven't fulfilled the FOIA request.

Mr. HOCHBERG. Congressman, I don't want to mislead you, I don't want to mislead the committee. I don't have the precise facts on that particular FOIA request.

I can add, however, that when we—the law requires that when we have a FOIA request, we need to inform the company whose information we are revealing. So that is why Boeing was aware of that FOIA request, because it was their information that was being submitted to Delta.

Chairman CHAFFETZ. You are going to provide this committee the details of that specific instance?

Mr. HOCHBERG. You asked about this—

Chairman CHAFFETZ. There are a couple of different FOI's. But I want to see the information about how Boeing knew in advance, when it wasn't public, that they knew 2 months in advance to submit their own FOI's for the same material?

Mr. HOCHBERG. When I tried to explain this—it is my understanding of the law—I am not a lawyer—that we must inform the company about whose information we are providing in a FOIA request.

Chairman CHAFFETZ. And part of the question was, did you fulfill that FOIA request? Because I want additional details. I have 30 seconds.

Mr. HOCHBERG. We have fulfilled that FOIA request—

Chairman CHAFFETZ. It is my understanding that there was more than one FOIA request.

The Wall Street Journal reported that in the drafting of regulations related to this, they would have an "extraordinary level of coordination." How do you quantify the level of coordination with Boeing in relationship to the drafting of the regulations?

Mr. HOCHBERG. Congressman, we work with every company who—when we are doing regulation requirements that concern a particular company. So in the case of Boeing, we happen to have one aircraft company, so we talk to the one aircraft company. When we are doing banking regulations, is how we—

Chairman CHAFFETZ. When was the last time you spoke with Boeing?

Mr. HOCHBERG. The last time I spoke with Boeing?

Chairman CHAFFETZ. Yes.

Mr. HOCHBERG. They are in the room today.

Chairman CHAFFETZ. So did you speak with them today?

Mr. HOCHBERG. I said hello—I said good morning.

Chairman CHAFFETZ. When was the last time you had a substantive conversation with them?

Mr. HOCHBERG. I was in Panama with President Obama and we signed—U.S. Boeing signed an agreement with Copa Airlines.

Chairman CHAFFETZ. And what was the value of that?

Mr. HOCHBERG. A list value of about $6.6 billion.

Chairman CHAFFETZ. I have gone past my time. Thank you, Mr. Chairman. I yield back.

Chairman JORDAN. I thank the gentleman.

I now recognize Mr. Heck, the gentleman from Washington.

Mr. HECK. Thank you, Mr. Chairman.

Mr. Hochberg, could you quickly restate for the record what your default rate is?

Mr. HOCHBERG. Yes. Our default rate is 0.174 percent. And it is something we send to Congress every 90 days make sure that Congress is apprised of the state of our portfolio.

Mr. HECK. To the best of your ability, could you compare that default rate to the rest of the commercial lending sector that operates in the same space?

Mr. HOCHBERG. It is hard to get a precise benchmark. But it is, from my understanding, 2 to 3 times lower than general commercial loans.

Mr. HECK. To the best of your recollection, could you state for the record what your collection rate is on bad debt?

Mr. HOCHBERG. It is partly reflected in our default rate, again, of 0.174 percent. And when something has gone in arrears, we have generally been collecting about 50 cents on the dollar.

Mr. HECK. And can you compare that to the rest of the commercial lending?

Mr. HOCHBERG. I don't have a precise benchmark for that. But my understanding is it is very much on the high side.

Mr. HECK. Do you recall off the top of your head the last year—are you aware of the last year in which there was an actual transfer of taxpayer money to the Export-Import Bank in the form of a subsidy?

Mr. HOCHBERG. There has been none. We have transferred to Treasury $6.9 billion in the last 2 decades. And most recently, in October of this past year, $675 million.

Mr. HECK. I was asking for the reverse transfer. When is the last time you received a subsidy? And are you aware that there have been any subsidies since the enactment of the 1990 Credit Reform Act?

Mr. HOCHBERG. There have been none.

Mr. HECK. Mr. Hochberg, you know that I have expended no small amount of time on this effort. I am just one of many. As has my friend Congressman Fincher from Tennessee and others. We have met with you multiple times. We have met with the majority whip's office, the chair's office, the chair—the ranking member of the subcommittees—and I meant the ranking member, not the chair—in an effort to develop legislation.

Have you or any members of your office met with Chairman Huizenga of the subcommittee to develop or respond to or react to proposed changes and/or reforms for reauthorization purposes?

Mr. HOCHBERG. No, I have not.

Mr. HECK. Mr. Hochberg, a difficult question, a permutation on some of the line of questioning of Ranking Member Waters.

Sir, do you believe that Congressman Aaron Schock's resignation in shame from this institution is a reflection on the entire House Republican conference?

Mr. HOCHBERG. No, I have—no, I would say not.

Mr. HECK. I don't either.

Mr. Hochberg, are you aware that China is developing a wide-body aircraft for sale into the commercial market in competition with both Boeing and Airbus?

Mr. HOCHBERG. I have met, actually, with Comac, which is the Chinese aircraft manufacturer. They already have 400 orders for a narrow body. And there have been reports they are working with the Russian aerospace industry to develop a wide-body, also to compete with Boeing and Airbus.

Mr. HECK. There have been reports to that effect. Do you believe it to be the case?

Mr. HOCHBERG. Oh, I have no reason not to believe it. As I said, I personally met with the CEO of the Chinese aircraft company. So I would have a firsthand impression of their activities.

Mr. HECK. So lastly, Mr. Hochberg, would you give us a little bit of information about how much larger the export credit authority is in China? As a matter of fact, I think they have multiple entities. But educate us. How many export credit authorities do they have? And aggregating them, how do they compare in size to the Export-Import Bank?

Mr. HOCHBERG. For one, China, as we know, is not the most transparent country in terms of its banking and financial dealings. They have four entities that provide export support. First, SINOSURE, which essentially provides credit insurance. That alone has been about $670 billion in the last 2 years.

They also have the China Ex-Im Bank. Informally, in speaking with their chairman, they operate between $90 billion and $100 billion a year. There is the China Development Bank, and then there is the Chinese Agriculture Bank. So there are four entities that do that.

Mr. HECK. I lied. I have two more quick questions.

First of all, yes or no if you can, are we already losing business as a consequence of the cloud hanging over reauthorization of the Export-Import Bank?

Mr. HOCHBERG. Without question.

Mr. HECK. Mr. Chairman, at this time I would like to request unanimous consent to place in the record a letter from multiple governors from both political parties throughout this country, in support of reauthorization of the Export-Import Bank.

Chairman JORDAN. Without objection, it is so ordered.

Mr. HECK. Thank you, sir.

Chairman JORDAN. I thank the gentleman.

I now recognize the chairman of the full Financial Services Committee, the gentleman from Texas, Mr. Hensarling.

Chairman HENSARLING. I thank the gentleman.

I must start off by saying that I have been somewhat amused by my friends on the other side of the aisle who decry the lack of hearings on Ex-Im and then simultaneously say they are a waste of time.

But just for the record, Mr. Chairman, is this a hearing?

Chairman JORDAN. It most certainly is.

Chairman HENSARLING. Okay. We are in the midst of a hearing.

Mr. Hochberg, according to Ex-Im records, of the 50 largest loans or guarantees provided by Ex-Im—I believe this was on your watch—through the end of Fiscal Year 2014, roughly half have gone to state-owned companies or joint ventures that include state-owned companies, including Saudi Arabia, Russia, China, Pakistan, India, Colombia, Mexico, Ethiopia, South Africa, and Poland. Do you agree with that analysis?

Mr. HOCHBERG. I haven't seen the data you are looking at. But those names sound familiar.

Chairman HENSARLING. Okay. Again, these are state-owned companies or joint ventures that include state-owned companies.

There has been discussion of losing jobs to China. On your watch in 2011, the Ex-Im Bank records show that a $75.8 million loan was approved to a Chinese company, ICBC Financial Leasing. Its parent company is the state-owned Industrial Commercial Bank of China, the largest bank in the world, with reported assets of $3 trillion. Are your records correct? Did that transaction take place?

Mr. HOCHBERG. Congressman, my recollection is we approved that authorization, but there was never a disbursement. They changed their mind on that transaction.

Chairman HENSARLING. Okay. Let's talk about Russia. It is my understanding—again, from perusing Ex-Im records—that on your watch, taxpayer-backed financing to Russia has increased roughly tenfold from roughly $60 million to $600 million. Is that accurate?

Mr. HOCHBERG. I am not looking at the precise data. But we no longer do any business in Russia.

Chairman HENSARLING. I know you don't. Because I sent you a letter after Russia had invaded the Ukraine. And if memory serves me correctly, that was February 27th of 2014. And it took you until July 29th, many months later, before you and the Ex-Im Bank suspended all deals with Russia.

Is July 29th, according to press reports, the date that you suspended all deals with Russia? And is it not true that Russia invaded the Ukraine on February 27th?

Mr. HOCHBERG. I would have to get back to you on the precise date we stopped. We put a hold on—

Chairman HENSARLING. I will let you know, Mr. Hochberg, that there are numerous press reports that show that it took you months, months, in order to do that.

In February of this year, there were press reports that indicated that a $2 million direct Export-Import Bank loan to Ghana that was designed to bring electricity to 1,200 rural communities was instead diverted to buy luxury automobiles, including Lexus SUVs, by various foreign government bureaucrats. Are you familiar with this press report? And if so, is it accurate?

Mr. HOCHBERG. I am familiar with a company that has done a lot of electrical work in Ghana, Weldy Lamont. In fact, they have done such a good job that they have expanded their contract there. I am not familiar with—

Chairman HENSARLING. So you are not familiar with this?

Mr. HOCHBERG. No, I am not, sir.

Chairman HENSARLING. Okay. In September of 2013, the Ex-Im Bank approved a $33.6 million loan for a Spanish green energy company, Abengoa International at the time. Former New Mexico Governor Bill Richardson sat on the advisory board for both Ex-Im and this particular company. Are the records correct that Ex-Im approved this loan?

Mr. HOCHBERG. That is—again, I can confirm that. That sounds familiar to me, sir.

Chairman HENSARLING. Okay. Mr. Hochberg, approximately how many days a month do you travel away from the Export-Import Bank?

Mr. HOCHBERG. I am probably on the road, if I had to guess, about 7 or 8 days a month.

Chairman HENSARLING. Eight days a month. And do you know over the last year how many appearances that you have made in congressional districts with Members of Congress?

Mr. HOCHBERG. I have traveled around the country meeting with small business exporters. I mentioned when I was with Gwen Moore and the Maxim company, I was most recently—

Chairman HENSARLING. Are you meeting with them? Or are you lobbying for your reauthorization?

Mr. HOCHBERG. No. I am meeting with companies and finding better ways that we can support them to support more American jobs. And meeting—since 90 percent of our customers are small businesses—

Chairman HENSARLING. Mr. Hochberg, while you are going around meeting with various individuals and posing for photos, we get articles like this, "Justice Department Charges Former Export-Import Bank Official with Bribery." And as I understand it, this individual engaged in these activities on your watch, sir. And so perhaps maybe a little bit more time managing the store, and a little less time posing for photo ops and lobbying for your reauthorization may lead to fewer indictments.

I thank the chairman. I yield back the balance of the time I no longer have.

Chairman JORDAN. Thank you, Chairman Hensarling.

I now recognize the gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. I thank the ranking member, as well.

And would like to explain that when I say, "Export-Import Bank," I am really talking about 1,630 exporters in the State of Texas. I am really talking about Texas being one of the top exporters in the country. It is more than a building that is located someplace with people in it. We are talking about, in my 9th Congressional District, 94 exporters. We are talking about 46 small businesses. We are talking about 14 minority-owned businesses. And we are talking about 5 women-owned businesses.

So it is more than brick and mortar. More than people who happened to have engaged in some conduct that I don't approve of. Quite frankly, a lot of businesses engage in conduct that I don't approve of. Those who police us engage in conduct that I don't approve of. But I never advocated eliminating one police department.

Someone mentioned corporate welfare. This is a wonderful device, this iPad. It gives you access to the world immediately. The Huffington Post has reported in 2014 with reference to corporate welfare that direct Federal subsidies to corporations—and now they mention the Cato institute. The Cato Institute estimates that Federal subsidies to corporations cost taxpayers $100 billion every year.

Let's really look into corporate welfare. Let's do something about corporate welfare. If this is the genesis, let's go move on to revelations. I have some revelations. Federal tax breaks to corporations. The Tax Code gives corporations special tax breaks that have reduced what is supposed to be a 35 percent tax rate to an actual tax rate of 13 percent, saving these corporations an additional $200 billion annually.

Let's talk about Federal tax breaks to the wealthy. Federal tax breaks for wealthy hedge fund managers, special tax breaks for hedge fund managers, allow them to pay only 15 percent. A 15 percent tax rate, while people that they earned the money for usually pay a 35 percent tax rate.

You want to talk about corporate welfare? What about subsidies for the fast food industry? Research by the University of Illinois and UC Berkeley documents that taxpayers pay about $243 billion each year in direct subsidies to the fast food industry because they pay wages that are so low that taxpayers must put up $243 billion to pay for public benefits the workers receive. My God. This is not a crime. But I think an argument can be made that it is sinful.

So now we want to eliminate the Ex-Im Bank because of corporate welfare and criminality. My dear friends, if we didn't have the Ex-Im Bank, we would be trying to find a way to create it, so that we could compete in the global marketplace.

I agree with Mr. Lucas. And I thank you for your commentary, sir. I hope this doesn't hope you back hope, my agreeing with you. I want you to know I think that reform may be necessary, but that we should not throw out this baby with the bath water.

Mr. Chairman, I thank you for allowing an interloper to have a moment. God bless you. And God bless the United States of America. I yield back.

Chairman HUIZENGA [presiding]. The gentleman yields back.

With that, the Chair recognizes Mr. Walberg of Michigan for 5 minutes.

Mr. WALBERG. Thank you, Mr. Chairman.

Last year, Delta CEO Richard Anderson testified before the Financial Services Committee, Mr. Sheets, that your predecessor informed him that Treasury was not going to negotiate with Europeans over Ex-Im subsidies. Could you elaborate on that for us?

Mr. SHEETS. Thank you. As you indicated, the meeting that you are referring to occurred before I was at the Treasury.

What I can say is that we take the mandate that we have been given very seriously. And we have, in fact, negotiated with our European counterparts on aircraft. And we are pressing them and ready to go as quickly as they are prepared to go and broadly engaging on export credit financing with an eye toward further disciplining it.

Mr. WALBERG. How many meetings with other countries have you attended to discuss lowering export credit assistance?

Mr. SHEETS. The meetings of the OECD and IWG negotiations are done by members of my team. But what I can tell you is that in international discussions with the Indians, with the Chinese, with the Brazilians, in a number of meetings, more than I can count, we have discussed issues related to export credit and efforts to further widen the scope.

When we engage, particularly with our Chinese counterparts, this is one of the very, very first issues, perhaps after the exchange rate.

Mr. WALBERG. But let me go at it from another direction. How many countries receiving export subsidies has the Department of the Treasury not engaged in its negotiations?

Mr. SHEETS. I don't have a number for you. What I can say is that we get all the OECD members through that understanding. And my recollection is that we have 18 countries involved in the IWG. Now, some of those are also in the OECD. But I think that expands the number of countries by another half dozen or so.

Mr. WALBERG. If we could get a list of those that you have not engaged with, I would appreciate that.

In your testimony, you note that you will work on possible ways to limit official financial support for wide-body aircraft, particularly for airlines with access to alternative sources of financing.

Applying this principle more broadly, can you identify which aircraft makers, regardless of make of aircraft, would be unable to obtain financing without Ex-Im Bank involvement?

Mr. SHEETS. I don't have the analytics with me today to be able to answer that question. But we would be happy to take a look and respond to you on that.

Mr. WALBERG. There is not a set answer that you could give of particular aircraft companies—

Mr. SHEETS. I don't know the list.

Mr. WALBERG. Okay. Mr. Hochberg, reports have shown that the Bank mischaracterized—and that is a strong word—large businesses owned by billionaires and multinational conglomerates as small businesses, and that these errors have contributed to as much as $3 billion in authorizations that should have gone to small businesses, the small businesses that we talked about that supply for the larger corporations, including Boeing. How does the Bank justify these errors?

Mr. HOCHBERG. Congressman, we take data accuracy as a central core mission of the Bank. In fact, last fall we identified four key strategies for the Bank. And data quality is one of them.

In fact, just today we applied to OMB and got emergency approval. We have updated our application form to make sure that we collect more accurate data from the actual exporter themselves. We relied on some outside databases, and now we have a little bit more of a belt and suspenders—

Mr. WALBERG. So the $3 billion of authorizations that should have gone to small businesses are a thing of the past now?

Mr. HOCHBERG. Well, no. It is not a question of should. It is a question of—when the Reuters story came out, 97 percent of the transactions were accurate. And we looked at the other 200 to see how they were categorized.

One of the difficulties, Congressman, is there are times you have a small business that grows large and therefore is no longer small, or a small business is sold. So this is a very dynamic database that changes, and we continually update it.

Mr. WALBERG. Mr. Chairman, my time has expired.

Can you give me any latitude for one more question?

Chairman HUIZENGA. Had you not called my attention to it, it would have made it much easier.

Mr. WALBERG. Everybody else has. But I am trying to live by the rules.

Mr. Hochberg, one final question: Acknowledging these reporting errors, the Bank responded and it hired a new information officer, as you have said, and said it would conduct an overhaul of databases and review of paper documents. What is the status of these activities and results, and is it your testimony today that no large firms are classified as small in Ex-Im's current small business portfolio?

Mr. HOCHBERG. We report our small business to Congress. We report our small business results. We make the utmost effort to make those completely accurate. But as I tried to say earlier, sometimes—it is a very dynamic database. Companies get larger and are no longer small. They may be sold. They may be sold off from a large company. So we have to look at it from a moment in time.

And what I have said is today we enacted an improvement in our data system so we can get more accurate data. And it is one of the four things we have focused on this year.

Mr. WALBERG. Thank you. And thank you very much—

Chairman HUIZENGA. Now your time has expired, Mr. Walberg. And I appreciate you being maybe the only person in Washington who would rather ask for permission than forgiveness before they went ahead with something, but—

Mr. WALBERG. Remember, I am a minister.

Chairman HUIZENGA. With that, the Chair recognizes Mr. Carney of Delaware for 5 minutes.

Mr. CARNEY. Thank you, Mr. Chairman.

I would like to thank all the panelists for coming in today and for addressing the questions that we have asked. And I would like to go back to the closing comments that the gentleman from Oklahoma made, Mr. Lucas, about the fact that the reauthorization of Ex-Im is going to come before us sometime in the near future.

I suspect progress going forward is going to depend in some measure on efforts to reform operations and the like. And I thought he kind of hit the nail on the head, and I would like to associate myself with him as someone willing to look at those things to find a path forward.

And with that, I would like to give the rest of my time to the gentleman from the State of Washington, Mr. Heck.

Mr. HECK. I thank the gentleman.

I would like to register for the record umbrage I have taken at a couple of attacks here today, the first of which is the imputing of the motives and integrity and character of Mr. Hochberg. We can have our philosophical differences, our policy disagreements. But frankly, I think those suggestions do not at all match Mr. Hochberg's career of intermittent outstanding public service. And I apologize on behalf of this institution. I think it is beneath our dignity.

I also take umbrage at the suggestion that there is some kind of—something untoward in the fact that the Export-Import Bank loans money to the foreign purchasers of American-made airplanes. When people ask me back home, and they often do, why is it that there is quite a bit of activity in the aerospace industry? My shorthand response—and Mr. Hochberg, I am going to ask you for yours—is who exactly is it in the commercial lending industry that you think would be willing to lend $200 million to $300 million for Somalia to buy an airplane, as to why the Export-Import Bank is needed.

But Mr. Hochberg, why is it that there is such significant activity at Ex-Im on behalf of America's aerospace industry? Let me say that again: America's aerospace industry.

Mr. HOCHBERG. Thank you, Congressman. We in the United States are in a head-to-head competition with the Airbus on large aircraft. We try—we are continually competing with them to make those sales. We also make guarantees. We don't make direct loans. So we are always engaged in the Bank as a guaranteed loan.

And the chairman asked me about Boeing. When I was with Copa Airlines, as an example, they placed an order that will be delivered over anywhere between a 9- to 12-year period. And part and parcel of that order, giving the order to the United States and supporting 12,000 jobs here, versus 12,000 jobs in Toulouse and Hamburg, was the fact that we would be a backstop. They don't need us for the entire order, but they do need us from time to time.

And they predict over a 12-year period there will be financial stress. And in order to make that order and to give the confidence that they can make delivery, they needed us as a backstop. We may—we could wind up doing zero. But they have to know that we are there as a reserve, should the financial conditions warrant that we need to step in.

And let me just add right here. We talk about Boeing. There is a lot of discussion of big companies. I visited one of Boeing's suppliers in Missouri, LMI. The company started out as Leonard's Metal Industries. It is now called LMI. There is a company in—Eaton Aerospace in Jackson, Mississippi.

Boeing is a conglomeration. Just like the Ford Motor Company is an assembly plant, the Boeing Company is an assembly plant. It is assembling components for more than 15,000 businesses, about 6,000 of which are small businesses. So we are not talking about a large company. We are talking about a very deep supply chain that would be impacted if there is any untoward action here.

Mr. HECK. Much has been made over the last few years about the importance of America's future, of revitalizing its manufacturing base. I realize this is calling for a subjective evaluation. But how important to America's manufacturing base do you think the thousands and thousands and thousands of engineers working across all platforms of technology are to America's manufacturing base and our future?

Mr. HOCHBERG. If we want to compete—if the United States wants to compete in capital goods, if we want to compete with the likes of China, Japan, Korea, Germany, and others on capital goods, we need to have a backstop to provide the kind of long-term 12-year money that is required. And that goes above and beyond, as you mentioned, all the engineers, all the designers, all the patents and everything else that is developed that creates those products we can sell on the global marketplace.

Mr. CARNEY. I yield back.

Chairman HUIZENGA. The gentleman from Delaware yields back.

With that, the Chair recognizes Mr. Gowdy of South Carolina for 5 minutes.

Mr. GOWDY. Thank you, Mr. Chairman. I actually supported, Mr. Chairman, the 2012 reauthorization. And there will be another day, in my judgment, to debate the merits and demerits of the Bank and the reauthorization. And there will be reasonable minds on both sides of that. And there will be colleagues that I respect on both sides of that.

Mr. Chairman, what is not open for debate is whether or not the Bank and the Department of the Treasury have a responsibility to cooperate with oversight. This committee has a responsibility to provide oversight. And you have a corresponding obligation to assist with that.

So Mr. Sheets, can you tell me with a specificity the name of the person negotiating the end of the need for Ex-Im Banks?

Mr. SHEETS. I would say consistent with the mandate that there are a number of people—

Mr. GOWDY. Okay. Then, give me all of the names.

Mr. SHEETS. I would say consistent with the mandate, the responsibility rests with the Secretary, with me—

Mr. GOWDY. Okay. Are you going to make yourself available for a transcribed interview with the Financial Services Committee so they can ask you about the status of those negotiations to end the need for the Bank?

Mr. SHEETS. In my remarks today, I outlined in some detail the things that we are doing. And we are vigorously engaged—

Mr. GOWDY. Actually, Mr. Sheets, that was not my question. My question is, are you are willing to make yourself available for a transcribed interview so my colleagues on the Financial Services Committee can ask you with specificity what steps you are taking, as the 2012 reauthorization required, to end the need for such banks?

Mr. SHEETS. We, as a regular and routine matter, make ourselves available to Congress.

Mr. GOWDY. And you have updated Chairman Hensarling on all the progress that has been made, with specificity?

Mr. SHEETS. We, consistent with the mandate—

Mr. GOWDY. You don't have to say "consistent with the mandate." You and I both know what we are talking about.

Mr. SHEETS. Consistent with the mandate, we are required to submit an annual report. And—

Mr. GOWDY. That is not my question, Mr. Sheets. My question is very particular. Are you willing to submit to a transcribed interview with the Financial Services Committee so they can ask you about all the progress you have been making about ending the need for Ex-Im Banks? You can start with a yes or a no, and then you can explain it.

Mr. SHEETS. And as I said, as a routine matter—

Mr. GOWDY. No, you haven't said.

Mr. SHEETS. —we are—

Mr. GOWDY. That is my point, Mr. Sheets, that you haven't said—and it took forever for you to respond to a request from Chairman Hensarling. I am going to tell you this, Mr. Sheets, right now the single best argument against reauthorization is you.

Chairman Hochberg, you referred to transcribed interviews as "inherently adversarial." Tell me why you said that.

Mr. HOCHBERG. We have made ourselves available, Congressman, for briefings repeatedly on the Hill and—

Mr. GOWDY. Mr. Chairman, I have limited time, and I am going to need you to go straight to the answer.

You described transcribed interviews as inherently adversarial. Why did you say that? What is inherently adversarial about taking testimony under oath, which I hasten to add, is exactly what we are doing today.

Mr. HOCHBERG. And I think this is an excellent forum for that, sir.

Mr. GOWDY. Do you think Congress should be able to provide a little input into what they think an excellent forum is? Or are you the sole arbiter of that?

Mr. HOCHBERG. No. Without question, sir. I am saying we have made ourselves available for briefings, and we make ourselves available for hearings—

Mr. GOWDY. Will you make yourself and your employees under the purview of the Oversight Committee available for a transcribed interview, just like everyone else has to submit to when they are requested by Congress?

Mr. HOCHBERG. We would prefer to have a briefing to understand what the transcribed interview would be about before we would commit to that. We would like to know what the subject is, sir.

Mr. GOWDY. I am just going to tell you this. For those of us who live in States that benefit from the Bank, and for those of us who have supported the reauthorization and would like to support future reauthorizations, I would encourage you to revisit your answer to that question. When the chairman of the Financial Services Committee asks to take transcribed interviews—which is nothing more than an interview under oath behind closed doors—I fail to see how that is appreciably different from what you and I are doing right now. You are under oath right now.

Mr. HOCHBERG. Correct, sir.

Mr. GOWDY. It is being transcribed. That is what the lady beside you is doing. So what is the difference?

Mr. HOCHBERG. It is in public, sir—

Mr. GOWDY. So you prefer for these employees to be brought out in public?

Mr. HOCHBERG. I would prefer it to be in a hearing setting where we have full disclosure, both sides of the aisle can hear, and both sides of the aisle can ask questions.

Mr. GOWDY. Have you ever been to a transcribed interview? Because both sides are represented there too, Mr. Chairman.

Mr. HOCHBERG. No, I have not.

Mr. GOWDY. Okay. Then, when you are subject to a transcribed interview, which may be soon, you will see that both sides get to participate in that.

Now, I want to ask you one follow-up question because I am out of time. You—

Ms. MOORE. Mr. Chairman, I object—

Chairman HUIZENGA. It is at the Chair's discretion. However, as it has been pointed out, the Chair will now make sure that everyone adheres to the 5-minute rule, which includes both sides, apparently.

So with that, sorry, Mr. Gowdy, your time has expired.

Mr. GOWDY. Thank you, Mr. Chairman.

Chairman HUIZENGA. And with that, Mr. Clay of Missouri will have his 5 minutes. Exactly 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman. And I will try to observe the 5 minutes.

I want to take a moment to thank Chairman Hochberg for his leadership and the Ex-Im Bank's role in supporting so many small businesses that are seeking to compete successfully in the global market.

Ex-Im directly supports 17 small and medium-sized businesses in the first congressional district of Missouri by providing millions of dollars in credit support to businesses that sustain many of the families and communities in my district.

Despite the vital role that the Bank plays in supporting small businesses, the Bank's reauthorization has been held hostage to partisan extremism. I want to reiterate my support for H.R. 1031, the Promoting U.S. Jobs Through Exports Act of 2015, a comprehensive proposal that expands the Bank's support for small businesses, enhances its transparency, and reduces the Bank's risk to taxpayers.

With nearly 250 Members of this body lending their support to a renewal of the Bank, I remain hopeful that partisan extremism will eventually yield to the overwhelming support for the Bank's reauthorization.

And just one question for Mr. Hochberg, if Congress fails to reauthorize the Ex-Im Bank, which business sectors would begin to feel the pain first?

Mr. HOCHBERG. I believe first and foremost would be our small businesses in our country; 90 percent of our customers are small businesses, and they frequently—in all cases—when they come to us, don't have another option. A number of banks have already said they have begun to curtail their extension of credit to small businesses due to the potential of not being reauthorized in July.

Another company—I would say there are also a lot of companies in the supply chain. In the State of Missouri itself, I visited a company called LMI in Saint Charles. They are a supplier to Gulf Stream, Cessna, and many, many companies. They would feel an immediate impact because sales would begin to shift towards airplanes made in Canada, Brazil, Europe, Russia, China, and places like that.

Mr. CLAY. So Congress' inaction is having a negative impact on our economy and will do serious damage if we continue down this path?

Mr. HOCHBERG. We have already gotten some reports from different sectors about that.

Mr. CLAY. Thank you for your response.

And Mr. Chairman, at this time I would like to yield the remainder of my time to the ranking member of the full Financial Services Committee, Ms. Waters.

Chairman HUIZENGA. Without objection, it is so ordered.

Ms. WATERS. Thank you very much.

First, let me just commend our witnesses here today on the way that you have conducted yourself, despite the attacks that have been thrown at you. You have done a wonderful job.

And let me also say, Mr. Hochberg, Mr. Sheets, you have the right to decline transcribed interviews. We are not happy with the way that they handle transcribed interviews. They refuse to give us memorandums of understanding. So having said that, let me go to something that I think we need to expand on.

Mr. Hochberg, how much have China's export credit agencies financed in the past 2 years versus the U.S. Export-Import Bank?

Mr. HOCHBERG. In the last 2 years, SINOSURE alone has done close to $670 billion. The China Ex-Im Bank is not as transparent. It is between about $80 million and $90 million. On top of that, you have two other Chinese banks that do that same kind of work. In that same period last year and the year before, we would have done $47 billion.

Ms. WATERS. I'm sorry. Would you give us those numbers again?

Mr. HOCHBERG. Sure. China—SINOSURE, which is their short-term credit insurance, the kind of things we do for our small businesses, has done $670 billion in the last 2 years alone. There is also the China Ex-Im Bank that does generally speaking in the $80 million to $90 million range a year. That is directly from the chairman of that bank. Plus there are two other—there is the China Development Bank and the China Agriculture Bank.

Ms. WATERS. Thank you. And thank you for talking about the nature and mission of other countries' export credit agencies that allows them to support their industries' exports far beyond—

Chairman HUIZENGA. With that, the gentleman's time has expired, per the gentlelady's request.

And with that, the Chair recognizes the gentleman from Arizona, Mr. Schweikert, for 5 minutes.

Mr. SCHWEIKERT. Thank you, Mr. Chairman. Now we all get to do the lightning round because we all have to talk a lot faster.

Mr. McCarthy, you might be the arbiter of a little bit of fairness here. Total U.S. exports last year: $1 trillion, $640 billion. Yet, somewhere in here I was hearing that the book of business from Ex-Im actually went down a little bit last year.

Mr. MCCARTHY. That is correct. There was a decline in the book of business. The outstanding exposure went from $113 billion to $112 billion.

Mr. SCHWEIKERT. Okay. So if you do the simple math, Ex-Im represents less than 1 percent of U.S. exports, at least from a total book of business. Simple math.

Mr. MCCARTHY. I am not an economist, but—

Mr. SCHWEIKERT. But that is correct? That is called—

Mr. MCCARTHY. That sounds correct.

Mr. SCHWEIKERT. That is called—

Mr. MCCARTHY. The math sounds correct.

Mr. SCHWEIKERT. As a CPA, I am sure you do that in the back of your head.

How did Ex-Im Bank's book of business go down, yet our exports went up? Where in heaven are these organizations finding surety enhancement credit? What is happening out there in the marketplace that is also providing some of this type of liquidity? What are your—

Mr. MCCARTHY. Let me give you a very high-level answer, because this isn't my area of expertise. But my understanding is that the Ex-Im Bank loan portfolio increased after the financial crisis because liquidity was less available in the private market—

Mr. SCHWEIKERT. My focus is the 14-year—

Mr. MCCARTHY. —and now there is just more—

Mr. SCHWEIKERT. —just because I have a nice block year where I can run the numbers.

Mr. MCCARTHY. Okay. I would defer to Chairman Hochberg on those, the larger Bank operational issues.

Mr. SCHWEIKERT. Okay. Mr. Thorum, you had a grin on your face during that. Walk me through what you understand as to where these other organizations are getting import/export credit?

Mr. THORUM. I don't recall having a grin. Sorry.

Mr. SCHWEIKERT. Oh, okay. I'm sorry.

Mr. THORUM. I am listening intently.

Mr. SCHWEIKERT. Okay. We will go to Mr. Hochberg. Share with me what is happening out there in the alternative or private marketplace on the loan enhancement side that it was able to grow last year in 2014?

Mr. HOCHBERG. The private sector has done a spectacular job in the last 2 years, and it has far less need for us today than there was 2 years ago. As you commented, Congressman, our portfolio has and our loan volume has gone down. And that is a good thing. We really—we step in when the private sector isn't available or cannot do so.

Mr. SCHWEIKERT. So if I came to you right now and said one of my ultimate goals here is—because I believe the pricing of risk is best in the crowd in the marketplace—how do I continue to grow that private guarantee? Because so far, the conversation around here has been a bit absurd. If you are 1 percent of the exports and part of your book of business went away, and there were no alternatives, the world comes to an end. The math doesn't add up.

So what would you do to continue to grow the real world, instead of the taxpayer-insured world?

Mr. HOCHBERG. Actually, I think we do that every day. What we are trying to do is encourage more banks to do so. What happens is frequently banks and insurance companies will work with us and then over time, either they say, we can do this on our own now; we are going to take the training wheels off and we can now do this. That is our goal, to get—

Mr. SCHWEIKERT. But do you believe that would expand more the syndication of risk silos and those mechanics if you weren't the easy default?

Mr. HOCHBERG. It is sort of an—I only will tell you what our customers tell us. I was recently in Alabama, a company called—that makes printing.

Mr. SCHWEIKERT. I am less after anecdotes. I am more just after the sort of the—

Mr. HOCHBERG. They come to me and say, I need to come to you because I don't have an alternative. That is why people come.

Mr. SCHWEIKERT. Okay. And my basic economics would say they don't have an alternative because if you are in the market, why should the private sector compete with you?

Also, in digging through some of the mechanics, do you believe you define default and failure to meet reps and warrants—don't look through your tabs—the same as Chase Bank or any other SIFI out there because you have a wonderful default rate, impairment rate. Do you define impairment the same as the rest of the major money-centered banking industry?

Mr. HOCHBERG. We define faults as charge-offs as where we—

Mr. SCHWEIKERT. Okay. It is full charge-offs. So it is not even a violation. But if I am Chase, I have to define an impairment, even when there is a failure in my reps and warrants.

Mr. HOCHBERG. We define—we put in our—we—

Mr. SCHWEIKERT. But what you are telling me right now is that is not ceteris paribus, I think was the old word we had in college, of you are not doing equal-to-equal—

Chairman HUIZENGA. The gentleman's time has expired.

Mr. SCHWEIKERT. —definition of what impairment—

Thank you, Mr. Chairman. I yield back.

Chairman HUIZENGA. With that, the Chair recognizes the gentlelady from Wisconsin for a unanimous consent request.

Ms. MOORE. Thank you, so much, Mr. Chairman.

I ask unanimous consent to place two documents in the record: first, as I referenced, "Cruz Under Fire," from the Texas businessmen; and second, a statement of support for the Ex-Im Bank from the National Association of Manufacturers.

Chairman HUIZENGA. Without objection, it is so ordered.

With that, seeing no other witnesses at this time on the Democrat side of the aisle, we will continue on the Republican side of the aisle with Mr. Meadows, of North Carolina, who is recognized for 5 minutes.

Mr. MEADOWS. Thank you, Mr. Chairman. And I thank each of you for being here. I really don't have any other questions that would help further this debate.

But I will say, Chairman Hochberg, it is troubling when you answer the way that you do when you have somebody like myself who is trying to make a decision on reauthorization. And the lack of transparency, the lack of willingness to come before the Oversight Committee is troubling to me, and quite frankly, more troubling to the American people on Main Street who don't understand why you would not submit to transcribed interviews under oath and why you would want to do it in a public forum.

And so I would just ask you to reconsider your position, as Mr. Gowdy had covered earlier.

And with that, I have no questions, Mr. Chairman, so I yield back. Actually, I yield to Mr. Gowdy for follow up.

Mr. GOWDY. And I thank my friend from North Carolina.

So Mr. Chairman, you have heard from an undecided Member of Congress who is less than overwhelmed with your answers with respect to oversight, and you have heard from a Member of Congress who very much wants to support reauthorization. I think you said you are not an attorney. I once was.

Ms. Waters did give you some legal advice, that you have the right to decline a transcribed interview. I would also remind you that Members of Congress have a right to factor that in as they determine whether or not to reauthorize this Bank.

And before I yield to my friend from South Carolina, I want to ask you about something else. In a letter that you wrote to Chairman Hensarling, you said that you have made redactions to protect the candid exchanges of views by the Bank's board members. And I am curious what legal privilege entitles you to make that redaction?

Mr. HOCHBERG. We submitted our board minutes, board transcribes, to the committee. We try and leave out deliberative matters and business confidential information so—

Mr. GOWDY. I get that. But you also said you were going to protect candid exchanges of views by the Bank's board members. If you were providing oversight, wouldn't you want candid exchanges as opposed to, say, stale boilerplate discussions? If your responsibility was to provide oversight, wouldn't you want candid exchanges?

Mr. HOCHBERG. We have a candid exchange at our board meetings. But at the end of the day, what is most critical is how board members vote, whether they vote for or against the—

Mr. GOWDY. And I will tell you that the results in life matter, but the process may matter even more. And I would encourage you to revisit that position with Chairman Hensarling, as well.

And with that, I yield to my friend from South Carolina.

Mr. MULVANEY. I thank the gentleman.

Mr. Sheets, very briefly—

Ms. MOORE. Parliamentary inquiry. Whose time is it, sir?

Mr. GOWDY. I will reclaim my time—

Chairman HUIZENGA. It is the gentleman from North Carolina's time.

Mr. GOWDY. I will reclaim my time.

I yield to the gentleman from South Carolina, Mr. Mulvaney.

Chairman HUIZENGA. Without objection, it is so ordered.

Mr. MULVANEY. Thank you. One of the reasons that we focus so closely on these supposed discussions with the folks overseas about getting out of the aircraft financing business is the data that has been provided to us by Ms. Gianopoulos.

I read your reports. I have your reports. I have read your testimony, which is pretty much a cut and paste of your last report. And yet, we have data, real data, that says—if we can get it up on the screen—that the Bank's exposure to the aircraft market has gone up, not down. It is the dark blue at the bottom. It is not going down. You are measuring it in such a way where I think you can fill out a piece of paper that says you are doing what you are supposed to do. But the real data indicates that the exact opposite is happening. That is what is causing us the difficulty, sir.

Other things cause us difficulties about this. Secretary Lew was in front of the Financial Services Committee just a couple of weeks ago, and I had a chance to ask him the same question, a very similar question to what Mr. Gowdy asked you. I asked him, "Can you tell us who is in charge of these negotiations?" And he said he was going to have to get back to me on that.

You identified him just a little while ago, in response to Mr. Gowdy's questions, as somebody who was involved. Do you think he would be able to recall if he was involved in those discussions?

Mr. SHEETS. Thank you. The mandate, as I understand it—

Mr. MULVANEY. I am not asking about the mandate. You said that he was involved. Has Secretary Lew been directly involved in the discussions that are mandated by the statute?

Mr. SHEETS. Yes.

Mr. MULVANEY. Okay. We have asked him to provide us with information. I am told by staff that you are the one responsible for pulling those together. Are you, sir?

Mr. SHEETS. I have not seen a request—

Mr. MULVANEY. You have not talked to Mr. Lew about this since March 17th, when he appeared before the Financial Services Committee?

Mr. SHEETS. I have not seen a request. But as soon as we see it, we will—

Mr. MULVANEY. And I am sorry to cut you off, but I have 8 seconds.

The last time this committee asked for information from Treasury about this, it took 9 months to get the response. When did we get it? Yesterday. Do you understand maybe, sir, why we have this type of adversarial relationship?

Ms. MOORE. Mr. Chairman?

Chairman HUIZENGA. The gentleman from North Carolina's time has expired.

Does the gentlelady from Wisconsin have an inquiry?

Mr. SHEETS. We do.

Ms. MOORE. No. I just would question—the ranking member did—

Chairman HUIZENGA. We will—

Mr. MULVANEY. —the ranking member went a minute-and-a-half over.

Chairman HUIZENGA. The ranking member was not cut off. It was—it was not the gentleman—

Mr. MULVANEY. Point of parliamentary inquiry?

Chairman HUIZENGA. The gentleman from Missouri was the one whose time had expired.

Yes, gentleman from South Carolina? He withdraws. Okay.

Again, still seeing no Members on the Democrat side who are eligible to be recognized in this first round, we will move on to the gentleman from Georgia, Mr. Hice, for his 5 minutes.

Mr. HICE. Thank you, Mr. Chairman.

Mr. Hochberg, what information does the Bank publicly post about either the Bank's transactions, suppliers, buyers or other type information?

Mr. HOCHBERG. I am not exactly sure I understand the nature of the question.

Mr. HICE. Well, data.gov, for instance. You post this type of information for the public regarding transactions and buyers and all that type of thing.

Mr. HOCHBERG. Right. We post data on data.gov for all transactions.

Mr. HICE. Okay. Why did the Bank remove so much of the dataset from the Federal Government's public site in the fall of 2014?

Mr. HOCHBERG. We moved some of that data because we had some complaints from customers, that they felt business confidential information, names of their customers, pricing, and so forth was included. So in an effort not to in any way hurt any U.S. exporters, we took the data down, reviewed it, and then put it back up within a few weeks.

Mr. HICE. When you put it back up, it came right after a watchdog group, eximuncensored.com, posted some information. And when you reposted, there was a lot of information that was missing. Why was that missing?

Mr. HOCHBERG. We removed information at the request of actual exporters because the last thing we want to do is jeopardize their business. So we took out information that they felt was business confidential, like who their customers are, what their pricing is, but left the rest of the information in.

Mr. HICE. Without that information being posted, quite frankly, how do we know whether or not applicants are being treated fairly?

Mr. HOCHBERG. First of all, if applicants aren't being treated fairly, they complain. So we would get complaints if they are not—

we took the data down in response to complaints that they felt their business was being jeopardized. And we took a look at it and we said we don't really need to post the names and addresses of their exact customers.

Our customers—we all keep our customer list somewhat confidential. When I was in business, we didn't share customer lists with competitors. It is the same in this particular case. And that is why data was removed and then promptly put back up.

Mr. HICE. Why did the Bank decide to remove information regarding things like primary supplier of the Ex-Im authorizations? Why was it necessary to remove that type of information?

Mr. HOCHBERG. Again, we responded in response to customers, exporters, small businesses that were concerned about trade secrets and confidential information being revealed. So in order to balance transparency and also protect businessess, we tried to strike that balance.

Mr. HICE. Can you provide this committee with the request for these companies' further information for us?

Mr. HOCHBERG. As long as I understand precisely what you are asking for, we can provide it.

Mr. HICE. Yes. As to the information that was removed, precisely what was removed?

Mr. HOCHBERG. What fields? I would be happy to do that. I review that personally myself to say, why did you remove these fields, do we need to? And we put many of them back up.

Mr. HICE. All right. Over half of the 27,000-plus authorizations that were in the new dataset had "NA" listed as their primary lender. I find that a bit odd. How do you explain not having any information regarding the primary lender for over half of the authorizations?

Mr. HOCHBERG. I would have to take a look at that data and—

Mr. HICE. You have no idea why NA was placed on 27,000-plus in place of a primary lender?

Mr. HOCHBERG. I can make conjecture. I don't want to do that, sir. I would rather get you the exact facts.

Mr. HICE. If the Bank has this information, why is it no longer available to the public?

Mr. HOCHBERG. I would have to look at the data, sir. And I would be happy to get it to you. I just—I am not fully—

Mr. HICE. So you don't have a reason why it would not be available? You may not know why it was left out but—

Mr. HOCHBERG. If we have the data, we would make it available.

Mr. HICE. All right. The new dataset also lists NA as a primary exporter for nearly 1,200 transactions. Do you have any idea why that would be the case?

Mr. HOCHBERG. I would have to look—I will give you a full report. I don't have it at my fingertips, what is the percentage—

Mr. HICE. Doesn't it seem like this would be something that would be at your fingertips?

Mr. HOCHBERG. Sir, I try and keep as much as I can at my fingertips and in my head, but we all have our limits.

Mr. HICE. Why does the Bank have "various" and "insurance" listed as the country, the primary source of repayment, and so forth, for 60 percent of these 27,000-plus authorizations?

It is totally in the wrong place, the wrong things. It is up here. We can get this information for you so you can look at it. I know it is small. But you have various insurance listed as the country, the primary source of repayment, and so forth.

Mr. HOCHBERG. We offer what are called "multi-buyer insurance policies." We have small businesses that sell to dozens of companies. So frequently, that—we do not always list every single customer they are selling to. Because it is a blanket policy that covers many credits.

Chairman HUIZENGA. Sorry. The gentleman's time has expired.

Mr. HICE. Thank you, sir.

Chairman HUIZENGA. And again, seeing no Members on the Democrat side who are eligible for this first round, we go to Mr. Stutzman of Indiana for his 5 minutes.

Mr. STUTZMAN. Thank you, Mr. Chairman. And I appreciate the panel for being here this morning.

I want to ask a question here. I will just first of all say this to you all. I have been trying to keep an open mind about this. And I understand the role that folks try to argue for the reauthorization of Ex-Im. I did vote against the last reauthorization. And I am inclined to do so again at this point, considering the role that the Ex-Im Bank has played and also the lack of transparency in the issues that we discussed today.

Mr. Hochberg, could you answer the question that the gentleman from Arizona was talking about earlier? What is the number of U.S. exports in 2014?

Mr. HOCHBERG. Excuse me. The number of exporters that we worked with?

Mr. STUTZMAN. Dollar amount in exports for 2014 from the United States.

Mr. HOCHBERG. About $2.35 trillion.

Mr. STUTZMAN. About $2.35 trillion?

Mr. HOCHBERG. Correct.

Mr. STUTZMAN. And the business that you do in that is about $112 billion?

Mr. HOCHBERG. No. We did—actually, we financed $27.5 billion worth of exports last year.

Mr. STUTZMAN. $27.5 billion?

Mr. HOCHBERG. Correct.

Mr. STUTZMAN. Out of $2.35 trillion?

Mr. HOCHBERG. That is correct.

Mr. STUTZMAN. Okay. So it was said earlier by the gentleman from Pennsylvania that Ex-Im Bank is hugely successful. Would you agree with that?

Mr. HOCHBERG. We act as a backstop. I would say we are successful.

Mr. STUTZMAN. Okay. So out of $2.35 trillion, $27.5 billion, hugely successful. The question I am asking myself is, why can't the private sector handle that small amount? It is not that much in the grand scheme of things.

I want to go to—according to your competitiveness report, both France and Germany provided more new medium- and long-term export credit than the United States did in 2007; 5 years later, we were providing more export credit than both countries combined.

China provides more than what we do. And in addition, based on Treasury's own reports, it does not look like congressionally-mandated negotiations to end export credit subsidies are being taken seriously by the Department.

I worry that what might happen to Indiana's exporters as these trends continue, especially with China's new role, it could disrespect trade rules.

Let me ask you this. Suppose the world supply of exports multiplies 3 or 4 times over the the next few years. Should Ex-Im grow at that same rate?

Mr. HOCHBERG. Congressman, mostly what I have learned in my 6 years on the job is that we really stand to fill in the gap. So when we have a small business—or in your own State, Cummings Engine, they don't use us most of the time. But they need us in a few select circumstances.

Mr. STUTZMAN. Should we just continue to grow at a certain pace?

Mr. HOCHBERG. We only respond as filling in a gap. If a company like Cummings or a small business that I visited, I mentioned earlier, is a company called Zante needs us, we step in. When they don't need us, we step away.

Mr. STUTZMAN. So again, $27.5 billion out of $2.35 trillion can't be handled by the private sector, is what you are saying.

I want to ask you another question. I think most of us would agree that in a perfect world, we wouldn't have export credit agencies. Would you agree with that?

Mr. HOCHBERG. We just don't live in that perfect world.

Mr. STUTZMAN. Okay. So considering today's developing economies, we have countries all around the world that are growing. Have any of them approached you—or I would ask Mr. Sheets at the Treasury—have any of them approached you about how to develop an export-import model in those developing countries?

Mr. HOCHBERG. From time to time, we have countries come visit us and spend maybe a few days or a week with our staff to learn what they can do to support their exports in their countries.

Mr. STUTZMAN. Mr. Sheets?

Mr. SHEETS. I haven't been involved in any of those conversations, and I don't know of any regarding me or my staff.

Mr. STUTZMAN. But would anybody on staff—if somebody came to you all, would you help them develop a model so they understand how an export-import model would work?

Mr. SHEETS. Absolutely. Thinking through best practices and how to frame an export-import bank would be something that we could carry on a conversation with international counterparts on quite productively.

Mr. STUTZMAN. But wouldn't that then directly contradict the congressional mandate to eliminate global export subsidies?

Mr. SHEETS. My focus is on the U.S. side of that equation. But—

Mr. STUTZMAN. But if we are talking to any foreign entities and they are wondering, how does an export-import model work, wouldn't that violate the mandate?

Chairman HUIZENGA. The gentleman's time has expired. But I will allow the answer, if that is all right.

Mr. SHEETS. My answer to your question is it wouldn't, in that the issue is gaps in market financing. And these countries that don't have ex-im banks don't have well-developed financial sectors.

Mr. STUTZMAN. Okay. Thank you, Mr. Chairman. It just seems like we are contradicting ourselves on trying to eliminate the competition.

Chairman HUIZENGA. And with that, we have reached the end of our first round. We would like to entertain a brief second round if that is okay with the panel, as well.

Chairman Jordan, the chairman of the Health Care, Benefits and Administrative Rules Subcommittee, had been kind enough to recognize me to speak first in that first round. And it is my failure not to recognize him.

Chairman JORDAN. I thank the gentleman.

Mr. McCarthy, you said you have 31 investigations, open investigations related to fraud. Can you tell me—or more importantly, can you assure this committee and the Congress that none of those 31 are going to turn out like Mr. Gutierrez?

Mr. MCCARTHY. So the answer that I gave to this question last summer is that we have—including the Mr. Gutierrez investigation, we have some allegations of serious misconduct and ineffective management.

Outside of that small number of investigations, we have not developed evidence that there is widespread employee involvement.

Chairman JORDAN. You said earlier that most of these fraud investigations involve a company seeking financing doing something fraudulent to get the financing. So it comes from outside?

Mr. MCCARTHY. That is correct.

Chairman JORDAN. But that is exactly how Mr. Gutierrez's situation played out, as well. Wasn't Impex the company, basically a shell company trying to get financing? Mr. Gutierrez complied with that and worked with that. And so that fraud case that resulted in the indictment of Mr. Gutierrez earlier this week started with a company doing exactly what you allege most of these 31 open fraud investigations are about?

Mr. MCCARTHY. Without getting into the details—

Chairman JORDAN. I am asking, is that accurate?

Mr. MCCARTHY. Without getting into the details of that specific case, I can—

Chairman JORDAN. I will give you the details. A 69-page complaint filed in the U.S. District Court, southern district of Florida, laid out how Impex Associates was little more than an artifice to defraud the Bank. So it started off with an outside organization entity trying to defraud the Bank. But there was someone on the inside actually taking bribes and committing fraud, and now he has been indicted.

Mr. MCCARTHY. And in those cases where we see those types of outside frauds, we are taking a hard look at whether there is employee complicity or participation in the scheme.

Chairman JORDAN. Which takes me back to my question, you have 31 of those open right now?

Mr. MCCARTHY. Right.

Chairman JORDAN. We want to know, before this Congress is asked to reauthorize something with all the problems that have been cited here in today's hearing, can you assure us that none of those other cases are like Mr. Gutierrez?

Mr. MCCARTHY. What I can assure you is that at this time, those other cases that we are investigating do not have evidence that we have developed of Ex-Im Bank employee internal complicity or participation.

Chairman JORDAN. Have you referred any of those other cases, any of the 31, to the Justice Department?

Mr. MCCARTHY. We work routinely with the Justice Department on most of our cases.

Chairman JORDAN. Do you know if the Justice Department is going to have—are we going to have an indictment tomorrow? Are we going to have an indictment before the next Ex-Im hearing that Chairman Hensarling has or Chairman Chaffetz has in this—when is the next indictment coming?

Mr. MCCARTHY. There is a possibility that there will be future indictments in this particular case. There is a possibility there will be—

Chairman JORDAN. Whoa, whoa, whoa. Wait a minute. That is a big statement. You think there is a possibility of future indictments in the Gutierrez case, or in some of the other 31 cases?

Mr. MCCARTHY. Both.

Chairman JORDAN. Both? That is important information for this committee and this Congress to understand. You made it sound earlier like oh, no, no, these are people who filed some wrong paperwork or something coming on the outside. But now you are saying there is a possibility of future indictments relative to the Gutierrez case and the other 31 open fraud investigations; is that right?

Mr. MCCARTHY. What I am saying is that there is a possibiliy of future indictments in the Gutierrez case. And in the other 31 cases, there is a possibility of indictments in those cases, as well. In those other cases—

Chairman JORDAN. Whoa, whoa, whoa. What other cases? Now you are going beyond 31. What other cases?

Mr. MCCARTHY. Within those 31 cases. I would not at this time—

Chairman JORDAN. But now—

Mr. MCCARTHY. —expect indictments of other Ex-Im employees.

Chairman JORDAN. So now you are getting to the point I want. How do you define those 31 cases? When you testified here last summer, The Wall Street Journal had just reported about Mr. Gutierrez and three other people. You and Mr. Hochberg wouldn't tell me who the three other people were; you wouldn't even confirm Mr. Gutierrez in that hearing.

Were those four individuals—is that one case of fraud, or are those four separate cases of fraud? How do you define it?

Mr. MCCARTHY. Those are three separate cases.

Chairman JORDAN. Three cases.

Mr. MCCARTHY. But one of them involves Mr. Gutierrez and another former Ex-Im employee. The other two cases involve one employee each. Those are separate cases. And those cases have been closed out and I have reported—

Chairman JORDAN. How many individuals are involved in the 31? It can be a lot more than 31 based on what you just told me. Is that accurate?

Mr. MCCARTHY. In many of our cases and indictments, we have indictments of multiple individuals in these schemes.

Chairman JORDAN. Okay. Mr. Chairman, I think that is huge. There is a possibility we have future indictments coming. And we have a decision to make here in a couple of months. That is huge news and something I think this committee needed to know. And I am glad that Mr. McCarthy was able to give us that information.

I yield back.

Chairman HUIZENGA. The gentleman yields back.

With that, the Chair recognizes Ms. Moore of Wisconsin for 5 minutes.

Ms. MOORE. Thank you so very much, Mr. Chairman. And thank you, panel, for your patience with this second round.

There has been a lot of discussion about the 1992 bailout of the Ex-Im Bank. And I guess maybe Ms. Gianopoulos is the person that I need to ask about the restructuring of the Ex-Im Bank since 1992 to the fee-for-service model. And are they in a position for us to have to bail them out again?

Ms. GIANOPOULOS. It is difficult to say if we are going to have to bail out the Bank again. Of course, some of our recommendations over the past few years since the 2012 reauthorization have focused on the way that the Bank looks at its portfolio risk management. And the Bank has been responsive to almost all of the recommendations we have made since that time to look at how they are calculating that loss.

Ms. MOORE. Thank you so very much. There has been a lot of discussion about the stress test that the Bank has undergone.

Mr. Hochberg, I want you to tell us how you have performed under these stress tests.

Mr. HOCHBERG. Congresswoman, I think the most perfect stress test we have had is the recession that we have just gone through. And if I take a look at—I'm sorry. It was in my written testimony. But our defaults, as reported to Congress, in 2006 were a high of 1.6 percent. We have gone through the worst recession, the most stressful time in not only our economy, but the global economy. And as you can see in our written testimony, our defaults have declined each and every year since.

So that, in my opinion, is still the most perfect stress test. On top of that, we do stress tests in our CFO's department on a routine basis to look at different stresses in our portfolio. But let's not forget that the recession created a very perfect example of that.

Ms. MOORE. I appreciate hearing that, particularly since under Title I of Dodd-Frank, the globally-systemic risky banks that we bailed out during 2008 have not yet submitted their living wills, as mandated under Title I of 2010. So I would say that there is a lot more risk from Wall Street and from the banking community than there is with the Ex-Im Bank.

Let me ask this question: There has been a lot of discussion of Delta. And so, there have been lawsuits. I think Delta has really gone to court to suggest that the Ex-Im Bank has put them in a very noncompetitive situation. I guess I would like for the committee to hear what the results of those lawsuits have been. Mr. Hochberg?

Mr. HOCHBERG. Thank you, Congresswoman Moore. Delta has sued the Bank on four occasions. The courts have ruled in favor of the Export-Import Bank in all four occasions and have not found anything in their particular case.

The cases basically say that when we finance a foreign carrier, could that potentially have damage to a U.S. company. We review, as I have mentioned, every single transaction. Not just in the aircraft, but the entire Bank. Any transaction over $10 million, we look at for any potential harm.

The last thing we want do at the Export-Import Bank is harm the U.S. economy and hurt the U.S. economy. So we look at—it is called economic impact. We look at the positive benefits and make an estimation with outside consultants about any potential harm and we balance those two against each other.

So Delta has claimed that. We review every aircraft transaction and found no evidence of it.

Ms. MOORE. I guess, in my last minute, I will turn to Mr. Sheets. Because we have heard an awful lot of talk about this indictment of Mr. Gutierrez and potential indictments coming down from Ex-Im Bank.

I just am so concerned about the lack of indictments for what happened in 2008. And I am wondering if what we see in the Ex-Im Bank indictments has nearly the globally-systemic impact that we saw in 2008, where we have seen very few indictments come down.

Mr. SHEETS. The impact of the bank failures during 2008 and 2009 globally was of astronomical proportions. Not only here in the United States, but the global implications of that were literally beyond what I can calculate in terms of lost economic output and jobs and human and psychic pain. I don't think that these indictments are of a similar magnitude.

Chairman HUIZENGA. The gentlelady's time has expired.

Ms. MOORE. Thank you, Mr. Chairman, for your indulgence.

Chairman HUIZENGA. Not a problem at all, my friend.

So with that, I am not seeing—I'm sorry. At this point, the Chair would like to recognize Mr. Pittenger of North Carolina for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman.

Mr. Hochberg, in just a brief elevator speech, would you kindly define for me your mission?

Mr. HOCHBERG. Our mission is to support U.S. jobs and provide financing through the form of guarantees, insurance, and loans, when the private sector is unwilling or unable to do so—

Mr. PITTENGER. You see your goal, your objective, a wide range of business interests to try to support their objectives?

Mr. HOCHBERG. It is to support U.S. job growth.

Mr. PITTENGER. And your loan portfolios, how much?

Mr. HOCHBERG. Approximately $112 billion.

Mr. PITTENGER. $112 billion. What was that portfolio in 2013?

Mr. HOCHBERG. I have that right here, in fact. In 2013, it was slightly higher. It was just under $114 billion.

Mr. PITTENGER. $114 million?

Mr. HOCHBERG. Billion.

Mr. PITTENGER. Billion.

Mr. Hochberg, you stated a few minutes ago that 90 percent of your loans are made to small businesses, correct?

Mr. HOCHBERG. That is correct.

Mr. PITTENGER. I am reading here that in 2013, according to the Ex-Im Bank's own data, more than 60 percent of the Ex-Im Bank's financing benefited just 10 large corporations.

Mr. HOCHBERG. I think what we have to remember, Congressman, is those 10 corporations that you refer to all have very deep supply chains. I was just in Georgia, a company called Tomco, a small business that makes CO2—

Mr. PITTENGER. But the people who borrow the money, they are—

Mr. HOCHBERG. They are a supplier to GE. The way—the reason—

Mr. PITTENGER. I reclaim my time. The people who borrowed the money were those large corporations, though, is that correct?

Mr. HOCHBERG. And therefore pay the small businesses—

Mr. PITTENGER. But the loans—let's be clear on the words that were said. You said 90 percent of your loans were made to small business.

Mr. HOCHBERG. No, 90 percent of the loans support small business exports. We don't make—

Mr. PITTENGER. —exports. Okay.

Mr. HOCHBERG. And even those 10 large companies you are referring to, we are talking about their overseas customers, not the company themselves.

Mr. PITTENGER. I think we had a word change there. And that is fine.

Mr. Hochberg, do you believe that you have an agenda in your role? Do you have a policy preference? Do you believe that your goal is to support all businesses and create jobs, or do you have a selective interest in what you do?

Mr. HOCHBERG. We are looking to support U.S. job growth that need us. We have a few mandates from Congress that we obviously guide our efforts, as well.

Mr. PITTENGER. Yes. And one of your mandates, of course, is to support exports of green energy technology, is that right?

Mr. HOCHBERG. That is one of the three mandates we have.

Mr. PITTENGER. That is right. And on the other hand, you have adopted policies that permit almost no assistance to coal projects, is that correct?

Mr. HOCHBERG. No, I would not say that is correct, sir.

Mr. PITTENGER. Let me quote you. Upon announcement of these guidelines, you were quoted as saying, "Without guidelines or limits, ever-increasing numbers of new coal plants worldwide will just continue to emit more carbon pollution into the air we breathe. I strongly support the Administration's efforts to build an international consensus such that other nations follow our lead in restricting financing of new coal-fired power plants."

That sounds like you have a pretty clear interest in perpetuating your own agenda.

Mr. HOCHBERG. Congress has put in our charter since 1992 a requirement that we look at the environmental impacts of any export we supply. We have to look at the creditworthy and the environmental impact. That goes back 23 years.

Mr. PITTENGER. Okay. But this contrasts with what you just said a minute ago, that you didn't have your own objectives.

But let me ask you as well, we looked at the creditworthiness. In September of last year, the GAO reviewed the Bank's underwriting procedures and found that the Bank wasn't requiring simple things like using credit reports—we talked a little bit about this, but I really want to delve into it a little bit more—verifying that applicants did not have any delinquent Federal debt, or even to merely inquire that all documentation analysis be in the loan file before approval.

According to the GAO report—and if you would like, you can give us an example which refutes this—your own manual did not include instructions for loan officers to use credit reports and for the inclusion of all required documents and analysis in the loan file prior to approval.

"While Ex-Im's review process called for transaction participants' information to be checked against various databases, it did not include the recommended database that identified delinquent debt of the transactions of participants." Would you like to comment on that?

Mr. HOCHBERG. Congressman, I would say two things. We are continually trying to improve our methods and do a better job of underwriting. I was in business for 20 years, and that is what every businessperson does. And we are trying to improve in this case, as well.

One of the things we are looking at that we are having some discussions on is how we look at other—I believe you are referring to other outstanding debts that a company may have before they can apply for a loan or guarantee from us.

Mr. PITTENGER. I yield back my time.

Chairman HUIZENGA. The gentleman's time has expired.

With that, the Chair recognizes the ranking member of the full Financial Services Committee, Representative Waters of California.

Ms. WATERS. Thank you very much.

Under Secretary Nathan Sheets, I am looking at an ad that was placed in Politico. And this ad basically raises the question, why all the applause? And they have the pictures of Xi Jinping, the president of the People's Republic Of China; Vladimir Putin, the president of the Russian Federation; and Francois Hollande, the president of France.

And then it answers the question: They are applauding those in Washington seeking to dismantle the U.S. Ex-Im Bank. And then it asks, why? Because shutting down the U.S. Ex-Im Bank is good for business and creates thousands of jobs in China, in Russia, and in France. And then the ad goes on to say, "Don't let American jobs go overseas. Keep the playing field level for American businesses. Reauthorize the Ex-Im Bank."

Now, until recently, most large official providers of export credits were a party to the OECD arrangement which, as you know, sets limits on the rates and terms that government-backed export credit agencies can provide to their exporters.

However, according to Ex-Im Bank's latest competitiveness report, as of 2013, two-thirds of all official export credit support went beyond OECD guidelines. Much of this unregulated financing is offered by China, Brazil, India, and Russia on far more generous terms than can be offered by Ex-Im Bank and other members of the multilateral OECD arrangement.

Given this trend, it seems to me that this is exactly the wrong time to be pushing to scale back or shut down the Bank altogether. With many countries doubling down on their efforts to spur growth by expanding exports with the support of export credit financing, what would it take for these countries to entertain U.S. efforts to push for a global reduction in export credit support?

Moreover, how much leverage does the United States actually have in pushing for a multilateral reduction in export credit financing, when the world is well aware that efforts are already under way in Congress to unilaterally shut down the Ex-Im Bank?

We have been talking a lot about this today. And this ad, even though it is about one of the proponents for reauthorization, really does describe what we have been talking about. How do these countries get away with ignoring the arrangement? And how big are their efforts to do that?

Mr. SHEETS. Thank you. As you point out, the moves towards unilateral curtailment of export credits would put us in a much weaker position in our negotiations vis-a-vis these important emerging market economies that you describe.

I think the incentive that they have—and it is what is driving this international working group and our efforts to extend the protocols and the international agreements to include the major emerging market economies—is a recognition that they benefit from global integration. And that the only way they can integrate sustainably into the global environment is by playing by the rules of the game.

And this International Working Group is a vigorous effort by the Treasury and others to bring them inside the periphery. It is also, as I have said, a key objective in our multilateral engagement and our bilateral engagement, to better articulate these best practices and expand the periphery of export guidelines to the extent that we can.

Ms. WATERS. Thank you very much. And let me just say this, I have not been one to go around waving the flag all the time. But I feel like we have been pushed around. I feel like the greatest country in the world is being not only pushed around, but taken advantage of.

And while we sit here talking about closing down our Export-Import Bank, we have people laughing at us and clapping and applauding, hoping that we do it. And I don't like it. I yield back the balance of my time.

Chairman HUIZENGA. The gentlelady yields back.

With that, the Chair recognizes the Chair of the full Oversight and Government Reform Committee, Mr. Chaffetz, of Utah.

Chairman CHAFFETZ. Thank you.

Mr. Hochberg, you indicated that you were in Panama with the President of the United States. This is a $6-plus billion transaction. What is Ex-Im's participation in that?

Mr. HOCHBERG. Thank you for giving me that opportunity. The order is at $6.6 billion at list prices. That is not what the airline will pay. We may do zero financing. I don't know what we will do. It is really—that order is going to be over a 9- to 12-year period. And we provide—we are there purely as a backstop. Should the financial climate be such that they need our—

Chairman CHAFFETZ. You did participate—sorry, my time is short—in 2010 in the transaction—this is with Copa Airlines?

Mr. HOCHBERG. Yes.

Chairman CHAFFETZ. Yes. And in 2011, that was a value of roughly $177 million?

Mr. HOCHBERG. I'm sorry. I am not sure I understand—you are saying we did a Copa transaction for $177—

Chairman CHAFFETZ. In the past, how many Copa transactions have you done?

Mr. HOCHBERG. I don't have that number off the top of my head. I am happy to get it to you.

Chairman CHAFFETZ. It is in excess of $500 million. Would that sound right?

Mr. HOCHBERG. That sounds like it is in the ballpark.

Chairman CHAFFETZ. Why would that be? Why do you have to help—

Mr. HOCHBERG. Why? We are looking at U.S. jobs and we are—

Chairman CHAFFETZ. —okay, no, no. Before you filibuster the rest of this, what proof do you require to know that they can't get private sector financing? Why can't Copa get private sector financing?

Mr. HOCHBERG. Copa does get a lot of private sector financing. They just can't finance 100 percent of their fleet privately.

Chairman CHAFFETZ. But how do you know that? Where do you get this information?

Mr. HOCHBERG. We get that information both in talking to the actual company, Copa, and we talk to banks and we get a sense of what—

Chairman CHAFFETZ. Let me read what Copa says, a Copa description of you, the Ex-Im Bank, "The Export-Import Bank provides guarantees to companies that purchase goods from U.S. companies for export, enabling them to obtain financing at substantially lower interest rates as compared to those that they could obtain without a guarantee." That is true, isn't it?

Mr. HOCHBERG. Actually, sir—

Chairman CHAFFETZ. It is true.

Mr. HOCHBERG. Let me answer the question. Do you want me to answer the question—

Chairman CHAFFETZ. Yes. It is a yes-or-no question—is it true or false?

Mr. HOCHBERG. We have doubled the price that airlines pay for financing in the last 5 years.

Chairman CHAFFETZ. Is it true that you provide substantially lower interest rates as compared to those they could obtain without a guarantee? That is true, isn't it?

Mr. HOCHBERG. We don't lend them money, no. We provide a guarantee. It is up to the bank to decide what the—

Chairman CHAFFETZ. And the American taxpayers are responsible for that. They are on the hook for that.

Mr. HOCHBERG. They pay a fee. And they have—we have a loan loss reserve that backs up—

Chairman CHAFFETZ. But what Copa states in their documents is accurate, isn't it?

Mr. HOCHBERG. We don't make a loan to Copa. We provide a guarantee to the bank.

Chairman CHAFFETZ. But you provide it at a substantially lower rate than they could get with private financing.

Mr. HOCHBERG. But we don't—the rate is determined by the bank, sir. It is not determined by the Ex-Im Bank. We don't determine the rate.

Chairman CHAFFETZ. Is it a lower rate or not?

Mr. HOCHBERG. The bank essentially is buying insurance on the loan.

Chairman CHAFFETZ. I am just asking if it is a lower rate or not. It is lower than the private sector.

Mr. HOCHBERG. The private sector is making the loan with our guarantee. We are not making the loan.

Chairman CHAFFETZ. But consequently, they get a lower rate.

Mr. HOCHBERG. The interest rate is determined by the bank that is making the loan, not by us.

Chairman CHAFFETZ. Not for the guarantee.

Listen, what proof do you get from Copa, what documentation—this is just one example—that they can't get 100 percent private sector financing?

Mr. HOCHBERG. We look at, do they need us, and we also look at foreign competition. Our other goal is to level the playing field. They have a choice of buying Boeing and Airbus. And part of our charter says we need to level the playing field to make sure that U.S. jobs are not put in jeopardy. This transaction will support—

Chairman CHAFFETZ. The question is, what documentation do you get? How do you—

Mr. HOCHBERG. It is in their application. They have to assert and make a representation, just like they have to make other representations in their application.

Chairman CHAFFETZ. Will you provide that to this committee?

Mr. HOCHBERG. That representation?

Chairman CHAFFETZ. The Copa.

Mr. HOCHBERG. We can provide that information.

Chairman CHAFFETZ. You will provide the Copa documentation to this committee by when?

Mr. HOCHBERG. Within a week. I—

Chairman CHAFFETZ. Fair enough. In a week, you will provide to this committee all the paperwork on Copa, correct?

Mr. HOCHBERG. We can provide that to you.

Chairman CHAFFETZ. Thank you. I appreciate it.

I yield back.

Chairman HUIZENGA. The gentleman yields back.

Seeing no eligible Members on the Democrat side at this time, we will recognize Mr. Carter of Georgia for 5 minutes.

Mr. CARTER. Thank you, Mr. Chairman. And thank all of you for being here today. This is an issue that is very important to me and of great interest to me and to my district.

Mr. Hochberg, can you, in your own words, describe to me what the mission of the Ex-Im Bank is?

Mr. HOCHBERG. Let me try.

Mr. CARTER. Please.

Mr. HOCHBERG. Our goal—our mission—

Mr. CARTER. Quickly, if you don't mind.

Mr. HOCHBERG. Our mission is to support U.S. jobs and when financing is not available in the private sector, or to level the playing field with foreign competition.

Mr. CARTER. Okay. Now, the line of questioning that you just finished, you were talking about interest rates. And that is of interest to me. You don't make the loans, you just guarantee the loans?

Mr. HOCHBERG. Correct. We do make some loans, but not in this particular case.

Mr. CARTER. Let's talk about the wide-body jets. Because that seems to be a point of contention. It seems to be what a lot of people are concerned about. Do you make those loans?

Mr. HOCHBERG. We provide guarantees. We don't make those directly.

Mr. CARTER. Okay. It is my understanding that the Ex-Im Bank has brought back over a billion dollars, almost a billion dollars to the budget. Is that true?

Mr. HOCHBERG. We are actually—CBO has scored us for $1 billion for 2016. That was the original score that CBO—

Mr. CARTER. Where does that money come from? If you are not making loans, where are you making money?

Mr. HOCHBERG. No. That comes from fees and loans—well, fees we collect. And we do—on a small number of direct loans, we also make some interest.

Mr. CARTER. Okay. Hang in with me here. Let me try to explain to you where I am coming from.

Mr. HOCHBERG. Sure. Please.

Mr. CARTER. There are a lot of things that I don't like in this world. And I know that is hard to believe, but there are. And I don't like cronyism. I don't bureaucracy. But more than anything, I don't like debt. And I don't like the fact that our country has $18 trillion in debt. I just despise it. I think it is, as has been said, a threat to our national security.

And I am trying to look for ways to satisfy that debt and to get rid of that debt. I don't want to do away with something that is generating a billion dollars. But if you are not making the loans—and what I am hearing from some of the critics is that well, they make a loan to—they guarantee a loan to a foreign country in order for that country to buy 12 wide-body jets. And the loan is so good, the interest rate is so good, it is almost as if they pay for 11 and get the 12th one free.

I don't like to hear that. That is not right. And I don't think that is the mission of the Ex-Im Bank. I don't think that is what you ought to be doing. Not only that, but we could have made money. We could have made that money and put it toward our national debt. Is that true?

Mr. HOCHBERG. Sir, we actually make money and help pay the deficit. We sent $675 million for deficit reduction—

Mr. CARTER. But the point is, if that is true, you could have made more. I appreciate that. But we need a lot more. We have $18 trillion in debt. That is a lot of money. That is a lot of debt we have to satisfy. And we need more.

Is it true what I am hearing? I am asking you, is it true that these companies, when they buy 12 jets, they get such a good interest rate that they almost get a 13th one free?

Mr. HOCHBERG. No. I have never heard anything remotely close to that assertion before. Never.

Mr. CARTER. But you admitted just a little while ago that they do get a better interest rate?

Mr. HOCHBERG. They pay more than any U.S. carrier ever pays for interest. We actually—we verify, whenever we do a transaction, that U.S. carriers borrow at far better rates than any foreign carrier that we support.

Mr. CARTER. But it just occurs to me—I am a small businessman, and when I go to the bank to borrow money, I don't get the same interest rate as a big company does. And I understand that. I get that. I am a bigger risk. It appears to me that is part of your mission, to fill that void there and to help American companies to be able to get that backing and that financing.

There is a price to that. And I just want to know, are you maximizing that price?

Mr. HOCHBERG. Our job is to maximize jobs, not to maximize price.

Mr. CARTER. Okay. Well—

Mr. HOCHBERG. And let me just add, when it comes to wide-body planes, sir, carriers—you refer to the Mideast. They can buy an Airbus wide-body or a Boeing wide-body. We get the jobs in America, we get the jobs in Europe. That is our choice.

Mr. CARTER. I understand that. But, again, I think you are missing a great opportunity here. And we need it. We need it badly. And I need you to focus more on how we can generate more income for this country. I don't want to raise taxes. Nobody wants to raise taxes.

But if you ask me, because you are using the full faith and backing of the U.S. Government, should we be making money off of foreign countries and foreign companies? Yes. What is wrong with that? We have $18 trillion in debt. We need to be making it somewhere. Remember, I am a businessman. I am looking for revenue.

Mr. HOCHBERG. We supported $27.5 billion worth of exports last year alone.

Mr. CARTER. That is fine. But again, you can do better.

Mr. HOCHBERG. That is money—that is—

Mr. CARTER. But can we do better? That is my point.

Mr. HOCHBERG. We step back when the private sector can do it. The only time we are stepping in is when the private sector can't, or to level the playing field.

Mr. CARTER. And there ought to be a price for that. That is my point. You have it right there. That is my point. There ought to be a price for that, for the full backing of the United States Government.

Mr. HOCHBERG. That is where the $675 million is from.

Chairman HUIZENGA. The gentleman's time has expired.

Mr. CARTER. Thank you, Mr. Chairman. That was the fastest 5 minutes I have ever seen.

Chairman HUIZENGA. It is amazing how quickly it goes. That is very true. I believe that my ranking member has a unanimous consent request.

Ms. MOORE. Thank you so much, Mr. Chairman.

I would like to enter into the record an assessment that demonstrates that government export credit pricing, Ex-Im Bank pricing, is on par with commercial markets, and demonstrates that the foreigners are paying more for credit than U.S. borrowers.

Chairman HUIZENGA. Without objection, it is so ordered.

And with that, actually, I have my own unanimous consent request. I would like to enter into the record a Wall Street Journal article entitled, "Officials at Ex-Im Bank Face Investigations," which was dated June 23, 2014.

And without objection, it is so ordered.

The good news is, we are almost done. The bad news for some of you is, you are almost done. I do have a brief moment here, as well, to take my 5 minutes. I don't plan to take all 5 minutes.

But I do feel that this needs to be said. I appreciate, Mr. McCarthy, you coming forward with that information regarding some of the other potential situations that you see with some of the Bank employees. I think it is unfortunate it took 2½ hours for us to get to that point. But that is important information, nonetheless, to have.

Mr. Hochberg, I do want to ask you about the best places to work in the Federal Government rankings report that has come out. For those who aren't familiar with it, it is rankings that include the views of over 92,000 Federal employees; 389 Federal organizations are ranked according to overall employee satisfaction and commitment, as well as 10 additional workplace issues such as tragic management, teamwork, leadership, and life/work balance.

The Partnership for Public Service uses the data from the Office of Personnel Management (OPM) Federal employee viewpoint survey, as well as surveys administered by 11 additional agencies to put this into place.

In a resent survey conducted by the Partnership for Public Service on the best to worst places to work in government, unfortunately Ex-Im literally ranked dead last: 28 of 28 for "effective leadership," in the most recent survey. This also caught my eye, "In the category of support of diversity, there has been a decline of 20-points since 2009, since this Administration has come into place."

That 20-point decline has allowed Ex-Im to slide to 27th out of 28 Federal best places to work. This is something else I think is maybe relevant to what Mr. McCarthy is dealing with. When asked if "my organization's leaders maintain high standards of honesty and integrity," only 42 percent said yes. And asked whether they could "disclose a suspected violation of any law, rule, or regulation without fear of reprisal"—this is whistle blowing—only 50 percent of the employees responded yes, they would feel comfortable and felt that they could disclose a violation of any law.

I don't know, Mr. McCarthy, if you are experiencing any of that fear when you are going in and dealing with employees. That would obviously be more than unfortunate if that is the case. I don't know if you care to elaborate?

But Mr. Hochberg, my question to you is, why do you think that is? And what are you doing about that?

Mr. HOCHBERG. We take that very seriously, Mr. Chairman. We have had a number of stresses on the agency, and frankly, the political environment has not helped. We were under construction for the past 2 years. But I don't want to just make those excuses.

I told you earlier in the hearing that we have made data and improving our data quality one of our top four priorities of the year. And the other one is improving the workplace environment. I take that very seriously. I meet constantly with employees. I meet with them informally, have coffee with employees randomly selected every month. We have a number of programs to make Ex-Im a more first-tier place to work.

But let's not mistake the fact that we have had the kind of—the political environment, the threat of a shutdown has certainly—for the last 3 years, our employees have been under extreme stress on this.

Chairman HUIZENGA. But just a moment. This is not about overall. This is a ranking. So everybody has experienced that—

Mr. HOCHBERG. None of them has experienced a shutdown—

Chairman HUIZENGA. —including my own employees who got furloughed. And stresses of building, just ask the people in Cannon, ask the people anywhere around. That is happening all the time.

I guess my question to you, maybe to refine that is, would you be willing to share with your committee and the oversight committee here, subcommittees, specifically what your plan is? Because I find it very disturbing that in the past 5 years, 6 years, this agency has slid 20 points in its ranking in support of diversity.

If that is something that is important, we saw this—not—this is not your bailiwick. But we saw some similar things with the CFPB and other places, where there is a feeling that there is a hostile work environment. And if you have 50 percent of your employees who believe that they could come under some sort of reprisal for being a whistleblower, that does not bode well. That has nothing to do with workplace stress and whether government is getting shut down—

This is extremely serious. I would anticipate you sharing that with us. And I would assume my colleagues on the other side of the aisle would be very, very concerned about that, as well, and would like to have that.

With that, I would like to thank our witnesses, especially those who maybe weren't as actively engaged in the conversation. You may be thankful for that, as well. But we do appreciate and value your time for appearing with us today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

And if there is no further business, without objection, our joint subcommittees stand adjourned.

[Whereupon, at 1:15 p.m., the hearing was adjourned.]

A P P E N D I X

April 15, 2015

JASON CHAFFETZ, UTAH
CHAIRMAN

ONE HUNDRED FOURTEENTH CONGRESS

ELIJAH E. CUMMINGS, MARYLAND
RANKING MINORITY MEMBER

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Opening Statement
Rep. Matt Cartwright, Ranking Member

Subcommittee on Health Care, Benefits and Administrative Rules
Joint Hearing on "Oversight Efforts to Reform the Export-Import Bank"

April 15, 2015

Thank you, Mr. Chairman, and welcome to our witnesses. I look forward to your testimony.

Today's hearing is intended to examine the Bank's effort to implement congressionally mandated reforms as well as the implementation of recommendations provided by GAO and the Bank's Inspector General.

The Export-Import Bank's transactions support billions of dollars in exports and hundreds of thousands of American jobs by supporting U.S. companies that export to foreign markets. The Bank has been a stellar steward of taxpayer funds, maintaining a portfolio with a default rate of just 0.175%. And the Bank generates a surplus to the U.S. treasury that results in deficit reduction.

Since 2012, the Bank has implemented all of the requirements in the 2012 reauthorization, addressed 15 of the 16 GAO recommendations, and concurred with 140 of 142 IG recommendations. The Bank continues to work with GAO on the one remaining recommendation and the IG on the two unresolved recommendations.

The Ex-Im Bank plays a role in leveling the playing field for American businesses competing in a global marketplace. There are 60 other foreign export credit agencies that seek to ensure their home-country businesses are winning export sales. The Ex-Im Bank makes available financing to U.S. businesses to compete with foreign manufacturers on the merits of their goods and services, and not government-backed cut-rate financing.

In FY 2014, 89% of Bank transactions benefited small business exporters of U.S.-made goods and services. These are deals that could not--and would not--be done by the private sector alone, and are the perfect example of the kinds of public private partnerships we need to continue to do in order to grow our economy. In my own district, the Bank supports over $63 million in exports benefitting eight companies, and over 400 jobs.

For most of its 80 years, the Ex-Im Bank has received support from both Republicans and Democrats. In fact, Congress has consistently reauthorized the Bank -- 16 times without fail. The Bank's reauthorization is supported by a diverse coalition, including the U.S. Chamber of Commerce, the National Waste & Recycling Association, and Air Products and Chemicals, Inc., which has two large plants in my district.

This year however, a group I've referred to in the past as the "shutdown crowd" has decided to hold the Bank's reauthorization hostage. Playing such a dangerous game is bad for American businesses, American exports, and most importantly, American jobs.

Honest Congressional oversight is an extremely effective tool for achieving government reforms. Today's hearing provides an opportunity to effectively examine the Bank's efforts to strengthen policies and procedures, while holding the Bank accountable for implementation of reforms, and assuring the American public that the Bank continues to contribute to our economy.

I hope today's hearing will highlight the good work of the Bank, resolve any outstanding questions concerning the 2012 reforms, and provide additional support for the Bank's continuing reauthorization.

Thank you Mr. Chairman and I yield back.

Contact: Jennifer Hoffman, Communications Director, (202) 226-5181.

United States Government Accountability Office

GAO

Testimony
Before the Subcommittees on Health Care, Benefits, and Administrative Rules; and Monetary Policy and Trade

For Release on Delivery
Expected at 10 a.m. ET
Wednesday, April 15, 2015

EXPORT-IMPORT BANK

Status of Actions to Address GAO Recommendations since the Bank's 2012 Reauthorization

Statement of Kimberly Gianopoulos,
Director, International Affairs and Trade

GAO-15-557T

GAO Highlights

Highlights of GAO-15-557T, a testimony before the Subcommittee on Health Care, Benefits, and Administrative Rules and the Subcommittee on Monetary Policy and Trade, House of Representatives

April 15, 2015

EXPORT-IMPORT BANK

Status of Actions to Address GAO Recommendations since the Bank's 2012 Reauthorization

Why GAO Did This Study

As the export credit agency of the United States, Ex-Im helps U.S. firms export goods and services by providing financing assistance, including direct loans, loan guarantees, and insurance. Following the 2007 to 2009 financial crisis, Ex-Im's authorizations and financial exposure both increased rapidly. To strengthen Ex-Im, Congress mandated several reform measures in the Export-Import Bank Reauthorization Act of 2012 and also required certain reviews and reports by GAO and others. Since March 2013, GAO has issued four reports mandated by the act (GAO-13-303, GAO-13-446, GAO-13-620, and GAO-14-574). In addition, in August and July 2014, GAO reported on Ex-Im's financing of exports with potential dual military and civilian uses and provided information on aircraft financing by Ex-Im and other countries' export credit agencies, respectively (GAO-14-719 and GAO-14-642R).

This testimony summarizes the findings and recommendations in those six recent reports, and provides updated information on the status of Ex-Im's actions taken to address GAO's recommendations. To update the status of its recommendations, GAO reviewed Ex-Im's modified and updated procedures and documentation and interviewed Ex-Im officials.

GAO is not making any new recommendations in this testimony.

View GAO-15-557T. For more information, contact Kimberly Gianopoulos at (202) 512-8612 or gianopoulosk@gao.gov.

What GAO Found

In six reports on the U.S. Export-Import Bank (Ex-Im) issued since March 2013, GAO presented findings and made 16 recommendations to improve Ex-Im's operations, summarized in this testimony in three broad areas: (1) risk management, (2) underwriting and processes related to fraud, and (3) forecasting its exposure, and reporting on its estimates of its impact on U.S. jobs.

Six of GAO's recommendations focus on improving Ex-Im's management of risks related to its overall portfolio. For example, in March and May 2013, GAO recommended addressing weaknesses in Ex-Im's model for estimating losses, data retained to analyze default risks, reporting of portfolio stress testing, and analysis of staff resources. Ex-Im has implemented all 6 of these recommendations.

In September 2014, GAO found that Ex-Im had implemented many key aspects of its underwriting process but identified weaknesses in the design, implementation and documentation of some procedures. For example, GAO found that Ex-Im did not have mechanisms to verify compliance with certain loan guarantee eligibility procedures and had not documented its overall processes related to fraud. Ex-Im has implemented 4 of the 6 recommendations in this report. It has not fully implemented 2 recommendations concerning assessing collateral on certain transactions and verifying that applicants are not delinquent on federal debt. GAO's August 2014 report on Ex-Im's transactions involving exports with potential dual military and civilian uses also found documentation weaknesses and made one recommendation. GAO is reviewing the status of Ex-Im's actions in the context of GAO's ongoing dual use review.

Finally, in May 2013, GAO found weaknesses in how Ex-Im forecasts its aggregate outstanding amount of financing (exposure) and how it reports estimates of its impact on U.S. jobs. GAO recommended that Ex-Im (1) adjust its exposure forecast model to incorporate previous experience and (2) assess and report the model's sensitivity to key assumptions. GAO also recommended that Ex-Im improve reporting on the assumptions and limitations in its methodology and data for calculating the number of jobs it supports through its financing. Ex-Im has implemented GAO's 3 recommendations.

Chairmen Jordan and Huizenga, Ranking Members Cartwright and Moore, and Members of the Subcommittees:

I am pleased to be here today to discuss our prior work on the U.S. Export-Import Bank (Ex-Im), the export credit agency (ECA) of the United States. Ex-Im helps U.S. firms export goods and services by providing export financing assistance, including direct loans, loan guarantees, and insurance. To strengthen Ex-Im's governance and risk management processes Congress included several reform measures as part of the Export-Import Bank Reauthorization Act of 2012 (2012 Reauthorization Act), as well as several mandates requiring reviews and reports from Ex-Im, the Department of the Treasury, and GAO.[1] Ex-Im is currently authorized through June 30, 2015.[2] As Congress considers reauthorization, our testimony offers an opportunity to discuss the issues raised by our recent reviews and Ex-Im's response.

Since March 2013, we have issued six reports on Ex-Im, four of which the 2012 Reauthorization Act mandated that we prepare.[3] In addition, we reported on Ex-Im's financing of dual-use exports under a recurring mandate,[4] and provided information on Ex-Im's support for aircraft financing.[5] (For a list of related recommendations, see Appendix I.)

[1]Pub. L. No. 112-122, §§ 4, 5, 6, 11, 13, 126 Stat. 350, 352 (May 30, 2012).

[2]Continuing Appropriations Resolution, Pub. L. No. 113-164, § 147, 128 Stat. 1867, 1874 (Sept. 19, 2014).

[3]See GAO, *Export-Import Bank: Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes*, GAO-14-574 (Washington, D.C.: Sept. 9, 2014), *Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources*, GAO-13-620 (Washington, D.C.: May 30, 2013), *Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency*, GAO-13-446 (Washington, D.C.: May 23, 2013), and *Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management*, GAO-13-303 (Washington, D.C.: Mar. 28, 2013).

[4]Ex-Im is generally prohibited by law from financing any credit sale of defense articles and services for any country. However, in an exception to this rule, Ex-Im was granted authority to facilitate the financing of U.S. exports of defense articles and services, provided that it determines that these items are nonlethal and primarily meant for civilian end use. Such items are known as dual-use exports. See *Export-Import Bank: Monitoring of Dual-Use Exports Should Be Improved*, GAO-14-719 (Washington, D.C.: Aug. 28, 2014).

[5]See GAO, *Export-Import Bank: Information on Export Credit Agency Financing Support for Wide-Body Jets*, GAO-14-642R (Washington, D.C.: July 8, 2014).

My statement today will summarize our findings and recommendations from these reports. It also includes selected updates on the status of Ex-Im's actions to address those recommendations.

To prepare these six reports, we relied on several analytical methods, including reviewing Ex-Im's financial data, policies, procedures, and calculations, and comparing them to best practices. We also interviewed Ex-Im and other government officials as well as private sector representatives. Detailed information on the scope and methodology for our prior work summarized in this testimony can be found in the reports cited. To update the status of the recommendations, we obtained and analyzed information and discussed Ex-Im actions with relevant officials. We conducted the work on which this testimony is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Ex-Im is an independent agency operating under the Export-Import Bank Act of 1945, as amended.[6] Its mission is to support the export of U.S. goods and services, thereby supporting U.S. jobs. Ex-Im's charter states that it should not compete with the private sector. Rather, Ex-Im's role is to assume the credit and other risks that the private sector is unable or unwilling to accept, while still maintaining a reasonable assurance of repayment. When private-sector lenders reduced the availability of their financing after the 2007 to 2009 financial crisis, demand for Ex-Im products correspondingly increased. According to Ex-Im data, the amount of financing Ex-Im authorized increased from $12.2 billion in fiscal year 2006 to $35.8 billion in fiscal year 2012, before declining to $27.3 billion in fiscal year 2013 and $20.5 billion in fiscal year 2014. Though smaller than the fiscal year 2012 peak, Ex-Im's fiscal year 2014 total authorizations are a 68 percent increase in nominal terms over its total authorizations in fiscal year 2006. Over the same period, Ex-Im's financial exposure (outstanding financial commitments) increased from $57.8 billion to $112 billion, or by 94 percent in nominal terms. According to U.S. budget

[6] 12 U.S.C. § 635 *et seq.*

documents, Ex-Im's number of full-time equivalent employees grew from 380 to 397 from fiscal year 2006 through fiscal year 2014, an increase of about 4.5 percent.

Ex-Im offers export financing through direct loans, loan guarantees, and insurance. Ex-Im's loan guarantees cover the repayment risk on the foreign buyer's loan obligations incurred to purchase U.S. exports. Loan guarantees are classified as short, medium, or long term. Although the number of Ex-Im's short-term (working capital) guarantees greatly exceeds the number of its medium- and long-term loan guarantees, long-term loan guarantees account for the greatest dollar value of Ex-Im loan guarantees.

Ex-Im is one of several ECAs worldwide that provide export financing support. Other countries' ECAs range from government agencies to private companies contracted by governments. Most, including Ex-Im, are expected to supplement, not compete with, the private market. An international agreement, the Organisation for Economic Co-operation and Development (OECD)[7] Arrangement on Officially Supported Export Credits, governs various aspects of U.S. and other member countries' ECAs, but increasing activity of nonmembers threatens its ability to provide a level playing field for exporters. Several agreements have been made that decrease subsidies and increase transparency among ECAs. However, these agreements apply to participant ECAs, and important emerging countries, including China, are not part of the OECD arrangement.[8]

Ex-Im faces multiple risks when it extends export credit financing, including:

- Credit risk: the risk that an obligor may not have sufficient funds to service its debt or be willing to service its debt even if sufficient funds are available.

[7]The OECD is an intergovernmental organization of 34 industrialized countries, operating by consensus, that fosters dialogue among members to discuss, develop, and refine economic and social policies and provides an arena for establishing multilateral agreements.

[8]See GAO, *U.S. Export-Import Bank: Actions Needed to Promote Competitiveness and International Cooperation*, GAO-12-294 (Washington, D.C.: Feb. 7, 2012).

- Political risk: the risk of nonrepayment resulting from expropriation of the obligor's property, war, or inconvertibility of the obligor's currency into U.S. dollars.
- Market risk: the risk of loss from declining prices or volatility of prices in the financial markets.
- Concentration risk: risk stemming from the composition of a credit portfolio, for example through an uneven distribution of credits within a portfolio.
- Foreign-currency risk: the risk of loss as a result of appreciation or depreciation in the value of a foreign currency in relation to the U.S. dollar in Ex-Im transactions denominated in that foreign currency.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events.

During underwriting, Ex-Im reviews a transaction and assigns it a risk rating based on its assessment of the creditworthiness of the obligors and to establish whether there is a reasonable assurance of repayment. Ex-Im also manages risks through (1) monitoring and restructuring—updating risk ratings and restructuring individual transactions with credit weaknesses to help prevent defaults and increase recoveries and (2) recovery of claims—collecting on the assets of the obligors or the collateral for a transaction that defaults.

While demand for its services generally drives Ex-Im's business, Congress has mandated that Ex-Im support specific objectives and operate within certain parameters. For example, since the 1980s, Congress has required that Ex-Im make available a percentage of its total export financing each year for small business. In 2002, this requirement increased from 10 percent to 20 percent of total authorizations. Congress further instructed that Ex-Im promote the expansion of its financial commitments in sub-Saharan Africa. In annual appropriation acts, Congress has directed that "not less than 10 percent of the aggregate loan, guarantee, and insurance authority available to [Ex-Im]...should be used for renewable energy technologies or end-use energy efficiency technologies"—which we refer to as the renewable energy mandate. Congress has also imposed a limit, currently $140 billion, on Ex-Im's total aggregate outstanding amount of financing, referred to as the exposure limit. In addition, Ex-Im must provide financing on a competitive basis with other export credit agencies, minimize competition in government-supported export financing, and submit annual reports to Congress on its actions.

Status of Ex-Im's Actions to Address GAO Recommendations since Its 2012 Reauthorization

In six reports on Ex-Im issued since March 2013, we presented findings and made 16 recommendations to improve Ex-Im's operations, summarized in this testimony in three broad areas: (1) portfolio risk management, (2) underwriting and fraud prevention processes, and (3) exposure forecasting and reporting on estimates of its impact on U.S. jobs.

Ex-Im's Portfolio Risk Management

Our recent work has produced several findings and recommendations about how Ex-Im manages risks related to the overall size and composition of its portfolio. Our March 2013 report on risk management and our May 2013 report on exposure, risk, and resources made a total of six recommendations in this area. Ex-Im agreed with all of these recommendations and has taken action to implement them.

Loss Estimation

Ex-Im calculates credit subsidy costs and loss reserves and allowances with a loss estimation model that uses historical data and takes credit, political, and other risks into account.[9] Consistent with industry practices, Ex-Im added qualitative factors to the model in 2012—including a factor to account for changes in global economic conditions—to adjust for circumstances that may cause estimated credit losses to differ from historical experience. However, in March 2013, we concluded that the short-term forecast Ex-Im used to account for global economic changes might not be appropriate for adjusting estimated defaults for longer-term products and could lead to underestimation of credit subsidy costs and loss reserves and allowances.[10] We recommended that Ex-Im assess whether it was using the best available data for adjusting its loss estimates. In November 2013, Ex-Im incorporated a longer-term forecast

[9]Ex-Im uses the model to build the agency's credit subsidy estimates in the President's budget and for calculating loss reserves and allowances reported in its annual financial statements.

[10]GAO-13-303. We based our recommendation on guidance from the Federal Accounting Standards Advisory Board for federal credit agencies, which states that agencies should develop cash flow projections for their transactions based upon the best available data. See Federal Accounting Standards Advisory Board, Federal Financial Accounting and Auditing Technical Release 6: *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act* (January 2004).

of global economic change into its loss estimation model. As a result, we consider this recommendation implemented and closed.

Vintage Analysis

In our March 2013 report, we also found that Ex-Im was not maintaining the data it needed to compare the performance of newer transactions with older transactions at comparable points in time, a type of analysis recommended by federal banking regulators.[11] This analysis, known as vintage analysis, can help evaluate the credit quality of recent transactions by comparing their early performance with the early performance of older transactions. As such, it can provide early warning of potential performance problems in newer business. Ex-Im's default rate declined steadily from about 1.6 percent as of September 30, 2006, to 0.29 percent as of September 30, 2012, and, more recently, Ex-Im reported a further decline to 0.17 percent as of the end of December 2014.[12] However, we concluded that this downward trend should be viewed with caution because Ex-Im's portfolio contained a large volume of recent transactions that had not reached their peak default periods. We recommended that Ex-Im retain point-in-time performance data to compare the performance of newer and older business and enhance loss modeling. Ex-Im began retaining such data in 2013. We therefore consider this recommendation implemented and closed.

Stress Testing

The Ex-Im Inspector General (IG) recommended[13] that Ex-Im develop a systematic approach to stress testing its portfolio.[14] In our March 2013 report, we concurred with the IG's recommendation and concluded that Ex-Im's reporting of testing scenarios and results would aid congressional

[11]GAO-13-303. Ex-Im is not bound by federal banking regulator guidance, but it faces risk-management challenges similar to those of regulated private financial institutions.

[12]Ex-Im calculates the default rate as the sum of net claims paid to date on loan guarantees and insurance transactions and unpaid past due installments to date on direct loans divided by disbursements. Ex-Im developed this calculation of the default rate in response to a provision in the Export-Import Bank Reauthorization Act of 2012, which requires Ex-Im to report default rates to Congress at least quarterly. (Pub. L. No. 122-122, § 6, 126 Stat. 350, 353 (2012)).

[13]Office of the Inspector General, Export-Import Bank of the United States, *Report on Portfolio Risk and Loss Reserve Allocation Policies*, OIG-INS-12-02 (Washington, D.C.: September 2012).

[14]A stress test is a "what-if" scenario that is not a prediction or expected outcome of the economy. Stress testing is one tool to measure the vulnerability of portfolios to unexpected losses—that is, losses associated with extreme yet plausible events.

oversight and be consistent with federal internal control standards for effective external communication.[15] We also found that Ex-Im had begun to implement stress testing and recommended that Ex-Im report its stress test scenarios and results to Congress. Ex-Im began reporting its scenarios and results in quarterly reports to Congress on default rates, beginning with the report for the fourth quarter of 2013. In that report, Ex-Im described the stress test scenarios and provided some information about results. Hence, we consider this recommendation implemented and closed.

Subportfolio Reporting

In our May 2013 report, we found that Ex-Im had not routinely reported the performance or risk ratings of its subportfolios for the congressional mandates on small business, sub-Saharan Africa, and renewable energy, though these transactions generally were more risky than Ex-Im's overall portfolio.[16] We recommended that Ex-Im routinely report to Congress the financial performance of subportfolios supporting congressional mandates. Ex-Im began reporting this information in its default rate report to Congress for the quarter ending June 30, 2013. As a result, we consider this recommendation implemented and closed.

Workload Benchmarks

In our March 2013 report, we found that Ex-Im faced potential operational risks because the growth in its business volume had strained the capacity of its workforce.[17] While Ex-Im had also determined that it needed more staff, it had not formally determined the level of business it could properly manage. Without benchmarks to determine when workload levels have created too much risk, Ex-Im's ability to manage its increased business volume might be limited. We therefore recommended that Ex-Im develop benchmarks to monitor and manage workload levels. Subsequently, Ex-Im contracted with a firm to develop a workload modeling tool and benchmarks. As of January 2015, Ex-Im had used the tool to develop benchmarks for Ex-Im divisions engaged in transaction underwriting, support, and monitoring. Ex-Im has hired, or is in the process of hiring, the additional number of staff recommended by the benchmark analysis. Ex-Im is also reviewing the organization of its monitoring group and comparing it to industry best practices to determine if the group should be

[15]GAO-13-303.

[16]GAO-13-620.

[17]GAO-13-303.

reorganized to improve efficiency. Additionally, Ex-Im has agreed to implement, and in some cases has begun implementing, suggestions by the contractor to mitigate risks of future workload increases. As a result, we consider this recommendation implemented and closed.

Resources for Congressional Mandates

In our May 2013 report, we found that Ex-Im expected that administrative resource constraints might prevent it from meeting its congressionally mandated target for small business export financing.[18] The target is fixed to a percentage of the dollar value of Ex-Im's total authorizations. Although Ex-Im has dedicated resources to support the mandate, as Ex-Im authorizations have grown, the corresponding growth in the value of the target has outpaced Ex-Im's increasing support. According to Ex-Im officials, processing small business transactions and bringing in new small business customers is resource-intensive. We concluded that it was important for Ex-Im to communicate to Congress the effect of percentage-based mandates on its operations, as well as the potential impacts such mandates might have on Ex-Im's resources and operations. We recommended that Ex-Im provide Congress with additional information on the resources associated with meeting its percentage-based mandates. Ex-Im agreed and told us it planned to provide information on resources associated with meeting such mandates in its fiscal year 2016 budget submission. Ex-Im's fiscal year 2016 Congressional Budget Justification includes both information on the resources associated with these mandates and Ex-Im's plans to hire additional staff to help meet them. As a result, we consider this recommendation implemented and closed.

Wide-Body Jets

While our July 2014 report on ECA financing support for wide-body jets made no recommendations, it reported information about Ex-Im's aircraft finance portfolio, as well as the financing by other ECAs of these aircraft.[19] Aircraft represent a large share of Ex-Im's new authorizations and exposure. With respect to wide-body jets, a market in which U.S.-based Boeing and European-based Airbus compete globally, we found that in fiscal years 2004 through 2012 Ex-Im's financing support for Boeing wide-body jet exports generally increased, with some decline in authorizations in fiscal year 2013. As of March 31, 2014, Ex-Im's financial exposure in wide-body jets was about $32 billion, about 28 percent of Ex-Im's total financial exposure. From 2008 through 2013, Ex-Im supported

[18]GAO-13-620.

[19]GAO-14-642R.

deliveries of 789 Boeing large commercial aircraft, while European ECAs supported deliveries of 821 Airbus large commercial aircraft. Buyers of large commercial aircraft have also used a number of non-ECA financing options for procuring wide-body jets. From 2008 through 2013, Ex-Im and European ECAs supported 26 percent of large commercial aircraft deliveries.[20]

Ex-Im's Underwriting and Overall Fraud Processes

Our most recent mandated report, in September 2014, found that Ex-Im had implemented many key aspects of its underwriting process but identified weaknesses in certain procedures.[21] In this report, we made six recommendations to Ex-Im to enhance its loan guarantee underwriting process and further document aspects of its underwriting and processes to detect, prevent, and investigate fraud. Our August 2014 report on Ex-Im's monitoring of dual-use exports also found weaknesses in Ex-Im's procedures.

Underwriting

Our review of a statistical sample of loan guarantees indicated that Ex-Im had implemented many key aspects of the underwriting process as required by its *Loan, Guarantee, and Insurance Manual*. However, the manual did not (1) include certain procedures or sufficiently detailed instructions to verify compliance with Ex-Im's requirements and consistency with federal guidance, such as a procedure to verify that applicants did not have delinquent federal debt; (2) include instructions for loan officers to use credit reports and for the inclusion of all required documents and analyses in the loan file prior to approval; and (3) call for assessments of collateral, as required by federal guidance, for certain loan guarantee transactions prior to approval. Furthermore, Ex-Im did not have mechanisms to verify compliance with certain established procedures, including documenting certain loan guarantee eligibility procedures.

[20]The data are for calendar years. The deliveries not supported by ECAs include deliveries to airlines in the United States, France, Germany, Spain, and the United Kingdom—which according to OECD and Ex-Im officials are ineligible for ECA financing support under the "Home Country Rule"—as well as buyers in other countries that use other financing options.

[21]GAO-14-574.

We recommended that Ex-Im take the following actions:

- Develop and implement procedures, prior to loan guarantee approval, for (1) verifying that transaction applicants are not delinquent on federal debt and (2) performing assessments of collateral for nonaircraft medium- and long-term loan guarantee transactions.
- Establish mechanisms to oversee compliance with Ex-Im's existing procedures, prior to loan guarantee approval, for (1) obtaining credit reports for borrowers or documenting why they were not applicable, (2) documenting certain eligibility procedures, and (3) documenting the analysis of country exposure.
- Develop and implement detailed instructions, prior to loan guarantee approval, for (1) preparing and including all required documents or analyses in the loan file and (2) using credit reports in the risk assessment and due diligence process.
- Update the Character, Reputational, and Transaction Integrity review process to include the search of databases to help identify transaction applicants with delinquent federal debt that would then not be eligible for loan guarantees.

As of April 2015, Ex-Im has revised its *Loan, Guarantee, and Insurance Manual* in response to the first three recommendations from our September 2014 report. We consider the second and third of these recommendations to be implemented and are taking actions to close them. With respect to the first of these recommendations, we are continuing to review Ex-Im's actions. In addition, Ex-Im officials have stated that they have been working with the Department of the Treasury on the fourth recommendation to determine the technical feasibility of an automated method to access a Treasury database to verify that applicants are not delinquent on federal debt. We are currently reviewing Ex-Im's actions related to this recommendation.

Documentation of Processes Related to Fraud

Our September 2014 report additionally found weaknesses in Ex-Im's documentation of aspects of its underwriting and overall procedures related to fraud.[22] We found that Ex-Im had not documented its risk-based approach for scheduling examinations to monitor lenders with delegated authority to approve guaranteed loans. In addition, while Ex-Im had

[22]GAO-14-574.

processes to prevent, detect, and investigate fraud, it had not documented its overall fraud processes. Such documentation is recommended by several authoritative auditing and antifraud organizations. We therefore recommended that Ex-Im document:

- its risk-based approach for scheduling delegated authority lender examinations, and
- its overall fraud-prevention process, including the roles and responsibilities of Ex-Im divisions and officials that are key participants in Ex-Im's process.

As of April 2015, Ex-Im has revised its Loan, Guarantee, and Insurance Manual to further document its approach and has documented its overall processes related to fraud, including describing the roles and responsibilities of Ex-Im divisions and officials that are key participants in these processes. Therefore we consider these recommendations to be implemented and are taking actions to close them.

Dual-Use Monitoring

Our August 2014 annual report on Ex-Im's monitoring of dual-use exports also found weaknesses in Ex-Im's documentation of required procedures.[23] We found that Ex-Im had received some but not all of the information it required in its credit agreements regarding the three dual-use transactions it financed in fiscal year 2012, and that some of the information it had received was late. As a result, we found that Ex-Im did not have complete and timely information about whether the items were actually being used in accordance with the terms of the agreements and Ex-Im policy. We recommended that Ex-Im establish steps that staff should take in cases where borrowers do not submit required end-use documentation within the time frames specified in their financing agreements and ensure that these efforts are well documented. In response to our recommendation, Ex-Im revised its 1997 memorandum on the implementation of its dual-use policy for military applications to provide more specific guidance and disseminated the revised memo to relevant staff. During our current annual review of Ex-Im's dual-use financing, we are following up with Ex-Im to see how this revised guidance is being implemented.[24]

[23] GAO-14-719.

[24] We will report the findings of our current dual-use review later this fiscal year.

Ex-Im's Exposure Forecasting and its Reporting of Jobs Supported

In two May 2013 reports, we reported weaknesses in how Ex-Im estimated its future exposure, and we reported the limitations in its calculations of the number of jobs its financing supports. We made two recommendations related to how Ex-Im prepares forecasts and one recommendation on its reporting jobs impact reporting. Ex-Im agreed with all three recommendations and took actions to address them.

Exposure Forecasting

In our May 2013 report on Ex-Im's exposure and resources, we found weaknesses in the methodology Ex-Im used to forecast future financial exposure levels.[25] Although Ex-Im's forecast model is sensitive to key assumptions, Ex-Im had not reassessed these assumptions to reflect changing conditions, nor had it conducted sensitivity analyses to assess and report the range of potential outcomes. We made two recommendations to Ex-Im: (1) that Ex-Im compare previous forecasts and key assumptions to actual results and adjust its forecast models to incorporate previous experience and (2) that Ex-Im assess the sensitivity of the exposure forecast model to key assumptions and estimates and identify and report the range of forecasts based on this analysis. Ex-Im put in place new methodologies for its 2015 budget estimates. Specifically, Ex-Im compared the results of its existing authorization forecast method with actual results and enhanced its calculation of expected repayments and authorizations by incorporating historical experience into the methodology. Additionally, Ex-Im created statistical models to validate its forecasts and provide a range of estimates. Therefore, we consider these two recommendations implemented and closed.

Reporting of Job Support Calculation

In our May 2013 on Ex-Im's job calculation methodology, we found that Ex-Im had not reported the limitations in its calculations of the jobs supported by its financing.[26] To calculate the number of jobs it supports, Ex-Im calculates the total value of exports it supports for each industry associated with each transaction it finances and multiplies the export value for each industry by the Bureau of Labor Statistics (BLS) ratio of jobs needed to support $1 million in exports in that industry. Ex-Im then totals the numbers across all industries to produce an overall estimate. Although the BLS data tables that Ex-Im relies on are based on a commonly used methodology, this methodology has limitations. For

[25] GAO-13-620.

[26] GAO-13-446.

example, the employment data are a count of jobs that treats full-time, part-time, and seasonal jobs equally. In addition, Ex-Im's calculations assume that the firm receiving Ex-Im support uses the same number of jobs as the industry-wide average, but Ex-Im's clients could be different from the typical firm in the same industry. Ex-Im did not report these limitations or fully detail the assumptions related to its data or methodology. We recommended that Ex-Im improve reporting on the assumptions and limitations in the methodology and data used to calculate the number of jobs Ex-Im supports through its financing. Ex-Im's 2013 and 2014 annual reports included greater detail on these issues; therefore, we consider this recommendation implemented and closed.

In conclusion, our reviews of Ex-Im since the 2012 Reauthorization Act have identified a number of areas in which Ex-Im could improve its operations. Ex-Im has shown a willingness to reexamine its operations, agreeing with all of our recent recommendations and implementing a number of them. However, managing a large export financing portfolio with its wide variety of associated risks is challenging. Therefore, to sustain the improvements it has made and address emerging challenges, it will be important for Ex-Im to effectively implement remaining audit recommendations and carefully manage risks in the evolving global financial marketplace.

Chairmen Jordan and Huizenga, Ranking Members Cartwright and Moore, and Members of the Subcommittees, this concludes my statement. I would be pleased to respond to any questions you may have.

GAO Contacts and Staff Acknowledgements

For further information about this statement, please contact me at 202-512-8612 or gianopoulosk@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Celia Thomas, Assistant Director; Kathryn Bolduc; Marcia Carlsen; Michael Simon; and Steve Westley.

Appendix I: Content and Status of Relevant GAO Recommendations

Product	Recommendation	Status
GAO-14-574: EXPORT-IMPORT BANK: ***Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes*** **(September 2014)**		
	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to develop and implement procedures, prior to loan guarantee approval, for (1) verifying that transaction applicants are not delinquent on federal debt, including using credit reports to make such a determination, and (2) performing assessments of collateral for nonaircraft medium- and long-term loan guarantee transactions.	Ex-Im has responded; GAO currently reviewing for potential closure
	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to establish mechanisms to oversee compliance with Ex-Im's existing procedures, prior to loan guarantee approval, for (1) obtaining credit reports for transaction borrowers or documenting why they were not applicable; (2) documenting certain eligibility procedures, including the Character, Reputational, and Transaction Integrity reviews for medium- and long-term loan guarantee transactions, export item eligibility, and country eligibility; and (3) documenting the analysis of country exposure.	We consider these recommendations to be implemented and are taking actions to close them
	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to develop and implement detailed instructions, prior to loan guarantee approval, for (1) preparing and including all required documents or analyses in the loan file and (2) using credit reports in the risk assessment and due diligence process.	We consider these recommendations to be implemented and are taking actions to close them
	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to Update the Character, Reputational, and Transaction Integrity review process to include the search of databases to help identify transaction applicants with delinquent federal debt that would then not be eligible for loan guarantees.	Ex-Im has responded; GAO currently reviewing for potential closure
	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to document Ex-Im's current risk-based approach for scheduling delegated authority lender examinations.	We consider these recommendations to be implemented and are taking actions to close them
	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to document Ex-Im's overall fraud process, including describing the roles and responsibilities of Ex-Im divisions and officials that are key participants in Ex-Im's fraud processes.	We consider these recommendations to be implemented and are taking actions to close them
GAO-14-719: EXPORT-IMPORT BANK: ***Monitoring of Dual-Use Exports Should Be Improved*** **(August 2014)**		
	To ensure adequate and consistent oversight for monitoring the end use of dual-use items, the Chairman of the Export-Import Bank of the United States should strengthen Ex-Im guidance for monitoring end use. Specifically, Ex-Im should establish steps staff should take in cases where borrowers do not submit required end-use documentation within the time frames specified in their financing agreements and ensure that these efforts are well documented.	Ex-Im has responded; GAO is reviewing as part of its annual review of Ex-Im dual use exports

Product	Recommendation	Status
GAO-13-620: EXPORT-IMPORT BANK: ***Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources*** **(May 2013)**		
	To provide Congress with the appropriate information necessary to make decisions on Ex-Im's exposure limits and targets and to improve the accuracy of its forecasts of exposure and authorizations, the Chairman of the Export-Import Bank of the United States should compare previous forecasts and key assumptions to actual results and adjust its forecast models to incorporate previous experience.	Closed – Implemented
	To provide Congress with the appropriate information necessary to make decisions on Ex-Im's exposure limits and targets and improve the accuracy of its forecasts of exposure and authorizations, the Chairman of the Export-Import Bank of the United States should assess the sensitivity of the exposure forecast model to key assumptions and authorization estimates and identify and report the range of forecasts based on this analysis.	Closed – Implemented
	To help Congress and Ex-Im management understand the performance and risk associated with its subportfolios of transactions supporting the small business, sub-Saharan Africa, and renewable energy mandates, Ex-Im should routinely report financial performance information, including the default rate and risk rating, of these transactions at the subportfolio level.	Closed – Implemented
	To better inform Congress of the issues associated with meeting each of the bank's percentage-based mandated targets, Ex-Im should provide Congress with additional information on the resources associated with meeting the mandated targets.	Closed – Implemented
GAO-13-446: EXPORT-IMPORT BANK: ***More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency*** **(May 2013)**		
	To ensure better understanding of its jobs calculation methodology, the Chairman of Ex-Im Bank should increase transparency by improving reporting on the assumptions and limitations in the methodology and data used to calculate the number of jobs Ex-Im supports through its financing.	Closed – Implemented
GAO-13-303: EXPORT-IMPORT BANK: ***Recent Growth Underscores Need for Continued Improvements in Risk Management (March 2013)***		
	To help improve the reliability of its loss estimation model, the Chairman of the Export-Import Bank of the United States should assess whether it is using the best available data for adjusting loss estimates for longer-term transactions to account for global economic risk.	Closed – Implemented
	To conduct future analysis comparing the performance of newer and older business and to make future enhancements to its loss estimation model, the Chairman of the Export-Import Bank of the United States should retain point-in-time, historical data on credit performance.	Closed – Implemented
	To help Congress better understand the financial risks associated with Ex-Im's portfolio, the Chairman of the Export-Import Bank of the United States should report its stress test scenarios and results to Congress when such information becomes available.	Closed – Implemented
	To help manage operational risks stemming from Ex-Im's increased business volume, the Chairman of the Export-Import Bank of the United States should develop workload benchmarks at the agencywide and functional area levels, monitor workload against these benchmarks, and develop control activities for mitigating risks when workloads approach or exceed these benchmarks.	Closed – Implemented

Source: GAO | GAO-15-557T

(100092)

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**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.

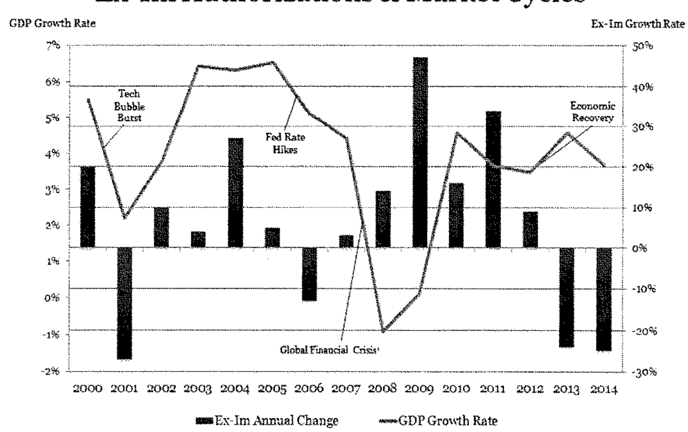
Ex-Im fulfills its mission to support U.S. jobs in two ways. First, Ex-Im fills the gaps when the private sector is unable or unwilling to provide financing for U.S. exports—a particularly important role for American small businesses, which often find it difficult to obtain export financing from their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



[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.

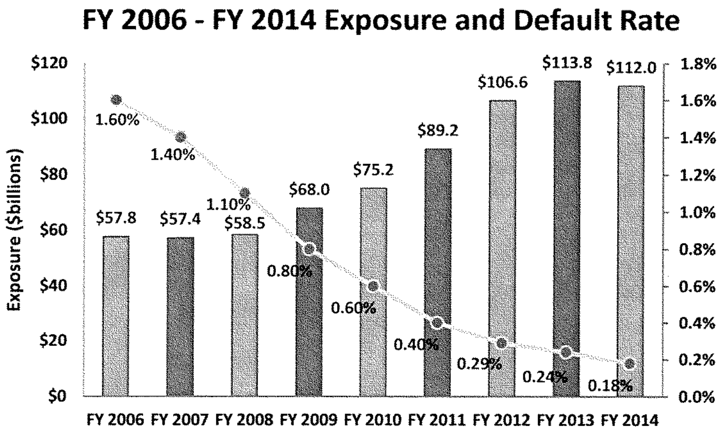
PROTECTING AMERICAN TAXPAYERS

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 *of the* United States

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.

EXPORT-IMPORT BANK *of the* United States

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.

Updated: March 3, 2015

EXPORT-IMPORT BANK *of the* United States

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 *of the* United States

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)

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[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

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[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

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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.

* * *

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.

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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.

EXPORT-IMPORT BANK
***of the* UNITED STATES**

INSPECTOR GENERAL

Statement of

Michael T. McCarthy
Deputy Inspector General
Export-Import Bank of the United States

before the

United States House of Representatives

Committee on Oversight and Government Reform
Subcommittee on Health Care, Benefits,
and Administrative Rules

Committee on Financial Services
Subcommittee on Monetary Policy and Trade

April 15, 2015 at 10:00 am

Good morning, Chairman Jordan, Chairman Huizenga, Ranking Member Cartwright, Ranking Member Moore, and members of the subcommittees.

Thank you for the invitation and opportunity to testify before you about the activities of the Office of Inspector General (OIG) and the programs and operations of the Export-Import Bank (Ex-Im Bank) as it relates to Export-Import Bank oversight and the 2012 reauthorization.

I. Export-Import Bank and the Office of Inspector General

The Export-Import Bank of the United States (Ex-Im Bank) is the official export-credit agency of the United States. Ex-Im Bank is an independent, self-sustaining executive agency and a wholly-owned U.S. government corporation. Ex-Im Bank's mission is to support jobs in the United States by facilitating the export of U.S. goods and services. Ex-Im Bank provides competitive export financing and ensures a level playing field for U.S. exports in the global marketplace.

The Office of Inspector General, an independent office within Ex-Im Bank, was statutorily created in 2002 and organized in 2007. The mission of the Ex-Im Bank Office of Inspector General is to conduct and supervise audits, investigations, inspections, and evaluations related to agency programs and operations; provide leadership and coordination as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse, and mismanagement.

In the past five years, OIG audits, inspections, and investigations have produced quantifiable cost savings to the Bank and the U.S. Treasury. Based on court-ordered forfeitures and restitution directly resulting from OIG investigations of $288 million, the OIG has returned more than 10 times its total budget since the office was created. Including cost savings from transactions canceled based on OIG referrals of $47 million and the reduction in medium-term claims of at least $80 million annually from FY 2012 onward, the OIG has returned more than 25 times its budget.

II. Major Management Challenges

Each year, the OIG publishes a summary of what the Inspector General considers to be the most serious management and performance challenges facing the agency and a brief assessment of the agency's progress in addressing those challenges. At the end of FY 2014, the OIG focused on what we consider, based on our audit, inspection, and investigative work, the three top management challenges facing Ex-Im Bank. These include managing risk, human capital management, and information technology management. Addressing these challenges would provide Ex-Im Bank with a more efficient capability to meet its mission of creating and maintaining jobs in the U.S. through export financing.

MANAGING RISK

We have reported on several challenges facing the Export-Import Bank in managing the risks inherent in its core business activities in a manner that reduces the risks of loss to the Treasury, and by extension, the taxpayer. Ex-Im Bank has experienced significant asset growth during the past several years, yet its resources and policies have not kept pace with the increased risks posed by such growth. The management challenge for Ex-Im Bank is to implement policies and practices that ensure credit and non-credit risks are assessed and priced accurately and that policy considerations are also fully considered. Key areas for consideration include the design and implementation of an agency-wide risk management framework that encompasses both credit and non-credit risks; improving the quality of underwriting and the due diligence process to capture risks associated with all parties to a transaction, including long-term and reputational risks; and improving internal controls to document compliance with clear policies and practices.

- Agency-Wide Risk Management

The OIG has stated that Ex-Im Bank should proactively manage the risk of its growing portfolio in line with common practices of commercial and multilateral development banks. Specifically, we recommended that Ex-Im Bank should establish a Chief Risk Officer or create a risk management office with independent reporting requirements to the Chairman; assess risks on an agency-wide basis; conduct periodic stress testing on its entire portfolio reflecting different market, industry, and macroeconomic scenarios; and actively monitor industry, geographic and obligor exposure levels.

Ex-Im Bank has taken steps towards improving its risk management framework such as establishing the Chief Risk Officer position and an Enterprise Risk Committee and separating origination and risk management functions. Also, the Bank has conducted stress testing and monitoring of exposure levels. We recommend that management attention to these initiatives be sustained. In particular, Ex-Im Bank should assess whether the composition of the credit portfolio produces disproportionate exposure to certain regions, industry sectors, or single obligors. Finally, we recommend that management further develop and implement key risk policies covering enterprise risk, operational risk and portfolio risk mitigation. To this end, management should develop a framework of written policies and procedures for model-validation including external validation of the model's integrity, model ownership and testing.

• Underwriting and Due Diligence

Ex-Im Bank uses a decentralized underwriting process and a risk-based due diligence model. Given the lessons learned from incidences of fraud in the Medium-Term program, the increase in the number of transactions, and insufficient credit information and history from borrowers in some regions, it is vital that Ex-Im Bank enhances credit underwriting and due diligence practices in order to identify and prevent fraud.

In July 2010, Ex-Im Bank's Board of Directors issued an Individual Delegated Authority (IDA) resolution authorizing certain individual Ex-Im Bank officers to approve loans, guarantees, and insurance up to $10 million. Prior to this delegated authority, Ex-Im Bank approved these transactions through a credit committee. The IDA decentralized underwriting and decision-making authority. However, absent strong policies and procedures, decentralized underwriting and due diligence practices may cause inconsistent criteria to be applied in different programs.

Furthermore, the lack of due diligence efforts by delegated lenders, specifically lenders with a history of defaulted transactions in certain products, is a pattern the OIG has observed. Since Ex-Im Bank guarantees that these lenders will receive payment, their incentives to conduct thorough due diligence are reduced. The Bank issued a revised Know Your Customer policy in May 2014. Effective implementation of Know Your Customer practices by lenders, and appropriate controls by Ex-Im Bank to ensure that delegated lenders adhere to these requirements, could help minimize or prevent fraudulent activity.

OIG inspection reports have also found weaknesses in Ex-Im Bank's Character Reputational Transaction Integrity (CRTI) screening process, finding that the process as structured did not identify potentially relevant information about key transaction participants and that the screening did not cover all individuals and entities participating in transactions. Ex-Im Bank has agreed with our recommendations to improve the CRTI process and has recently introduced new CRTI procedures, which OIG will review in future audits and inspections.

• Internal Controls

One of the consistent observations arising out of audits, evaluations, and investigations conducted by the OIG are weaknesses in governance and internal controls for business operations. We have reported that internal policies providing clear guidance to staff and establishing clear roles and authorities have not been prevalent at Ex-Im Bank. The management challenge for Ex-Im Bank is to set clear policies and controls to account for the risks in Ex-Im Bank's operations and document compliance with those controls.

An FY 2013 audit of direct loans found that loan officers did not always document sufficient evidence of the borrower's need for Ex-Im Bank financing, ensure or document borrower eligibility and compliance with Ex-Im Bank credit policies and standards, and document that comprehensive due diligence reviews were completed prior to loan approval. These conditions occurred, in part, as a result of inadequate recordkeeping and reliance on institutional knowledge.

Another issue is the Bank's reliance on self-certification by transaction participants without sampling or verification by Ex-Im Bank. An FY 2014 audit of Ex-Im Bank's Content Policy found that for the majority of transactions, Ex-Im Bank primarily relies on exporter self-certification and criminal penalty warnings to ensure content requirements are met and to deter exporters from making false content representations. For example, in FY 2012, only three percent of all Ex-Im Bank transactions were subject to content requirement oversight procedures. Without proper verification efforts, there is no assurance only eligible exports are financed and that Ex-Im's mission of maintaining or increasing U.S. employment is being met. Similarly, inspections have found that Ex-Im Bank relies on self-certifications that local costs incurred in connection with U.S. exports are in compliance with law and policy. Without a process to verify at least a sample of invoices, or the right to inspect relevant records, Ex-Im Bank does not have assurance that local costs financed by Ex-Im Bank are supporting U.S. exports.

These areas need to be addressed to ensure compliance with Federal and Ex-Im Bank policies and create a better corporate governance culture. Improvement in these areas will also reduce the vulnerability of the Bank to fraud.

HUMAN CAPITAL MANAGEMENT

The OIG has noted an imbalance between the number of Ex-Im Bank underwriters, asset managers, and compliance personnel relative to the increasing size of its asset exposure. During the past five years, Ex-Im Bank has witnessed significant asset growth from less than $70 billion in FY 2009 to approximately $112 billion in FY 2014. Ex-Im Bank's workforce had grown very little during this timeframe, prior to recent authorization of 59 new positions which are currently being filled.

During an FY 2013 audit of Ex-Im Bank's management of direct loans, employees expressed concerns about the impact of the growing demand for Ex-Im support on their continued ability to provide quality service. The audit found that the Credit Administration Group experienced a 100 percent increase in its workload from FY 2010 to FY 2012 without any increase to the number of employees responsible for the work. Previous reports from GAO, KPMG, LLC and CC Pace Systems also expressed concerns over the strained capacity of the Ex-Im workforce and the potential for operational risks, inadequate monitoring of credits and elongated deal cycle times. GAO reported that Ex-Im Bank had not developed benchmarks for the level of business it can properly support with the given level of resources.

In addition to the number of employees and employee workload, the Bank also faces management challenges in recruitment and retention and employee morale. To recruit and retain personnel with specialized skill sets in executing complex financial transactions, Ex-Im Bank competes not just with the private sector, but also with multilateral development agencies such as the World Bank and other federal financial agencies such as the Federal Reserve and the Securities and Exchange Commission, all of which offer a higher pay scale. According to Bank officials, uncertainty about Ex-Im Bank's long-term authorization is also hindering recruitment. Bank officials also described lack of succession planning for key positions as a concern.

In the course of our investigations and in discussions with Bank officials, OIG has received information that employee morale is low. This anecdotal information is corroborated by the results of the 2013 Federal Employee Viewpoint Survey. In that survey, the percentage of positive responses from Ex-Im Bank employees significantly trailed the federal government average in many categories. Employees are especially dissatisfied about the physical conditions of the work environment and health and safety issues, and ratings of confidence in leadership trail the federal average. In addition, OIG investigations have identified management problems in human resources functions.

During FY 2014, Ex-Im Bank added 59 positions to its staffing plan, which should address some of the challenges related to employee workload. The other human capital management issues such as morale and succession planning require sustained management attention. Management has initiated new programs to improve employee outreach and communications intended to enhance employee satisfaction.

INFORMATION TECHNOLOGY (IT) MANAGEMENT

We have previously reported that Ex-Im Bank uses an ineffective, inefficient, and fragmented IT platform and infrastructure in several systems and databases. These systems and databases do not effectively and accurately interface—compromising data integrity, producing duplicative information, and creating unreliable files. These systems make data mining burdensome and time-consuming. The ineffective IT platform compromises the ability of Ex-Im Bank to provide timely service, effectively manage and track its programs, measure progress, identify transaction patterns, conduct portfolio risk analysis, and increase productivity.

A 2012 audit of Information Technology Support for Export-Import Bank's Mission found that the Bank's IT systems do not always capture and manage all necessary data for business needs and that antiquated IT applications cause workflow inefficiencies. For example, Ex-Im Bank's Application Processing Systems (APS) is critical to the bank as it is used to track the applications for long-term guarantee and direct loans. Nevertheless, it was developed decades ago and does not capture all necessary underwriting data. Further, data integrity is at risk in this system due to required manual entry of the transactions.

The audit also found that Ex-Im Bank does not have practices to effectively manage its strategic planning, IT spending, Systems Development Life Cycle and Program Change Management processes.

To address the management challenges related to information technology, we have recommended that Ex-Im Bank develop formal data management policies and procedures to ensure complete and accurate participant and transaction data is captured and reported, and develop a clear and comprehensive IT strategic plan in accordance with OMB requirements.

Since 2012, Ex-Im Bank has engaged in an IT infrastructure modernization effort focused on replacing legacy systems and improving quality and access of its data. In the 2012 reauthorization, Ex-Im Bank was authorized to spend up to $20 million from its surplus specifically to modernize its information technology systems. Ex-Im Bank recently implemented a new comprehensive financial management system, called FMS-NG, to improve its operations. OIG recently issued an audit of the planning and implementation of the FMS-NG system, which found that there were no significant risks that would prevent the implementation of the new system. However, improvements are recommended to the planning and documentation of the implementation. Specifically, the Bank did not sufficiently plan and document the data conversion process; did not perform adequate security assessment and authorization for access controls; and did not develop a contingency plan for errors arising during implementation. We made seven recommendations for corrective action and the Bank concurred with all of them.

Management should continue to upgrade its information technology infrastructure using the funding available for this purpose to improve data reliability and meet the business needs of Ex-Im employees and customers.

III. Issues from the 2012 Reauthorization

The 2012 reauthorization legislation included several provisions to increase reporting and transparency for Ex-Im programs. Although the studies and reports mandated by the reauthorization bill were generally carried out by Ex-Im Bank or by the Government Accountability Office, the OIG has conducted audit and inspection work relevant to certain topics addressed in the 2012 bill.

- Due Diligence Standards for Lender Partners (Section 7)

In recent inspection reports on the PNG LNG and Punj Lloyd project financing transactions, OIG identified weaknesses in the due diligence process at Ex-Im Bank and recommended improvements to that process, including Character Reputational Transaction Integrity (CRTI) screening and Know Your Customer Policies. In May 2014, Ex-Im Bank published Know Your Customer and Due Diligence Standards for delegated lenders, and recently revised its own CRTI procedures, in response to the mandate in the 2012 reauthorization and OIG recommendations. In future transaction inspections, OIG will monitor the effectiveness of these revised policies.

- Categorization of the purpose of loans and long-term guarantees (Section 10)

The 2012 reauthorization required Ex-Im Bank to categorize the purpose of its direct loans and long-term guarantees as (1) to assume commercial or political risk that exporter or private financial institutions are unwilling or unable to undertake, (2) to overcome maturity or other limitations in private sector export financing, (3) to meet competition from a foreign, officially sponsored, export credit competition, or (4) other.

OIG has not audited Ex-Im Bank's categorization and reporting of the purpose of loans and long-term loan guarantees required by the reauthorization. However, in FY 2014, we issued an audit report on Ex-Im Bank's management of direct loans. As part of this audit, we reviewed 6 direct loans authorized and underwritten between FY 2010 and FY 2012 (prior to the requirements of the 2012 reauthorization) to determine if Ex-Im Bank loan officers confirmed the information provided by direct loan applicants supporting the need for Ex-Im Bank financing. We found that the loan files did not include sufficient documentation to substantiate the applicants' assertions of their need for Ex-Im Bank financing. At that time, Ex-Im Bank loan officers stated that the need for Ex-Im Bank financing was done through verbal and email communication and detailed documentation was not required to be maintained.

In the report, we noted that as a result of the 2012 reauthorization, Ex-Im Bank had revised its loan manual to emphasize the importance of accurate categorization and provide guidance to assist loan officers in determining and documenting why Ex-Im support is needed. Additionally, our audit report included a recommendation to ensure detailed documentation regarding the need for Ex-Im support would be maintained. Management has implemented this recommendation by incorporating this requirement into its loan manual.

- Economic Impact Analyses (Section 12)

The 2012 reauthorization required Ex-Im Bank to publish its methodological guidelines for conducting economic impact analyses. In 2010, OIG had issued an evaluation report relating to economic impact procedures, which made several recommendations, including increasing transparency of its process for conducting its analysis. In April 2013, Ex-Im Bank published its revised procedures and methodological guidelines for economic impact analysis.

OIG is currently conducting a follow-up evaluation to assess the steps that Ex-Im Bank has taken to address the reported findings and recommendations in our 2010 report regarding economic impact analyses. We have closed out the majority of the recommendations from our 2010 report, and are currently assessing our prior recommendation to validate economic impact analyses by conducting a retrospective review of a sample of previous analyses to determine whether those assessments of economic impact turned out to be accurate. In response to recent document disclosures, the review is also assessing the transparency of the process for developing and publishing new procedures and whether any improper ex parte communications occurred.

- Domestic Content Policy (Section 15)

The 2012 reauthorization required Ex-Im Bank to conduct a review of its domestic content policy for medium- and long-term transactions. In 2013, OIG completed an audit of Ex-Im Bank's domestic content policy. The audit found that only long-term transactions are subject to procedures that could identify content-related discrepancies. For all other transactions, Ex-Im Bank largely relied on exporter self-certifications and criminal penalty warnings to ensure content requirements are met and to deter exporters from making false statements. The audit recommended that Ex-Im Bank verify exporter self-certifications of domestic content for a representative sample of transactions each year. Ex-Im Bank plans to implement verification procedures by September 30, 2015. The report also made recommendations for Ex-Im Bank to obtain a resolution from the Board of Directors regarding a requirement to provide an annual report on content trends and to establish mechanisms to obtain specific, measurable, and reliable data to analyze the impact of any content-related procedural changes. Both of these recommendations had implementation target dates of March 31, 2015, but are still outstanding.

- Periodic Audits of Bank Transactions (Section 17)

The 2012 reauthorization required GAO to audit loan and guarantee transactions to determine compliance with underwriting guidelines, lending policies, due diligence procedures, and content guidelines. As part of its risk-based auditing plan, OIG also completed compliance audits of Ex-Im direct loan and short-term multi-buyer insurance programs.

Our audit of Ex-Im Bank's management of direct loans included a review of 6 direct loans totaling $7.3 billion that were authorized and underwritten between FY 2010 and FY 2012. The audit found that loan officers did not always document sufficient evidence of the borrower's need for Ex-Im Bank financing, ensure or document borrower eligibility and compliance with Ex-Im Bank credit policies and standards, and document that comprehensive due diligence reviews were completed prior to loan approval. These conditions occurred, in part, as a result of inadequate recordkeeping and reliance on institutional knowledge. The audit also found that Ex-Im Bank had not formally adopted key OMB and Department of Treasury policy documents. The Bank has fully implemented two of the recommendations from this audit related to documenting the need for Ex-Im Bank support and formally adopting OMB and Treasury policies. The remaining two recommendations - to develop a quality control review program to prevent, detect and correct noncompliance and to evaluate Ex-Im Bank's recordkeeping practices and implement a plan to address deficiencies – are still open and should be implemented by September 30, 2015.

Our audit of Ex-Im Bank's short-term multi-buyer insurance program included a review of 23 transactions totaling approximately $25 million in credit limits. We found that Ex-Im Bank's internal control environment and activities for the program were generally designed, operated, and updated to provide reasonable assurance of compliance with applicable laws and regulations. However, we identified five transactions, totaling over $5 million in credit limits, were approved even though the required credit standards were not met or the required CRTI check was not performed prior to approval. We also found that underwriters were not consistently documenting their credit decisions. The Bank agreed to implement our recommendations to improve the underwriting and CRTI process by September 30, 2015.

- Iran Sanctions (Section 18)

In 2014, OIG initiated an audit of Ex-Im Bank's compliance with Iran sanctions. The initial phase of the audit found no transactions with persons on the sanctions list, and that the OIG had an outstanding recommendation from a previous inspection report to enhance the Bank's CRTI process which would help ensure compliance with Iran sanctions requirements. As a result, the audit was terminated to reallocate resources to higher-risk areas. The Bank has also implemented the inspection recommendation and enhanced its CRTI process.

IV. Fraud and Integrity Investigations

Since 2009, OIG investigative efforts have resulted in a number of law enforcement actions against parties who have attempted to defraud the Bank, including 80 criminal indictments and criminal informations; 47 convictions; $288 million in judgments from fines, criminal forfeiture, restitution, cost savings, and civil judgments; and 600 referrals of investigative intelligence to OGC for enhanced due diligence.

The most common fraud schemes that we have encountered involve outside parties obtaining loans or guarantees through false representations and submission of false documents. Accordingly, we have provided training to Bank staff and to delegated lending institutions in recognizing indicators of fraudulent documentation. Frauds are often detected after loans default and claims are received. The OIG, in collaboration with the Bank's Office of General Counsel and Asset Management Division, reviews defaults and claims for indicators of fraud. The OIG also conducts proactive investigative work, such as data analysis and review of law enforcement databases, to identify potential fraud in Bank transactions.

Last summer, it was reported that four Ex-Im Bank employees had been removed or suspended based on OIG investigations. At that time, we stated that OIG had three open investigations involving four Ex-Im employees, but could not provide further information about active ongoing investigations. Since that time, we have closed two cases of employee misconduct and reported the results of these cases back to these committees in October 2014 and February 2015.

In one case, the OIG investigated allegations that an Ex-Im Bank employee was hired despite a felony conviction and provided improper assistance to his former employer bidding on a contract. The investigation substantiated that the employee had a felony conviction and participated in the procurement process for the contract. The investigation also found that the employee maintained outside part-time employment with another company, made unsuccessful efforts to obtain contracts for the part-time employer, and misused government IT resources. OIG referred the investigative findings to Ex-Im Bank, and Ex-Im Bank management removed the employee from federal employment and replaced managers responsible for hiring and supervising the employee. The Bank reviewed procurement actions but concluded that the actions of the employee did not require those procurements to be modified or re-competed.

In another case, OIG received an allegation that certain contractor employees were improperly paid during the October 2013 government shutdown. The allegations were substantiated. Witnesses provided testimonial and documentary evidence establishing that a contractor, contractor employees, and an Ex-Im Bank contracting official engaged in a scheme to overstate the hours worked in the second half of October 2013 in order to compensate contractor employees for hours not worked or billed during the shutdown period. The scheme resulted in the payment of approximately $19,356 for hours not actually worked. After OIG shared the investigative findings with OGC and Ex-Im Bank management, the employee resigned before disciplinary action was initiated. Ex-Im Bank terminated the contract and is recovering the $19,356 in improper payments.

Another case involving two former Ex-Im employees remains open. At the time of the submission of this testimony, we cannot provide additional information. We expect further updates on this matter will be available in the near future.

V. Conclusion

As Congress reviews the results of the 2012 reauthorization of Ex-Im Bank, this testimony highlighted some of the challenges and weaknesses facing Ex-Im Bank for consideration in the current reauthorization process. The OIG will continue to perform its independent oversight role as well as strengthen its efforts in preventing and detecting fraud, waste, and abuse.

Chairman Huizenga, Chairman Jordan, Ranking Member Moore, Ranking Member Cartwright, and members of the subcommittees, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have.

Witness Bios

Michael T. McCarthy is the Deputy Inspector General of the Export-Import Bank of the United States and currently leads the Office of Inspector General. He provides overall direction to the teams of auditors, investigators, and inspectors responsible for improving the programs and operations of Ex-Im Bank and preventing and detecting fraud, waste, and abuse.

Mr. McCarthy is a career public servant who has worked in all three branches of government. Before joining Ex-Im Bank, he was a senior executive at the U.S. Department of the Treasury and the Administrative Conference of the United States, and previously served at the U.S. Department of Justice. For the U.S. House of Representatives, Mike served as deputy staff director and general counsel to the Committee on Oversight and Government Reform and as staff director of that panel's Subcommittee on Government Management. He was law clerk to U.S. District Judge Leonie Brinkema (E.D. Va.). Mr. McCarthy graduated with honors from Harvard Law School and received a B.A. from Georgetown University, where he was a Big East All-Academic swimmer. Mike and his wife, Carrie Wilks, have three daughters.

Mark Thorum serves as Assistant Inspector General for Inspections and Evaluations, Office of Inspector General (OIG) Export-Import Bank of the United States. In this capacity, he manages the inspection and evaluation functions within the OIG. These functions assess the efficiency and effectiveness of Ex-Im Bank programs, operations and financings; review and evaluate policies, and regulations; and develop recommendations for improving program performance and mitigating risk.

Mr. Thorum has more than 25 years of experience with credit structuring, financial markets and risk management advisory with domestic and international banks. In his last position, he worked as Senior Consultant and Head of Capital Structuring Advisory with the Financial Markets Advisory department of an international bank. He has successfully executed complex financial and risk advisory assignments and structured debt financings in the US, Europe and Asia. Mr. Thorum is a Ph.D. candidate at the Virginia Polytechnic Institute and State University School of Public and International Affairs. He holds a M.A from the John Hopkins University; School of Advanced International Studies, and a D.E.A. from the Institute of Political Studies, Paris, France. Mr. Thorum is conversant in several languages including English, French, Spanish and Dutch. Mark and his wife, Caterina, have three sons.

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Under Secretary of the U.S. Department of the Treasury Nathan Sheets
Written Statement
House Committee on Oversight and Government Reform, Subcommittee on Health Care, Benefits, and Administrative Rules, and House Financial Services Committee, Subcommittee on Monetary Policy and Trade
April 15, 2015

As prepared for delivery:

Chairman Huizenga, Chairman Jordan, Ranking Member Moore, Ranking Member Cartwright, and distinguished members of the Subcommittees, thank you for the opportunity to testify on efforts by Treasury and the Administration to discipline the use of government export financing support in a way that minimizes trade distortions, helps ensure that government export financing support complements market finance, and contributes to a level playing field for U.S. stakeholders. We pursue these objectives through focused work to strengthen the existing international export finance guidelines by bringing them closer to market financing, and to bring countries currently not participating in the existing guidelines into a new set of guidelines.

Treasury has been and will continue to be guided by three core principles in this effort:

(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 financing 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 to limit trade distortions and help ensure that this support complements, rather than crowds out, market financing.

Even as we pursue these efforts, we must recognize that curtailing U.S. export financing unilaterally could undermine our exporters' ability to compete, potentially causing them to lose business to foreign competitors whose governments continue to provide that support. This could also prompt some U.S. exporters to move their operations overseas to gain access to support offered by foreign governments, and result in a loss of American jobs. Moreover, unilateral action by the United States – without similar moves by foreign governments – could leave us unable to counter the actions of other governments and thus weaken our ability to negotiate more robust disciplines.

Bringing China and Others Into A Rules-Based Framework

Fundamental changes have occurred in the global export finance landscape over the past decade; chief among them has been a dramatic increase in official export financing provided by China and other large emerging market economies that do not participate in the OECD Arrangement on

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Officially Supported Export Credits ("Arrangement"). These countries have come to account for nearly as much official export financing support as the G-7 countries, which had dominated this space for decades. Unless these countries operate 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.

Bringing all major providers of official export financing support into an international rules-based framework with a common set of financial terms and conditions is the essential first step in disciplining the use of that support. Therefore, Treasury and the Administration have undertaken significant efforts to develop new international export credit guidelines that would apply to all major providers, including China and other large emerging market countries, bringing their official export credit activities within a set of clear financing and transparency standards. Such a framework can then form the basis for achieving greater market-orientation in the provision of official export finance support, which will contribute to that support complementing, and not crowding out, market financing.

We are pursuing these efforts through the International Working Group on Export Credits (IWG)[1], which was established in 2012 based on a bilateral commitment between President Obama and then-Chinese Vice President (now President) Xi to make concrete progress toward a set of new international export credit guidelines. Since the IWG's establishment, the United States has secured additional important Chinese commitments on export credits in the U.S.-China Strategic and Economic Dialogue (S&ED), and most recently during President Obama's November 2014 visit to China, where China committed to take all steps necessary to advance the IWG initiative, and to support comprehensive guideline coverage.

The IWG concluded its seventh meeting in February and will next meet in mid-May. As with any multilateral negotiation, there are many difficult issues to be addressed, but I can say that to date meaningful progress has been made toward establishment of a new set of international guidelines on official export financing.

Minimizing Distortions in the Aircraft Export Credit Market

The United States has worked for years to make the international guidelines on official export financing support for aircraft more market oriented. These concerted efforts have led most recently to completion of the 2011 Aircraft Sector Understanding (ASU), which substantially improved on the previous ASU in a number of ways, the most important being adoption of a system for pricing borrower risk that adjusts quarterly in response to evolving market conditions. In the 2011 ASU, the Administration and its negotiating partners – the European Union (mainly Germany, France, and the UK), Canada, Japan, and Brazil – 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.

And, we believe that the market-oriented nature of the 2011 ASU, along with meaningful increases in commercial market financing, have resulted in a meaningful decline in the demand

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[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

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for official export financing support for aircraft even as the overall number of Boeing and Airbus aircraft deliveries has increased. Since the 2011 ASU went fully into effect in 2013, we have seen both:

(1) A falling proportion of large aircraft deliveries financed with official support as a percentage of total large aircraft deliveries globally; and

(2) Declining U.S. Export-Import Bank (Ex-Im Bank) support for Boeing large aircraft[2] exports in dollar value terms and in terms of the number of aircraft exports supported.

We believe that this clear trend toward greater aircraft purchaser reliance on private market financing stems to a meaningful degree from the more market-oriented terms and conditions of the 2011 ASU, which reduce the incentive for aircraft purchasers to pursue government financing if they also have access to commercial market financing.

Even with this reduced demand for official export financing support for aircraft, we will continue to explore opportunities with our European counterparts on possible ways to limit official financing support for twin-aisle aircraft, particularly for airlines with access to alternative sources of financing. For example, Treasury's lead negotiator convened a meeting late last year with representatives from the German, French, and British governments on this issue, where he reiterated the U.S. interest in further limiting official financing support for twin-aisle aircraft. These governments noted their belief that the 2011 ASU is sufficient for this purpose, and they were unwilling to explore additional steps to narrow support for twin-aisle aircraft.

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. In fact, unilateral withdrawal of official export financing support for U.S. aircraft, while European aircraft continue to receive such support, would put exporters from one of the most dynamic and innovative sectors of our economy at a competitive disadvantage, without addressing the concerns raised by domestic airlines.

Improving the Current International Guidelines

In addition to bringing China and other large emerging market countries into a new set of international export credit guidelines and disciplining government financing support for aircraft exports, Treasury and the Administration are currently seeking to make the interest rate provisions of the existing Arrangement more market oriented. The current Arrangement interest rate provisions were established decades ago, and our focus is on bringing them more into line with what is available in the private market. To achieve this objective, we have tabled a strong proposal in the OECD that, if adopted, would help to ensure that official export financing support does not substitute for private market finance, and contributes to a level playing field for U.S. stakeholders.

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

EMBARGOED FOR DELIVERY

Conclusion

Since 2012, we have made substantial efforts to discipline the use of government export financing support in a way that minimizes trade distortions, helps ensure that government export financing support complements market finance, and contributes to a level playing field for U.S. stakeholders, consistent with the 2012 Congressional mandate. And, while progress is sometimes incremental as we seek to strengthen the existing international export finance guidelines and bring countries currently not participating in the existing guidelines into a new set of guidelines, progress is being made, and achieving further progress will continue to be a top priority for Treasury and the Administration.

April 14, 2015

The Honorable John A. Boehner
Speaker of the House of Representatives
House of Representatives
H-232, Capitol Building
Washington, DC 20515

The Honorable Mitch McConnell
Majority Leader
U.S. Senate
S-230, Capitol Building
Washington, DC 20510

The Honorable Nancy Pelosi
Minority Leader
House of Representatives
H-204, Capitol Building
Washington, DC 20515

The Honorable Harry Reid
Minority Leader
U.S. Senate
S-221, Capitol Building
Washington, DC 20510

Dear Speaker Boehner, Leader McConnell, Leader Pelosi and Leader Reid:

As governors of states whose economies and workforces depend on exports, we strongly urge you to support legislation that provides for the long-term reauthorization of the U.S. Export-Import Bank (Ex-Im Bank) before its charter expires on June 30, 2015. The Ex-Im Bank is a crucial tool that both small and large businesses use to compete fairly in the world market, increase their exports, stimulate job creation, and contribute to the growth of our states' economies.

As the official export credit agency of the United States, the Ex-Im Bank assumes the credit and country risks that private sector lenders are unable or unwilling to accept, and without it, U.S. firms would lose many sales to overseas competitors. The Ex-Im Bank allows our companies and workers to compete on a level playing field against international competitors who receive extensive support from their own export credit agencies.

As the economies of our states continue to grow, the Ex-Im Bank is currently playing a vital role in promoting exports and jobs. In federal fiscal year 2014, the Ex-Im Bank supplied more than $20 billion in financing to support approximately $27 billion in exports. In that same fiscal year, the Ex-Im Bank supported more than 160,000 American jobs. And the overwhelming majority of the Ex-Im Bank's transactions – nearly 90 percent – assisted small businesses.[1]

[1] *Annual Report 2014 - Highlights*. Export-Import Bank of the United States, 30 Dec. 2014. Web. 6 Feb. 2015. <http://www.exim.gov/about/library/reports/annualreports/2014/exim-04-hightlights.html>

In a tight federal fiscal environment, we are encouraged that the Ex-Im Bank is financially self-sustaining, and operates at no cost to hard-working American taxpayers. In fact, in fiscal year 2014 alone, the Ex-Im Bank returned approximately $675 million in deficit-reducing receipts to the U.S. Treasury.[2]

Last year, an overwhelming majority of the nation's governors urged Congress to reauthorize the Ex-Im Bank. While we appreciate that Congress extended the Bank's charter until June 30, 2015, it is essential that both chambers act again, this time to pass a long-term, multi-year reauthorization, before that deadline. We also welcome opportunities to continue to reform and improve the Ex-Im Bank moving forward. Failure to act will place American industries at a significant disadvantage in the global marketplace and harm businesses in our states.

We strongly encourage you to pass a long-term reauthorization of the Export-Import Bank. Thank you for your consideration and your leadership as we work together to increase job opportunities in our states and grow our national economy.

Sincerely,

Governor Robert Bentley
State of Alabama

Governor Jay Inslee
State of Washington

Governor Bill Walker
State of Alaska

Governor Edmund G. Brown, Jr.
State of California

Governor John Hickenlooper
State of Colorado

Governor Dannel P. Malloy
State of Connecticut

Governor Jack Markell
State of Delaware

Governor Eddie Baza Calvo
Island of Guam

[2] *Ibid.*

Governor David Ige
State of Hawaii

Governor C.L. "Butch" Otter
State of Idaho

Governor Steven L. Beshear
Commonwealth of Kentucky

Governor Paul LePage
State of Maine

Governor Charles D. Baker
Commonwealth of Massachusetts

Governor Mark Dayton
State of Minnesota

Governor Steve Bullock
State of Montana

Governor Brian Sandoval
State of Nevada

Governor Maggie Hassan
State of New Hampshire

Governor Susana Martinez
State of New Mexico

Governor Mary Fallin
State of Oklahoma

Governor Kate Brown
State of Oregon

Governor Tom Wolf
State of Pennsylvania

Governor Alejandro Javier García Padilla
Commonwealth of Puerto Rico

Governor Gina Raimondo
State of Rhode Island

Governor Nikki R. Haley
State of South Carolina

Governor Dennis Daugaard
State of South Dakota

Governor Peter Shumlin
State of Vermont

Governor Terence R. McAuliffe
Commonwealth of Virginia

Governor Earl Ray Tomblin
State of West Virginia

THE WALL STREET JOURNAL.

http://www.wsj.com/articles/justice-department-charges-former-export-import-bank-official-with-bribery-1429050539

U.S. NEWS

Justice Department Charges Former Export-Import Bank Official With Bribery

Loan officer Johnny Gutierrez left agency last year as investigation intensified

Johnny Gutierrez at a congressional hearing last July. Prosecutors on Monday filed bribery charges against the former employee of the Export-Import Bank. *PHOTO: ANDREW HARRER/BLOOMBERG NEWS*

By **DAMIAN PALETTA**
April 14, 2015 6:28 p.m. ET

WASHINGTON—The Justice Department has charged a former loan officer at the Export-Import Bank with bribery, alleging that Johnny Gutierrez on 19 occasions between 2006 and 2013 accepted cash and other things of value in return for "being influenced in the performance of his official acts."

Prosecutors filed charges Monday in U.S. District Court for the District of Columbia, and said they are seeking for Mr. Gutierrez to forfeit $78,900, a sum they described as "the amount of proceeds obtained" through the alleged bribes.

The charges, detailed in a letter from the office of the Export-Import Bank's inspector general to Rep. Jason Chaffetz (R., Utah) on Tuesday, come as a probe into the alleged bribery remains ongoing. Mr. Chaffetz, the chairman of the House Committee on Oversight and Government Reform, is holding a hearing with other lawmakers to scrutinize the Export-Import Bank on Wednesday.

"Because this investigation remains open as to other subjects and the charges against Mr. Gutierrez are currently pending in federal court, I cannot provide additional information at this time or in my testimony at the hearing scheduled for April 15," deputy inspector general Michael T. McCarthy wrote to Mr. Chaffetz.

A lawyer for Mr. Gutierrez didn't immediately respond to requests for comment.

The Export-Import Bank is a federal agency that helps U.S. firms, or U.S. divisions of foreign firms, export goods through either loan guarantees or direct financing, among other means. Agency officials have said they have several measures in place to prevent bribery or corruption, though they have been tight-lipped on the investigation of Mr. Gutierrez.

The agency was created 81 years ago, and its charter is scheduled to expire June 30. A number of Republicans want to let the agency's charter expire, saying the agency distorts markets and interferes in global trade. Most Democrats and a number of Republicans favor the agency, though it is unclear if there will be enough support to win reauthorization.

The investigation of Mr. Gutierrez was prompted when another Export-Import Bank employee raised flags with investigators about his alleged behavior, a person familiar with the matter said.

The Wall Street Journal last year disclosed the investigation into Mr. Gutierrez. Several people familiar with the investigation said the former loan officer allegedly accepted cash payments in exchange for trying to help a Florida company obtain U.S.

government financing.

The Wall Street Journal article said there were a total of four agency employees who had been suspended or removed amid investigations into their behavior, though they weren't all related to the probe into Mr. Gutierrez.

Mr. Gutierrez left the agency last year as the investigation into his alleged behavior intensified.

"This announcement sends a clear signal that the Ex-Im Bank has zero tolerance for waste, fraud and abuse," agency spokesman Matt Bevens said. "A fellow Ex-Im Bank employee was the original source of the information that led to the investigation, evidence of Ex-Im Bank's strong culture of ethics and close cooperation with its Inspector General."

Write to Damian Paletta at damian.paletta@wsj.com

THE WALL STREET JOURNAL.

http://www.wsj.com/articles/officials-at-ex-im-bank-face-investigations-1403563954

POLITICS

Officials at Ex-Im Bank Face Investigations

Agency Is at Crossroads as Two Top House Republicans Oppose Its Reauthorization

By **DAMIAN PALETTA**
June 23, 2014 6:52 p.m. ET

The U.S. Export-Import Bank has suspended or removed four officials in recent months amid investigations into allegations of gifts and kickbacks, as well as attempts to steer federal contracts to favored companies, several people familiar with the matter said.

One employee, Johnny Gutierrez, an official in the short-term trade finance division, allegedly accepted cash payments in exchange for trying to help a Florida company obtain U.S. government financing to export construction equipment to Latin America, according to a person familiar with the inquiry. Mr. Gutierrez was escorted from the Ex-Im Bank building in April, said two people familiar with the matter.

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Mr. Gutierrez's lawyer, Douglas McNabb, confirmed his client had been placed on leave after an investigation by the agency's inspector general, but he wouldn't comment on details of the investigation. Mr. Gutierrez couldn't be reached for comment.

Of the four employees, Mr. Gutierrez's responsibilities were most central to the agency's core mission of financing exports. Two of the others are being investigated over allegations of improperly awarding contracts to help run the agency; the third is being investigated over allegations of accepting gifts on behalf of a company seeking financing, according to people familiar with the matter. The identities of the three couldn't be fully corroborated.

The Ex-Im Bank hasn't disclosed information about the investigations, and declined to comment on Mr. Gutierrez's status, citing privacy laws. Matt Bevens, a spokesman for the agency, said that "the Export-Import Bank takes extremely seriously its commitment to taxpayers and its mission to support U.S. jobs."

Michael McCarthy, the agency's deputy inspector general, said his office couldn't comment on the existence of any investigations.

The internal investigations come at a pivotal time for the agency. Congress is considering whether to reauthorize the 80-year-old federal trade-finance agency, and two of the top three House Republican leaders now say they won't agree to authorize the agency's charter after it expires in September. The allegations of misconduct could complicate an already difficult political environment for those who support the agency's reauthorization.

The agency's chairman, Fred Hochberg, and its inspector general are scheduled to testify before a congressional panel Wednesday about the agency's mandate and operations.

The agency and its 400 employees help finance export deals for a number of large and small U.S. companies, including Boeing Co. , General Electric Co. and Caterpillar Inc. Boeing is one of the largest beneficiaries of the federal agency's financing, but hundreds of smaller companies also win approval.

Mr. Hochberg has recently been traveling around the country talking up his agency's benefits to the U.S. economy. The U.S. Chamber of Commerce, the National Association of Manufacturers and several large companies are lobbying lawmakers aggressively to allow the agency to continue backing loans.

The Chamber and NAM released a letter Monday signed by 865 U.S. companies and industry groups supporting the agency's reauthorization.

The IG is investigating whether Mr. Gutierrez accepted improper gifts from Gerardo "Jerry" Diaz, who runs a Florida company called Impex Associates, a person familiar with the matter said.

Multiple efforts to reach Mr. Diaz and Impex were unsuccessful. A lawyer who represented Mr. Diaz in a federal court case in 2006 said he no longer worked for Mr.

Diaz and hadn't represented him in years.

Impex ramped up its operations a decade ago, selling U.S. construction equipment and supplies to developers, mainly in Latin America, according to Ex-Im Bank records and the 2006 lawsuit filed against Mr. Diaz by a former business associate, Rama Vyasulu.

The agency has guaranteed numerous Impex deals, stretching back to at least 2002, according to agency records. For example, at one meeting in June 2007, the agency's credit committee agreed to guarantee financing for an Impex project worth between $1 million and $5 million in Mexico, and a similarly sized equipment sale to the Dominican Republic.

The agency has also backed Impex deals in Jamaica and the Turks and Caicos, but not all projects were in Latin America. The agency in 2005 talked up its decision to guarantee a $30 million Impex construction project to build a housing community for oil and gas workers in Doha, Qatar.

The Export-Import Bank changed how it disclosed financing deals in 2010 and no longer discloses all the small business loans it originates. An agency spokesman wouldn't comment on the agency's recent involvement with Impex, though it has backed Impex deals through at least 2011.

The agency operates on borrowed money from the Treasury Department, which it pays interest on. It uses that money for direct loans or loan guarantees. In fiscal 2013, the agency authorized $27 billion to support an estimated $37.4 billion in U.S. export sales. It also sent $1.06 billion to the U.S. Treasury, money it earned from interest and fees.

Write to Damian Paletta at damian.paletta@wsj.com

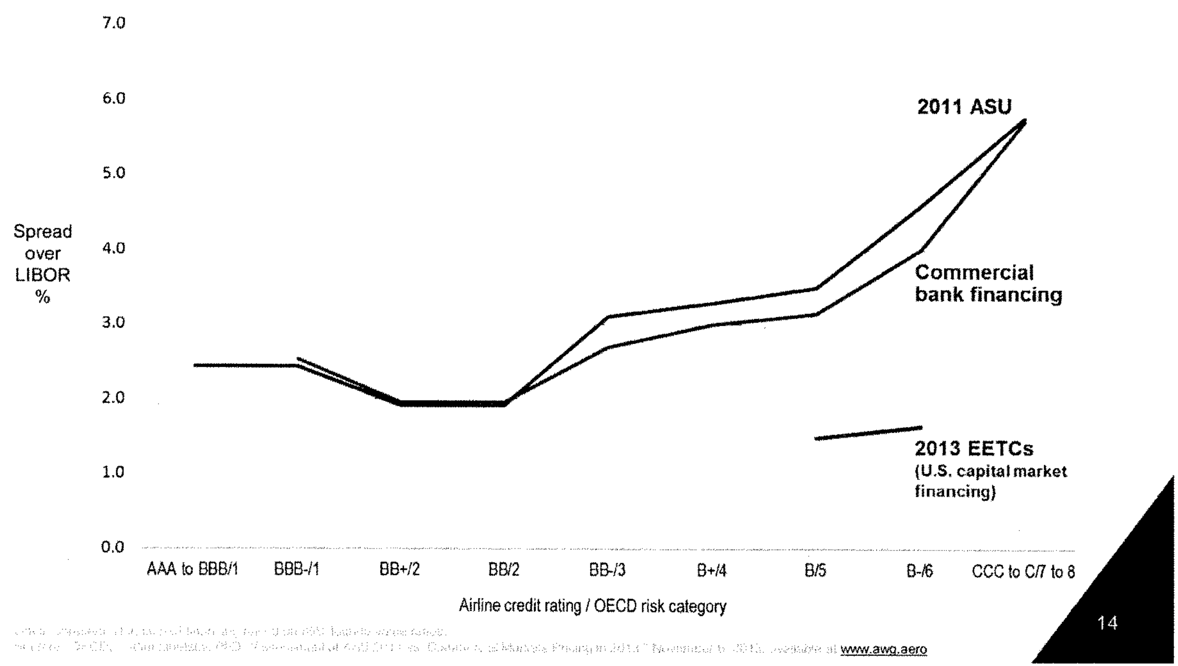
Corrections & Amplifications
A photo showing a Gulfstream Aerospace executive meeting with a U.S. Export-Import Bank executive was removed from an earlier version of this article because the photo wasn't related to the investigation at the bank.

Airlines pay as much—or more— for an Ex-Im guarantee than for commercial credit

- Export credit for airplanes is governed by a multilateral OECD agreement (the 2011 ASU) that sets fees for loan guarantees
- The ASU has delivered on its promise to set ECA fees equal to commercial bank rates
    - Pricing is reset quarterly to account for market conditions
- Under the ASU, overseas airlines pay more for export credit than U.S. counterparts do for commercial financing

Government export credit pricing is on par with commercial markets

EETC rates are well under the 2011 ASU



All recent EETCs by U.S. airlines have been cheaper than government export credit

	Date	Aircraft	Cheaper than export credit?	Total savings
U.S. airline EETC #1	March 2012	New 737-900ER & 787-8	✓	**$89.5 million**
U.S. airline EETC #2	April 2012	New & used A321	✓	**$4.9 million**
U.S. airline EETC #3	June 2012	Used A319, A320, 757 & 767-300ER/-400ER	✓	**$57.5 million**
U.S. airline EETC #4	October 2012	New 737-900ER & 787-8	✓	**$89.2 million**
U.S. airline EETC #5	November 2012	New A321 & A330-200	✓	**$40.9 million**
U.S. airline EETC #6	April 2013	New A321 & A330-200	✓	**$97.5 million**
U.S. airline EETC #7	May 2013	New A330-200	✓	**$50.0 million**
U.S. airline EETC #8	August 2013	New 737-900ER & 787-8	✓	**$150.6 million**
U.S. airline EETC #9	March 2014	New 737-900ER, 787-8, 787-9 & EMB-175	✓	**$132 million**

Source: Boeing Capital Analysis, Airlines' SEC Filings

For Record

Cruz under fire from Texas businesses (Export-Import Bank)

The Hill ^ | 02/27/15 10:43 AM EST | Kevin Cirilli

Posted on **2/27/2015, 1:35:13 PM** by **SoConPubbie**

Sen. Ted Cruz (R-Texas) is under fire from his home state's business community following a "rowdy" meeting on Thursday at which the lawmaker's senior staff refused to offer support for reauthorizing the Export-Import (Ex-Im) Bank.

Nearly 60 business officials visiting from Texas met with Cruz chief of staff Paul Teller and Legislative Assistant Hunter Rome for an hour on Thursday, making the case for Cruz to support the bank's reauthorization.

If Congress does not act, Ex-Im will shut down on June 30.

But Rome and Teller reiterated to the Texas crowd — which helped elect him into office — that Cruz views the bank as "cronyism" and "corporate welfare," designed only to prop up big businesses.

"It's low-hanging fruit," Teller said at one point during the meeting, according to three attendees.

"I gave him a chance to clarify that answer, and he did not," said William Schubert, president of International Trade & Transportation, Inc., who attended the meeting. "Shame on Sen. Cruz. I voted for him, but we'll see if I would vote for him again."

Schubert, who was a U.S. Maritime official in the George W. Bush administration, and other meeting attendees said they left feeling like Cruz was placing political ideology over Texas job creation.

"We're his supporters, and he's deserting us on this issue," Schubert said. "I consider myself a Tea Party conservative. But this isn't a Tea Party opposition — this is the libertarian-isolationist wing of the party."

Cruz Communications Director Amanda Carpenter told The Hill that the office disagrees with the attendees' portrayal of the meeting. But she said that Cruz's "position opposing reauthorization of the Export-Import Bank has been very clear."

"That said, we will always welcome constituents into our office to talk about issues they care about, whether they agree with the senator's position or not," she continued. "We appreciate the value of free and open debate, and hope they do as well."

Ex-Im financing has supported $26 billion worth of Texas exports since 2007, with 1,629 businesses having used the bank in that same time period — 890 of which were small businesses, according to data from the bank.

"They had no interest in understanding our desires and our needs to having Ex-Im reauthorized," said Ed Grand-Lienard, CEO of Special Products & Manufacturing.

The meeting came as reps from nearly 700 businesses of all sizes from 41 states descended on Capitol Hill this week for an estimated 400 meetings to urge reauthorization for the Export-Import Bank.

Grand-Lienard, who also supported Cruz in the past, said that, of all of his meetings with lawmakers and their staff this week, "this one had a different vibe."

"Rowdy," was how Schubert put it.

"Appalled," was how Patrick Patel, corporate controller at Gaumer Process in Houston, left the meeting.

"I explained once more how not having the bank would drastically reduce the expansion plans and hiring of new employees," Patel said. "[They] just said we should find other solutions. [They] had no alternative solution for us."

The Texas business community has proven crucial in the battle to reauthorize the bank. House Financial Services Committee Chairman Jeb Hensarling (R-Texas) is another fierce opponent of the bank. He hasn't said whether he'll move a reauthorization bill through his panel, which has jurisdiction over the bill.

A Democratic House bill with more than 160 co-sponsors would reauthorize the bank for seven years, while a Republican version with 58 co-sponsors has more stringent reforms and would reauthorize it for five years.

Sens. Mark Kirk (R-Ill.) and Joe Manchin (D-W.Va.) are working on a reauthorization bill in the upper chamber.

— *This story was updated with additional information at 11:06 a.m.*

TOPICS: Constitution/Conservatism; Foreign Affairs; News/Current Events; Politics/Elections
KEYWORDS: cruz; tedcruz

"If we must have an enemy at the head of Government, let it be one whom we can oppose, and for whom we are not responsible, who will not involve our party in the disgrace of his foolish and bad measures." - Alexander Hamilton

"We don't intend to turn the Republican Party over to the traitors in the battle just ended. We will have no more of those candidates who are pledged to the same goals as our opposition and who seek our support. Turning the Party over to the so-called moderates wouldn't make any sense at all." -- President Ronald Reagan

"A thing moderately good is not so good as it ought to be. Moderation in temper is always a virtue; but moderation in principle is always a vice." - Thomas Paine 1792

NATIONAL ASSOCIATION OF
Manufacturers

Leading Innovation. Creating Opportunity. Pursuing Progress.

Statement

of Linda Dempsey
Vice President, International Economic Affairs
National Association of Manufacturers

For the **Joint Hearing of the House Financial Services Committee's** Subcommittee on Monetary Policy & Trade and the House Committee on Oversight and Government Reform's Subcommittee on Health Care, Benefits & Administrative Rules
U.S. House of Representatives

on the "Oversight of Efforts to Reform the Export-Import Bank of the United States"

April 15, 2015

Statement for the Record of
Linda Dempsey

Vice President, International Economic Affairs
National Association of Manufacturers

For the

Joint Hearing of the House Financial Services Committee's Subcommittee on Monetary Policy & Trade and the House Committee on Oversight and Government Reform's Subcommittee on Health Care, Benefits & Administrative Rules entitled

"Oversight of Efforts to Reform the Export-Import Bank of the United States"

April 15, 2015

Chairmen Huizenga and Jordan, Ranking Members Moore and Cartwright and members of the subcommittees, thank you for the opportunity to submit this statement for the record. I appreciate the chance to highlight on behalf of the National Association of Manufacturers (NAM) the importance of supporting and reauthorizing the U.S. Export-Import Bank to help manufacturers compete in the global marketplace that will enable them to support and sustain good-paying manufacturing jobs throughout every state.

The NAM is the nation's largest industrial association and voice for more than 12 million women and men who make things in America. Manufacturing in the U.S. supports more than 17 million jobs, and in 2014, U.S. manufacturing output reached a record of nearly $2.1 trillion. It is the engine that drives the U.S. economy by creating jobs, opportunity and prosperity. The NAM is committed to achieving a policy agenda that helps manufacturers grow and create jobs. Manufacturing has the biggest multiplier effect of any industry and manufacturers in the United States perform more than three-quarters of all private-sector R&D in the nation – driving more innovation than any other sector.

Importance of Exports to U.S. Manufacturing and Jobs

Since its origin, the United States has recognized the importance of exports to promoting industrial and economic growth and supporting jobs. The ability of U.S. companies to export has also been a critical issue for the NAM since its founding. With 95 percent of consumers outside the United States and global demand for manufactured goods that far exceeds domestic demand, manufacturers in the United States need to win more sales overseas if they are going to sustain and grow operations and employment.

World trade in manufactured goods reached $11.8 trillion in 2013[1] and greatly exceeds U.S. consumption of manufactured goods (domestic shipments and imports), which totaled $4.1 trillion in 2014. U.S. manufactured goods exports have more than doubled in the past decade, reaching a record $1.6 trillion in 2014. While that growth is impressive, U.S. manufacturers and exporters are facing an increasingly challenging global economy where growth has slowed. America lags behind many of its largest trading partners when it comes to exporting. U.S.

[1] Data from the World Trade Organization Statistical Database, accessed on Jan. 29, 2015. Most recent data available.

exports comprised only 9.5 percent of global trade in manufactured goods in 2013. We can and must do more to expand U.S. exports if we are going to grow manufacturing and the jobs it supports in the United States.

The importance of exports to the bottom line for manufacturers across the United States is not a theoretical issue. More than 40 percent of respondents in a recent National Association of Manufacturers (NAM) survey cited exports as a primary driver of growth for their company.[2] Those survey respondents who were more positive about their export potential over the next 12 months were also more optimistic in their company's economic outlook, sales and capital spending plans.

Nor are exports a theoretical issue for the workers employed in every state by our nation's manufacturers. As new export opportunities emerge overseas, manufacturers in the United States are able to both sustain and create American jobs. According to the latest figures from the U.S. Department of Commerce, every $1 billion in exports creates or supports 5,796 jobs.

Recently, exports have played a significant role in the ongoing manufacturing recovery. Since the end of 2009, export-intensive sectors with substantial export growth have seen the largest job gains. U.S. manufactured goods exports support higher-paying jobs throughout the United States. Moreover, jobs supported by exports pay, on average, 18 percent more than other jobs.[3] Employees in the "most trade-intensive industries" earn an average compensation of nearly $94,000, or more than 56 percent more than those in manufacturing companies that were less engaged in trade.[4]

Importance of Ex-Im Bank to Growing U.S. Exports

One vital tool that thousands of manufacturers use to compete successfully in global markets is the Ex-Im Bank. The NAM strongly supports Ex-Im Bank's mission to support U.S. jobs through exports and views the Bank as one of the most important tools the U.S. government has to help grow U.S. exports and jobs.

The Export-Import Bank is essential to boosting exports of U.S. products. In FY2014, Ex-Im Bank enabled more than $27 billion in exports – leveraging about $20.5 billion in authorizations. Nearly 90 percent of those transactions directly supported small-businesses, with an estimated $5 billion in support for small business exporters. Furthermore, the Bank has maintained its incredibly low default rate of through the recession and through several years of record growth. At the end of FY2014, the Bank's default rate was less 0.2 percent. Notably, Ex-Im's activities are already targeted and, by law, must not compete with private sector lending activity.

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[2] Moutray, Chad, "NAM/*IndustryWeek* Survey: Manufacturers Bullish, But Frustrated with Washington," *IndustryWeek*, June 9, 2014. See http://www.industryweek.com/global-economy/namindustryweek-survey-manufacturers-bullish-frustrated-washington?page=1.
[3] David Riker, *Do Jobs in Export Industries Still Pay More? And Why?*, International Trade Administration, U.S. Department of Commerce, July 2010, accessed at www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_003208.pdf.
[4] Calculations from the Manufacturers Alliance for Productivity and Innovation (MAPI) Foundation, using 2013 input-output data from the Bureau of Economic Analysis, accessed at www.themanufacturinginstitute.org/Research/Facts-About-Manufacturing/Foreign-Trade-and-Investment/Impact-on-Compensation/Impact-on-Compensation.aspx.

Ex-Im Bank helped promote just under two percent of total U.S. exports in FY2014. While it does not need to finance the great majority of U.S. exports, it is considered vital in certain areas of significant growth, particularly for small- and medium-sized business exporters, long-term financing for large projects, sales to emerging markets and sales to foreign state-owned entities.

- Small- and Medium-Sized Business Exports. Ex-Im is vital to many and medium-sized businesses to enable them get their foot in the door overseas. Ex-Im Bank's Working Capital Guarantee Program encourages commercial lenders to make working capital loans by providing a loan guarantee. Similarly, Ex-Im Bank's Supply Chain Finance Guarantee offered to lenders benefits U.S. exporters by injecting liquidity in the marketplace and providing suppliers – particularly small firms – with access to capital faster and at a lower cost in order to help them fulfill new orders and grow their business. Of the Bank's 3,300 small business transactions in FY 2014, 545 companies were first-time Ex-Im users. Ex-Im's role in jump-starting new small and medium-sized exporters is particularly important.

  Many small and medium-sized manufacturers across the country have turned to Ex-Im Bank to take advantage of new international trade opportunities and grow their workforce. In Toledo, Ohio, Cauffiel Corporation has evolved over the past 60 years to become specialists in metals processing equipment and solutions – and exports now make up 50 percent of the company's sales. The company supplies systems to countries throughout Asia, Africa, Europe and South America. When their customers can't find financing from local banks and lenders, they can turn to the Ex-Im Bank. CEO Ben McGilvery and his 21 employees understand the importance of Ex-Im Bank to their competitiveness. This company is just one of the many small businesses that have sought the assistance of Ex-Im Bank and reaped the benefits of expanded market access, and the NAM would be happy to provide others to the Subcommittees

- *Long-Term Project Finance*. Ex-Im Bank, like foreign export credit agencies (ECAs), has taken on an increasingly important facilitation role for export financing as the role of commercial banks in financing long-term projects continues to shrink in the wake of the financial crisis. U.S. regulatory guidelines that favor domestic receivables over foreign sales[5], implementation of Basel III rules[6] and the European sovereign debt crisis[7] have all impacted the ability and appetite of banks to participate in long-term export financing projects at competitive rates. While some banks have been able to restore effectively their balance sheets, commercial bank participation in long-term, high-volume funding (tenors longer than 10 years and over a few hundred million dollars) remains highly selective. Many experts – including top executives from UK Export Finance (UKEF), Korea Trade Insurance Corporation (K-Sure) and Deutsche Bank – suggest that Basel III will continue to constrain commercial banks from playing a significant role as long-term funders of large-scale projects and other

[5] Office of the Comptroller of the Currency, Treasury Department, Comptroller's Handbook, at 17-18, accessed at http://www.occ.gov/publications/publications-by-type/comptrollers-handbook/pub-ch-asset-based-lending.pdf.
[6] Basel Committee on Banking Supervision, "Basel III: A global regulatory framework for more resilient banks and banking systems." December 2010, accessed at http://www.bis.org/publ/bcbs189.pdf.
[7] Berne Union Yearbook 2012 at 55, accessed at http://www.berneunion.org/wp-content/uploads/2013/10/Berne-Union-Yearbook-2012.pdf - Quoting Steve Tvardek, Head of the OECD Export Credits Division, OECD.

sales.[8] As a result, ECAs are increasingly a driving force for large-scale, long-term projects – particularly projects in the infrastructure, energy and aerospace sectors.[9] *Infrastructure Journal* data show that ECA lending activity in commercial project finance transactions increased threefold from less than $10 billion in 2009 to more than $30 billion projected for 2013, and ECAs are providing the only project finance available in some markets. In particular, Japan Bank for International Cooperation (JBIC) is a global leader for energy and infrastructure project finance[10] and Korea EximBank is rising in prominence – particularly in its priority energy sector.[11]

- *Emerging Markets.* Many U.S.-based lenders also turn to Ex-Im to mitigate geopolitical and collateral risk in an effort to provide viable trade financing solutions for exporters. Without Ex-Im, many private lenders have limited options: opt not to finance otherwise viable export activity in emerging markets, charge rates that are uncompetitive globally or place limits on the overall amount of financing to particular emerging markets. To deal with this market failure, Ex-Im Bank, for example, offers medium- and long-term guarantees that provide flexible lender financing options for buyers of U.S. capital goods and services. Ex-Im also supports commercial banks through letter of credit (LC) confirmations that reduce a bank's risks, offering private sector lenders greater flexibility in working with their client base.

- *Government and State-Owned Enterprise (SOE) Transactions.* U.S. exporters from a broad number of sectors increasingly are selling to foreign governments and state-owned entities. Be it medical equipment sales to foreign state-owned hospitals, power generation equipment to foreign state-owned utilities or communications satellites to foreign governments for national mobile satellite systems, such sales support greater exports and jobs in the United States, but are difficult to win. In some cases, the foreign purchaser favors suppliers with a government entity on the other side of the table. In other cases, like a nuclear power plant project overseas, an ECA lending option is a requirement to participate in the initial bidding phase – even if the customer ultimately opts for another financing option. While the governments of most of the United States' major trading partners are willing to oblige, Ex-Im is the only government entity able to play such a role for U.S. exporters. Without Ex-Im's presence, U.S. exporters simply would not be eligible to compete for many of these substantial foreign sales.

In short, while Ex-Im's role is relatively small compared to the overall size of U.S. exports, it plays an outsized and highly important role in opening the door to U.S. exports for certain types of transactions where U.S. exporters continue to see substantial growth opportunities.

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[8] Berne Union Yearbook 2014 at 66, accessed at http://www.berneunion.org/wp-content/uploads/2012/10/Berne-Union-80-Yearbook-2014.pdf.

[9] *See, e.g.*, "Power Shift: The Rise of Export Credit and Development Finance in Major Projects." November 2013; Baker & McKenzie with Infrastructure Journal, accessed at http://www.bakermckenzie.com/files/Publication/7dc07b54-651f-4168-9c81-0abdfdc432ca/Presentation/PublicationAttachment/6943f6ae-5718-42f8-a587-9a06c65902d7/fc_global_powershift_nov13.pdf.

[10] "Power Shift: The Rise of Export Credit and Development Finance in Major Projects." [need Publication, date]

[11] "Filling the funding gap – Korea Eximbank" Project Finance International (March 2013), accessed at http://www.pfie.com/filling-the-funding-gap-%E2%80%93-korea-eximbank/21071929.article.

The Global Export Credit Dimension

One of the significant roles that the Ex-Im Bank plays is aiding U.S. exporters and their workers to compete in a global economy that is characterized by dramatically increasing export credit assistance provided by governments in Europe, Asia and Latin America. As detailed in a study released by the NAM in 2014, *The Global Export Credit Dimension: The Size of Foreign Export Credit Agencies Compared to the United States* (2014),[12] there are more than 60 ECAs worldwide and the ECAs of our top nine trading partners – Brazil, Canada, China, France, Germany, Japan, Mexico, South Korea and the United Kingdom – provided nearly half a trillion dollars in annual export support. Other key findings of that report include:

- The ECAs of China, Japan, South Korea and Germany are already individually larger than the Ex-Im Bank, and all of the nine major foreign ECAs are larger as a share of their countries' GDP than the Ex-Im Bank is compared to U.S. GDP.
- China's primary ECA provides more than five times the assistance than the U.S. Ex-Im Bank does.
- Major foreign ECAs, including those in Germany, China and Canada, are expanding exports more successfully than the Ex-Im Bank. The Ex-Im Bank supported 2.42 percent of total U.S. exports in 2013, while Germany (3.63 percent), China (12.50 percent) and Canada (20.29 percent) helped to support even more international sales.
- Foreign ECA activity grew sharply in several major countries, including China, South Korea and Canada, between 2005 and 2013.
- Official ECA activity is particularly critical to key and growing manufacturing sectors of the global economy, including infrastructure and transportation where manufacturers in the United States are well positioned to grow in related exports if competitive financing is available.

While the United States is a relatively small player in ECA activity, it has worked intensively to negotiate strong rules to eliminate market distortions and subsidies that oftentimes characterize foreign ECAs. In particular, the United States has led efforts to bring developed country members of the Organization for Economic Cooperation and Development (OECD)[13] and non-OECD countries to the negotiating table. Largely as a result of U.S. leadership over several decades, most of the OECD's industrialized countries have agreed to uniform standards for fair and commercially based ECA lending.[14] Sector-specific arrangements have also been

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[12] NAM, *The Global Export Credit Dimension: The Size of Foreign Export Credit Agencies Compared to the United States* (2014), accessed at http://www.nam.org/uploadedFiles/NAM/Site_Content/Issues/Global%20Export%20Credit%20Dimension%20Web.pdf; see also NAM, *Forfeiting Opportunity: Ex-Im Bank Reauthorization Is Essential for Manufacturers to Compete Globally in the Face of Massive Foreign Export Credit Financing* (2014), accessed at http://www.nam.org/uploadedFiles/NAM/Site_Content/Issues/Forfeiting%20Opportunity%20Web.pdf.

[13] Members include Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States. OECD, "Members and Partners," accessed at http://www.oecd.org/about/membersandpartners/.

[14] Most prominently, OECD members developed the "Arrangement on Officially Supported Export Credits" (ECA Arrangement) that sets out financial disciplines for standard export credits and for export credits for certain sectors that reduce and eliminate potential market distortions. In particular, the ECA Arrangement – which has been agreed

negotiated to provide even stricter discipline on ECA financing related to ships, nuclear power, aircraft, renewable energy, climate change mitigation and water projects.[15]

Work with non-OECD countries has been more difficult and that is where the greatest concern about subsidized ECA financing lies. The United States has worked intensively to undertake negotiations with key developing countries to agree to operate their ECAs based only on commercial considerations. As a result of U.S. efforts, 18 major providers of export credits[16] have been invited to participate in the International Working Group on Export Credits (IWG), which held its first meeting in November 2012 and has met several times. Work is slow as many non-OECD participants have been "cautious" and not clearly committed to the process.[17]

The U.S. Ex-Im Bank's role, while small in the global economy, is critical to many thousands of exporters. Failing to reauthorize Ex-Im is tantamount to unilateral disarmament and will also negate U.S. leadership in seeking to eliminate foreign ECA market distortions and subsidies.

Time is of the Essence

Last fall, Congress extended Ex-Im Bank's authorization through June 30, 2015. Manufacturers need Congress to act quickly on legislation to provide a long-term reauthorization of Ex-Im Bank. Reliable access to export financing is a vital part of being globally competitive, and the Ex-Im Bank has taken on even greater significance in today's turbulent financial environment. Manufacturers in the United States – and their customers overseas – operate based on long-term plans that often involve multiyear projects in which the Ex-Im Bank is a critical partner. Without the certainty of a long-term Ex-Im reauthorization, U.S. exporters have already been put at a significant disadvantage, which will hamper growth here at home and result in lost opportunities for American workers and businesses.

If Congress fails to enact quickly a long-term reauthorization of Ex-Im Bank, manufacturers will be forfeiting opportunities to competitors overseas and, thereby, risk the loss of not just of exports, but of manufacturing growth and good-paying jobs in every state.

- If the Ex-Im Bank is not reauthorized, tens of billions of dollars in U.S. exports will be put at risk annually. Manufacturers overseas will increasingly win foreign sales that could have been won by manufacturers in the United States. The loss of U.S.-manufactured exports will be at the expense of thousands of manufacturers in the United States and

to by Australia, Canada, the European Union, Japan, New Zealand, Norway, South Korea, Switzerland and the United States, emphasizes that OECD ECAs should be competing "on quality and price of goods and services exported rather than on the most favourable officially supported terms." OECD, "Official Export Credit Agencies," accessed at http://www.oecd.org/tad/xcred/eca.htm; see also, OECD, *"Official Export Credit Agencies,"* accessed at http://www.oecd.org/tad/xcred/eca.htm.

[15] OECD, "Official Export Credit Agencies," accessed at http://www.oecd.org/tad/xcred/eca.htm.

[16] The 18 participants are nine participants in the OECD arrangement (Australia, Canada, the European Union, Japan, New Zealand, South Korea, Switzerland United States) and nine non-OECD members (Brazil, China, India, Indonesia, Israel, Malaysia, Russian Federation, South Africa and Turkey).

[17] "Report on Export Credit Negotiations," U.S. Department of the Treasury, December 2013. The IWG held two full meetings (hosted by China in May 2013 and the European Union in September 2013) and one technical meeting (hosted by Germany in March 2013); European Commission, Report from the Commission to the European Parliament and the Council – Annual Report on negotiations undertaken by the Commission in the field of export credits, in the sense of Regulation (EU) No 1233/2011 (May 28, 2014), accessed at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2014:299:FIN.

hundreds of thousands of American workers who rely on Ex-Im services to boost their export sales.

- Weakening America's export competitiveness will be particularly damaging in the face of intense and growing global competition that has already resulted in a substantial decline in America's share of the global manufacturing market.
- Even greater manufacturing export opportunities will be lost on an annual basis as trade expands and U.S. exporters effectively cede foreign sales. The loss of new export opportunities will be particularly severe for small- and medium-sized businesses and for exports to emerging markets and infrastructure sectors where growth is expected to be strongest.

Time is of the essence. The uncertain future of the Ex-Im Bank is already putting U.S. export sales as risk.

Conclusion

There is broad support for Ex-Im Bank's reauthorization from job-creators across the country. Over the past year, more than 83,000 letters from manufacturers, exporters and constituents have been sent to you and your colleagues. In February, more than 700 people from 41 states – representing a broad spectrum of manufacturing sectors and along the breadth of the supply chain – came to Washington, D.C., to ask their Members of Congress to support a long-term reauthorization of Ex-Im Bank. Over the past two weeks, while Congress was in recess, manufacturers called on Members of Congress to support Ex-Im reauthorization during plant tours, roundtable dialogues, and town hall discussions across the country.

The Ex-Im Bank is a targeted tool and a last resort that enables U.S. businesses to find a foothold in an increasingly competitive marketplace. Failure to reauthorize the Ex-Im Bank is already creating uncertainty that is putting U.S. exports at risk. The failure to reauthorize the Ex-Im Bank will have even greater, more lasting and more damaging effects on manufacturers of every size throughout out the United States, threatening tens of billions of dollars in export sales as well as the security of hundreds of thousands of American jobs that depend directly or indirectly on the Ex-Im Bank's export financing. I urge you to move forward quickly on a long-term reauthorization for Ex-Im Bank to enable it to effectively fulfill its principal mission of supporting U.S. jobs through exports.

Thank you, Chairmen Huizenga and Jordan and Ranking Members Moore and Cartwright for holding this hearing and for allowing me the opportunity to submit a statement for the record.