

Export-Import Bank primer

An overview of the Bank's structure, operations, and debate surrounding its potential reauthorization

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Producer

Madeline Hanson

Roadmap

- Overview
 - Primary financial products
 - Board of Directors and governing statutes
 - Bank exposure levels, export support statistics, and default rate
 - Looking ahead: reauthorization debate and legislative forecast
-

Ex-Im Bank: the official export credit agency (ECA) of the US

Overview of the Bank



Provides financing and insurance to support US jobs and companies



Facilitates the export of US goods and services through a variety of products



Supports companies primarily in two ways:

1. Filling gaps in the market (when the private sector is unable or unwilling to provide financing for exports)
2. Countering foreign ECA competition (when US exporters are facing foreign competition from businesses backed by foreign ECAs)

Regulation and funding



Owned by the US government and operates independently under the Executive Branch



Operates pursuant to a statutory charter that provides funding and must be regularly renewed



Abides by the Organization for Economic Cooperation for Development's (OECD) rules governing ECA financing



Supply of its services is demand-driven and based on interest in the private sector, and the Bank charges interest, premia, and other fees for its services

The Bank's early years



Sources: Congressional Research Service; The Export-Import Bank of the United States

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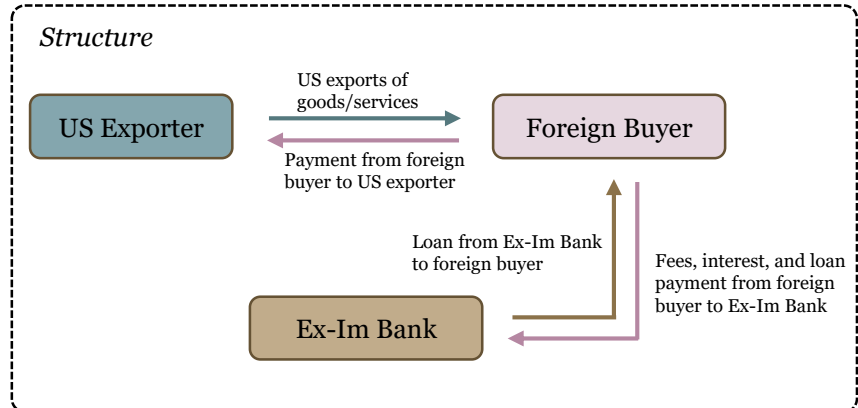
The Bank's primary financial products



Direct loans

Overview

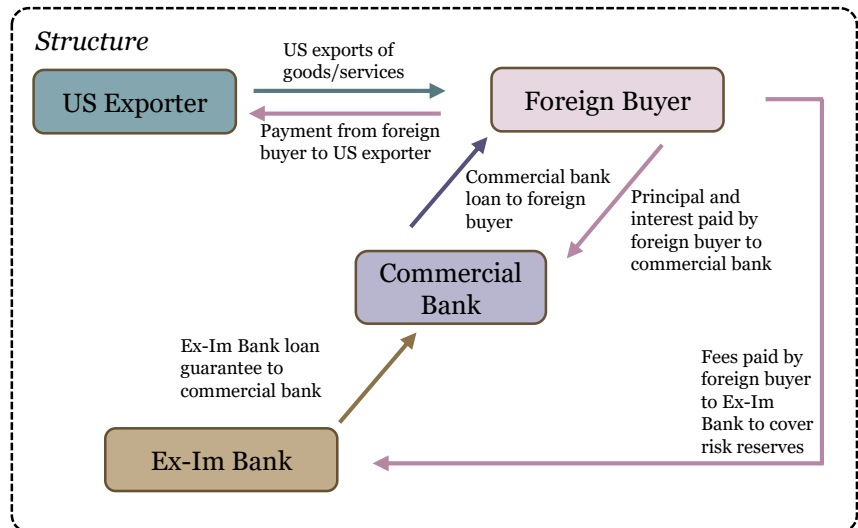
- Disbursed to foreign buyers of US goods and services, typically for capital equipment and services
- Transaction size has no limit
- Cover 100% of US content and up to 85% of the total contract amount
- Generally available for up to 12 years, though loans are made available for renewable energy projects for up to 18 years
- Carry fixed interest rates
- Rates charged are based on the Commercial Interest Reference Rates (CIRR)



Medium- and long-term loan guarantees

Overview

- Offered for loans by lenders to foreign buyers of US goods and services, typically to finance capital equipment and services
- Transaction size has no limit
- Cover 100% of US involvement and up to 85% of the total contract amount, with a minimum 15% down payment requirement for the buyer
- Ex-Im promises to pay the lender the outstanding loan principal and accrued interest if the buyer defaults
- *Unconditional*: represent the Bank's commitment to fully repay a loan to a commercial bank in the event of default
- Generally last up to 10 years with exceptions up to 18 years for renewable energy projects
- Interest rates are negotiated between commercial lender and borrower



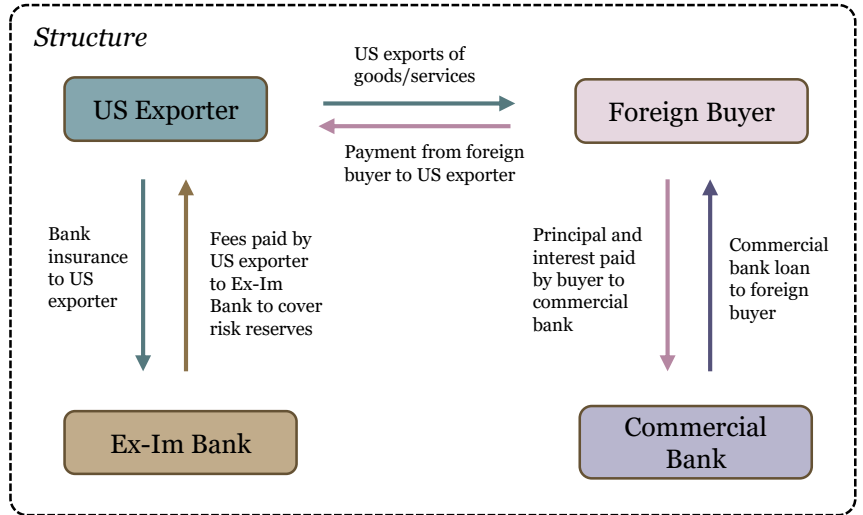
The Bank's primary financial products



Export credit insurance

Overview

- Protects US exporters against the risk of foreign buyers or debtors defaulting on payment
- Allows exporters to extend more competitive credit terms to foreign buyers
- Allows exporters to expand their borrowing base, including potentially using the Bank-insured receivables as collateral
- Conditional: payment of a claim is conditional on the fulfillment of the Bank's various requirements
- Short-term policies last no more than 360 days and cover up to 95% of exporting losses
- Medium-term policies last up to 7 years and cover up to 100% of US content/85% of the contract price (amount to ≤\$25M)
- Charges insurance premia and other fees



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Board of Directors (BoD) and statutes governing the Bank's operations

The Bank has been significantly less active during the last five years due to a lack of quorum in the BoD

Leadership structure

- A five-member BoD composed of members of both political parties leads the Bank
- The Bank President serves as the Board Chairman, while the Bank Vice President serves as the Vice Chairman
- All BoD members are appointed by the President and confirmed by the Senate
- The US Trade Representative and Secretary of Commerce serve ex officio as additional BoD members but are unable to vote

Quorum and voting requirements

- A majority of the five voting members must be present to constitute a quorum, without which the BoD cannot conduct "the transaction of business"
- Without a quorum, the Bank is unable to approve financing transactions in excess of \$10 million with repayment terms of seven years or longer
- BoD members terms were allowed to expire in July 2015, after which time the 114th Congress did not consider any nominations and the 115th Congress did not confirm any nominations reported from committee

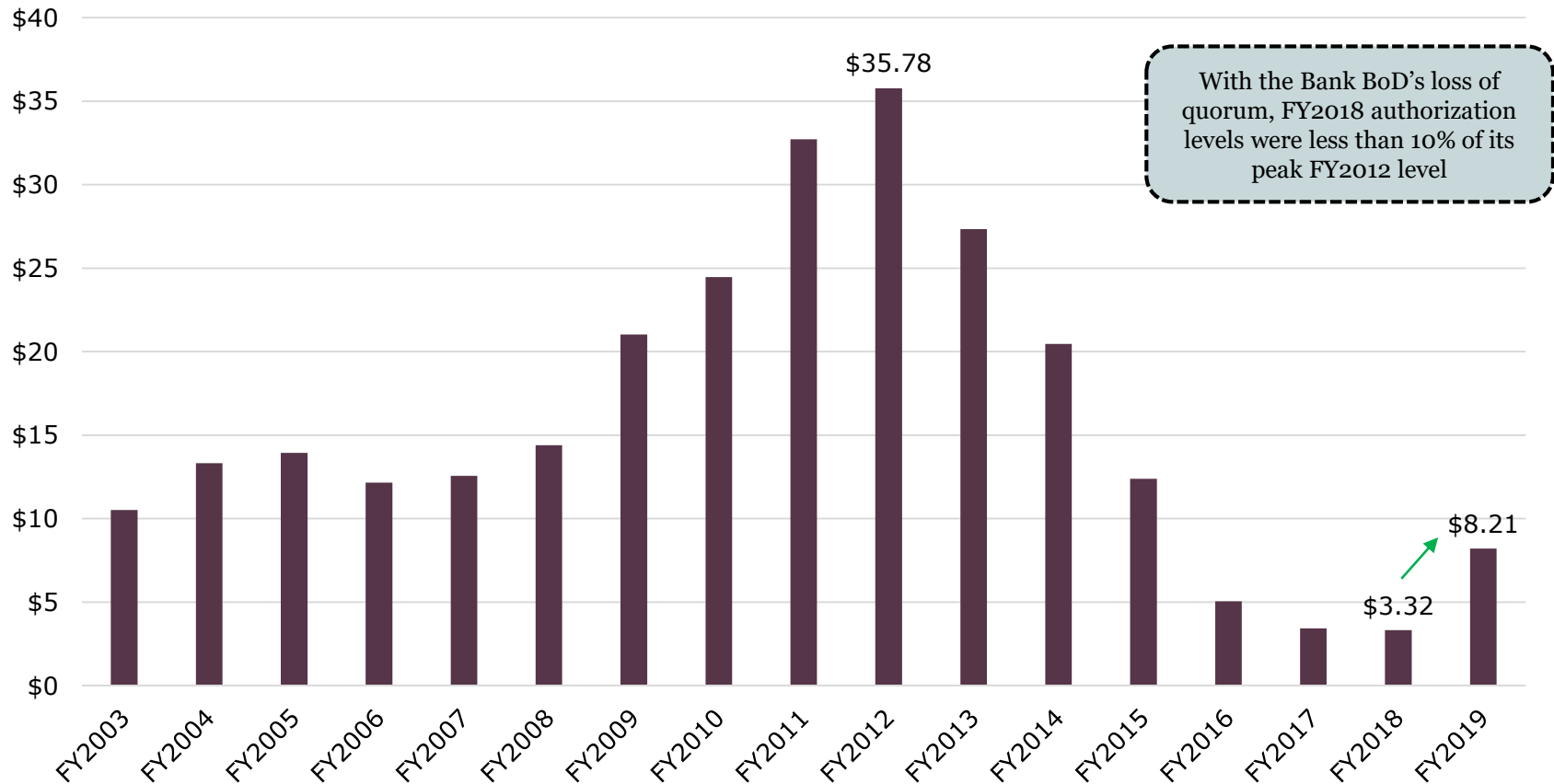
The Bank's recent history

- July 20, 2015** ● The Bank's BoD lost a quorum, rendering the board unable to conduct policy, approve longer-term transactions above \$10M, and carry out other business operations
- Dec. 4, 2015** ● Congress reauthorized the Bank through September 30, 2019
- May 8, 2019** ● Senate confirmed three new board members, reestablishing a quorum and returning the Bank to full operational status
- July 30, 2019** ● The Board met to consider and approve new transactions for the first time since 2015
- Sept. 19, 2019** ● The House passed a short-term spending bill to fund the government and avoid a shutdown at the end of FY2019; this bill included funding for the Ex-Im Bank
- Nov. 15, 2019** ● The House passed the **US Export Finance Agency Act of 2019** to reauthorize and expand the Ex-Im Bank for ten years
- Dec. 20, 2019** ● Trump signed into law a \$1.4T federal spending package for FY2020 which renewed the bank for seven years

Total authorizations by the Bank increased significantly in the post-recession years but decreased drastically with the 2015 charter lapse

Ex-Im Bank total amount authorized, FY2003-FY2019

ANNUAL AUTHORIZATION LEVELS IN BILLIONS OF DOLLARS



Sources: Export-Import Bank of the United States

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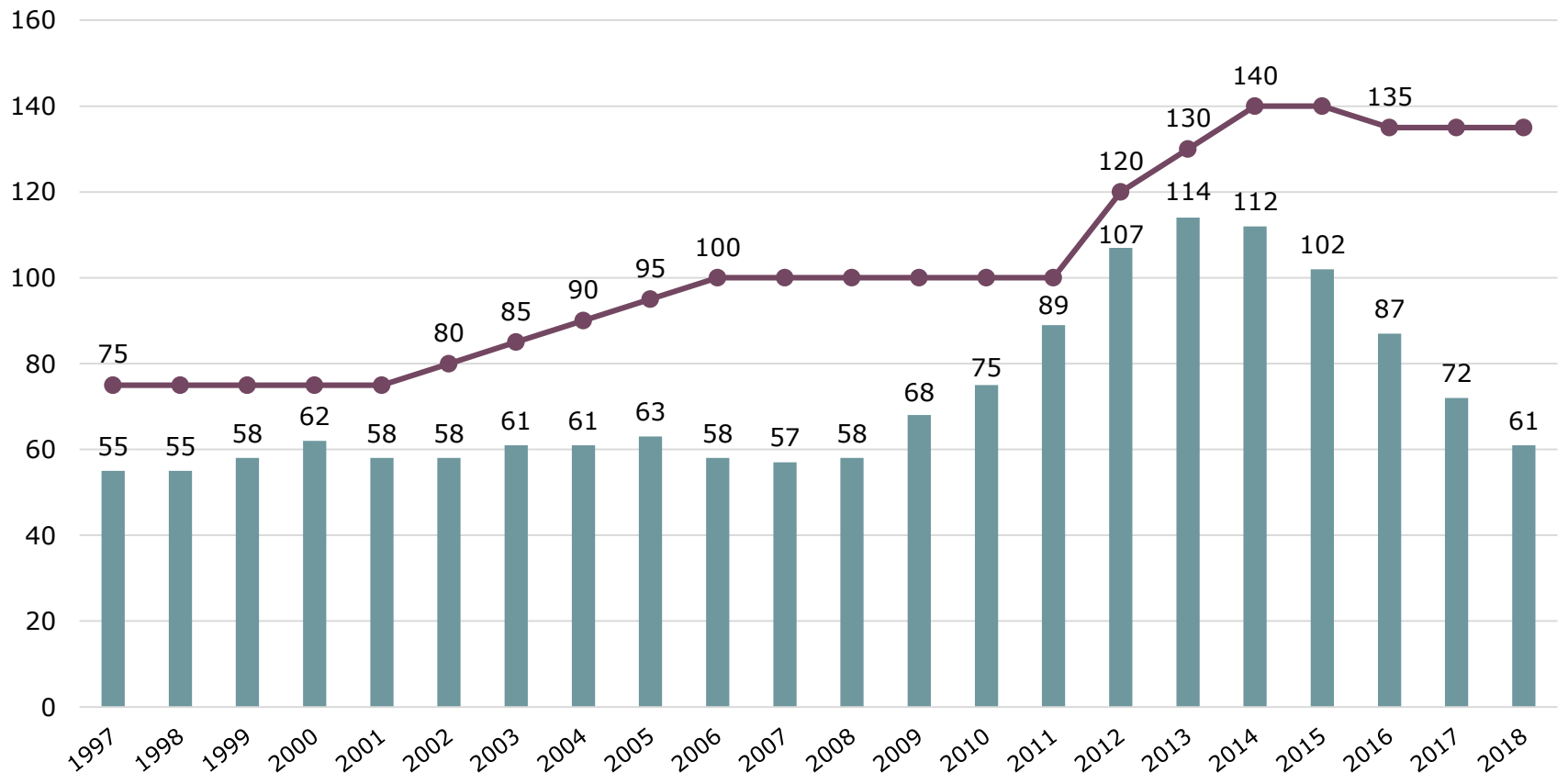
The Bank experienced record-high exposure levels during the financial crisis, but levels have declined since its charter lapsed

Ex-Im Bank exposure levels and caps, FY1997-FY2018

EXPOSURE LEVELS IN BILLIONS OF DOLLARS

● Exposure cap point

“Caps” are statutory limits on the aggregate amount of loans, guarantees, and insurance the Bank can have outstanding at any given time

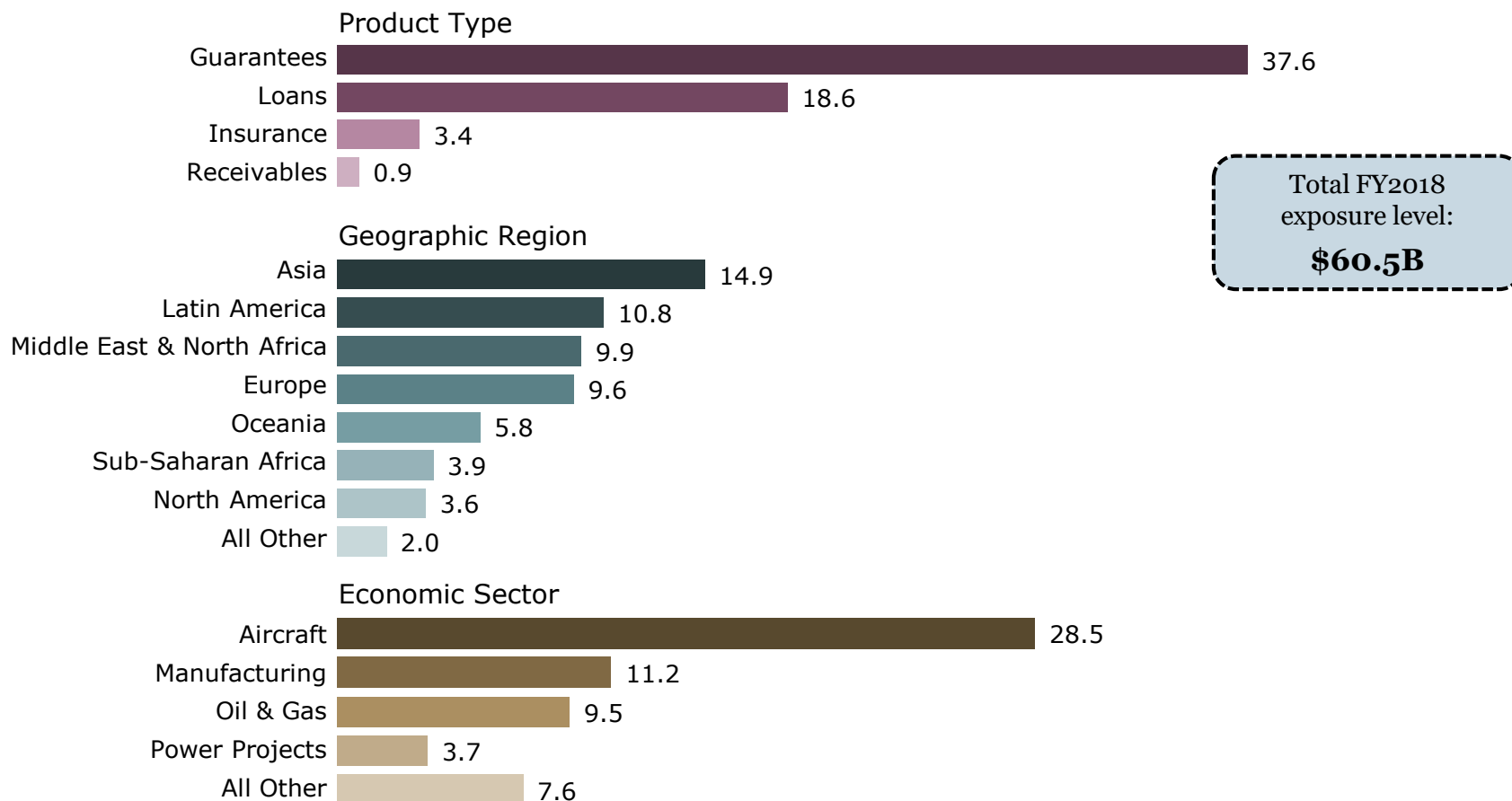


Sources: Congressional Research Service

Nearly half of the Bank's FY2018 exposure level came from the aircraft industry

Ex-Im Bank exposure level by product, region, and sector, FY2018

EXPOSURE LEVELS IN BILLIONS OF DOLLARS



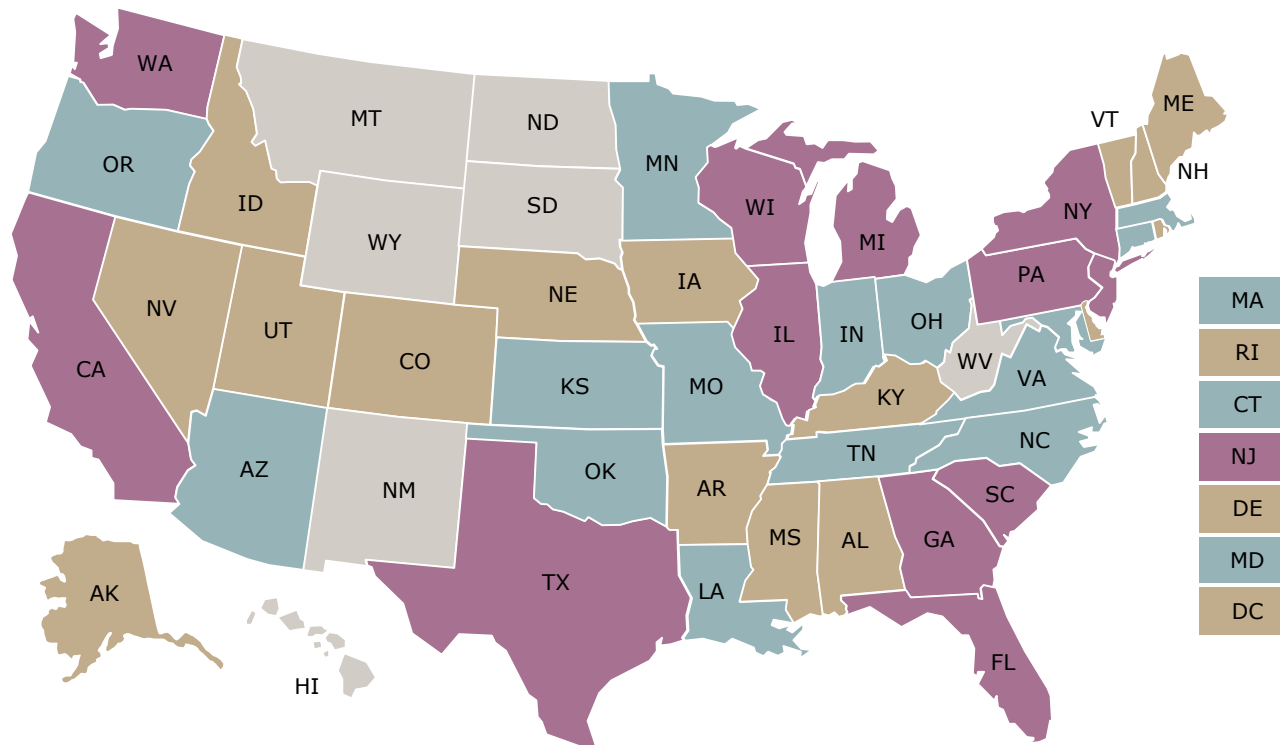
Sources: Congressional Research Service

12 states received export assistance valued at over \$5 billion from the Bank during a 10-year period

Ex-Im Bank-supported US exports by state (Oct. 1, 2008-Sept. 30, 2018)

ESTIMATED VALUE OF EXIM-ASSISTED EXPORTS BY STATE

■ >\$5B ■ \$1B-\$5B ■ \$100M-\$1B ■ <\$100M

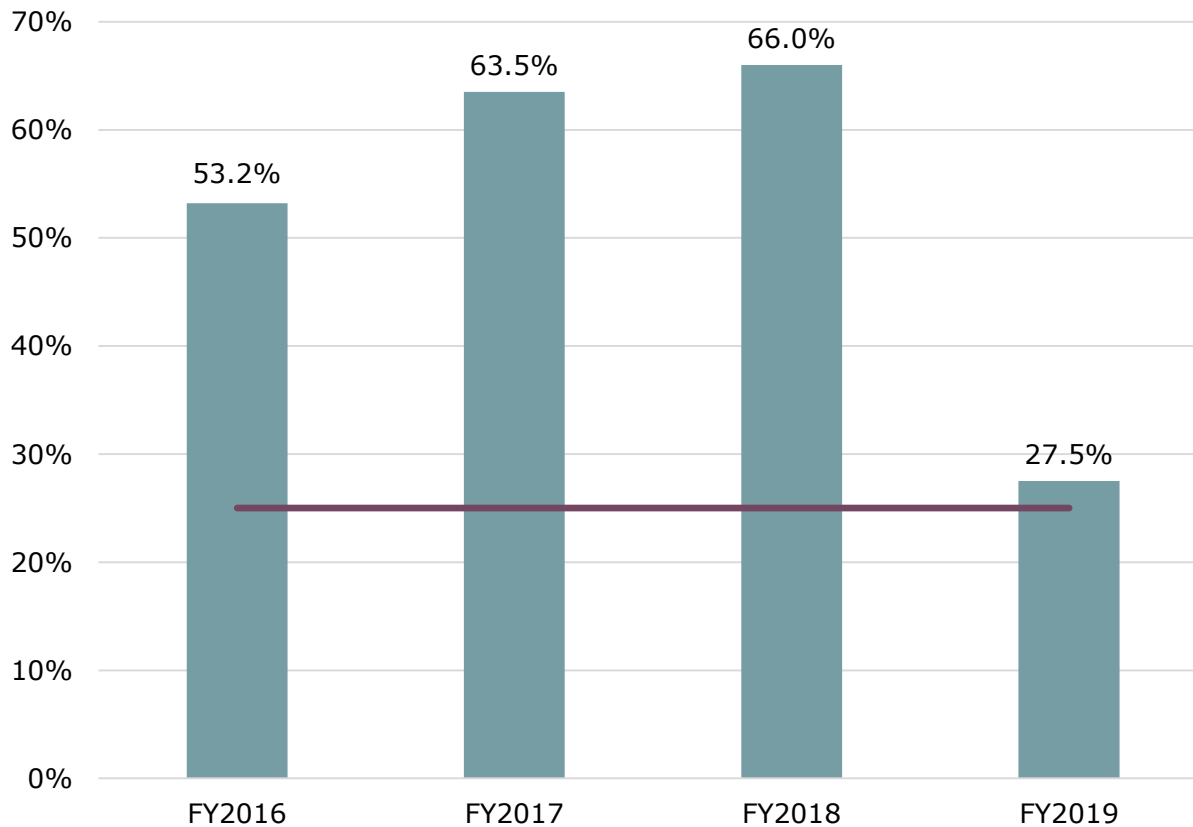


Sources: Export-Import Bank of the United States

Though the percentage of authorizations to small businesses decreased in FY2019, the actual amount increased by \$65 million

Small business authorizations as a percentage of total dollars authorized

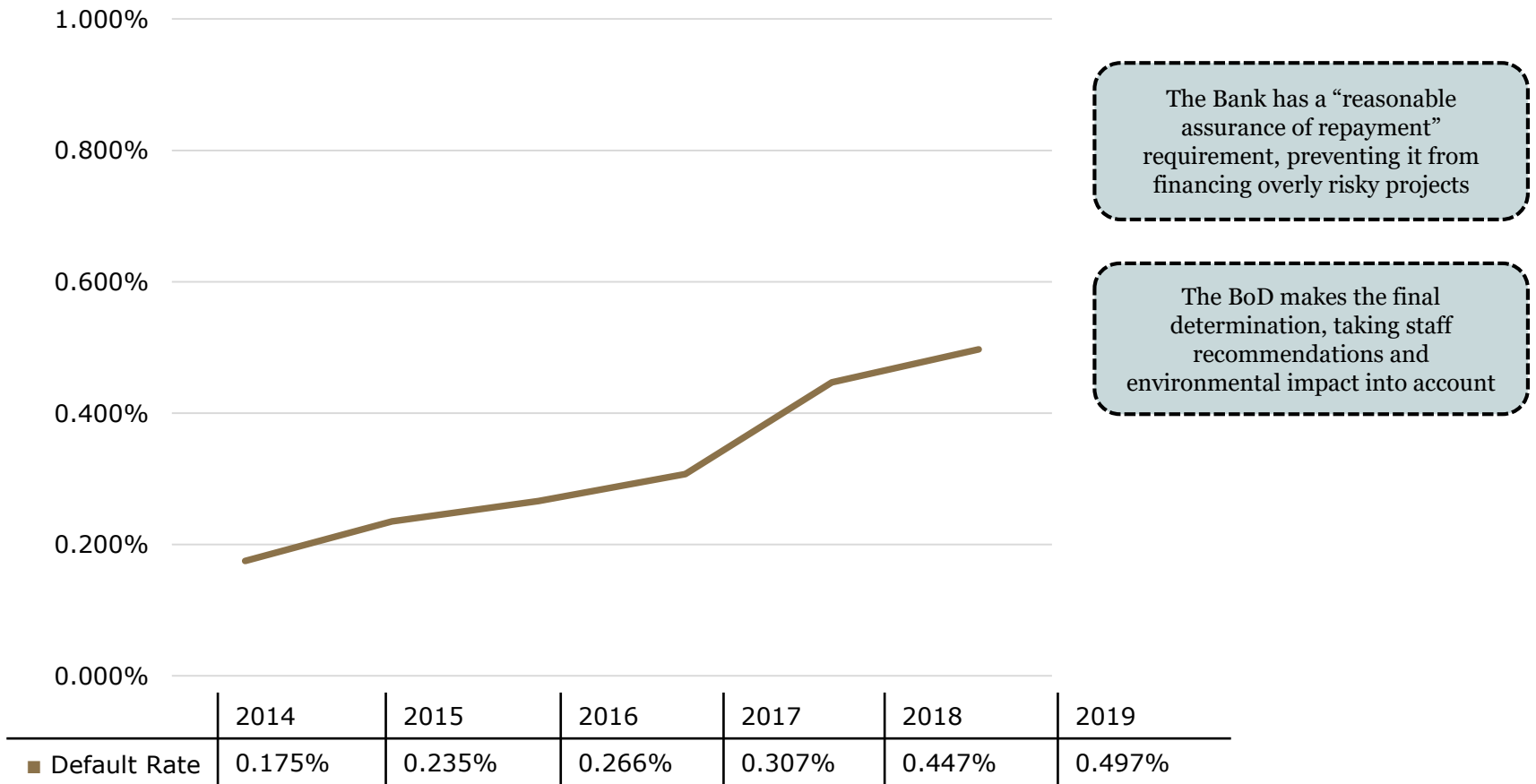
■ Congressional Small Business Mandate



Because total authorizations increased from \$3.32 billion FY2018 to \$8.21 billion in FY2019, the total dollar amount allotted to small business authorizations was correspondingly higher in FY2019.

On September 30, 2019, the reported default rate, or the “total amount of required payments that are overdue,” was nearly 0.5%

The Bank’s annual default rate (six-year trend, 2014-2019)

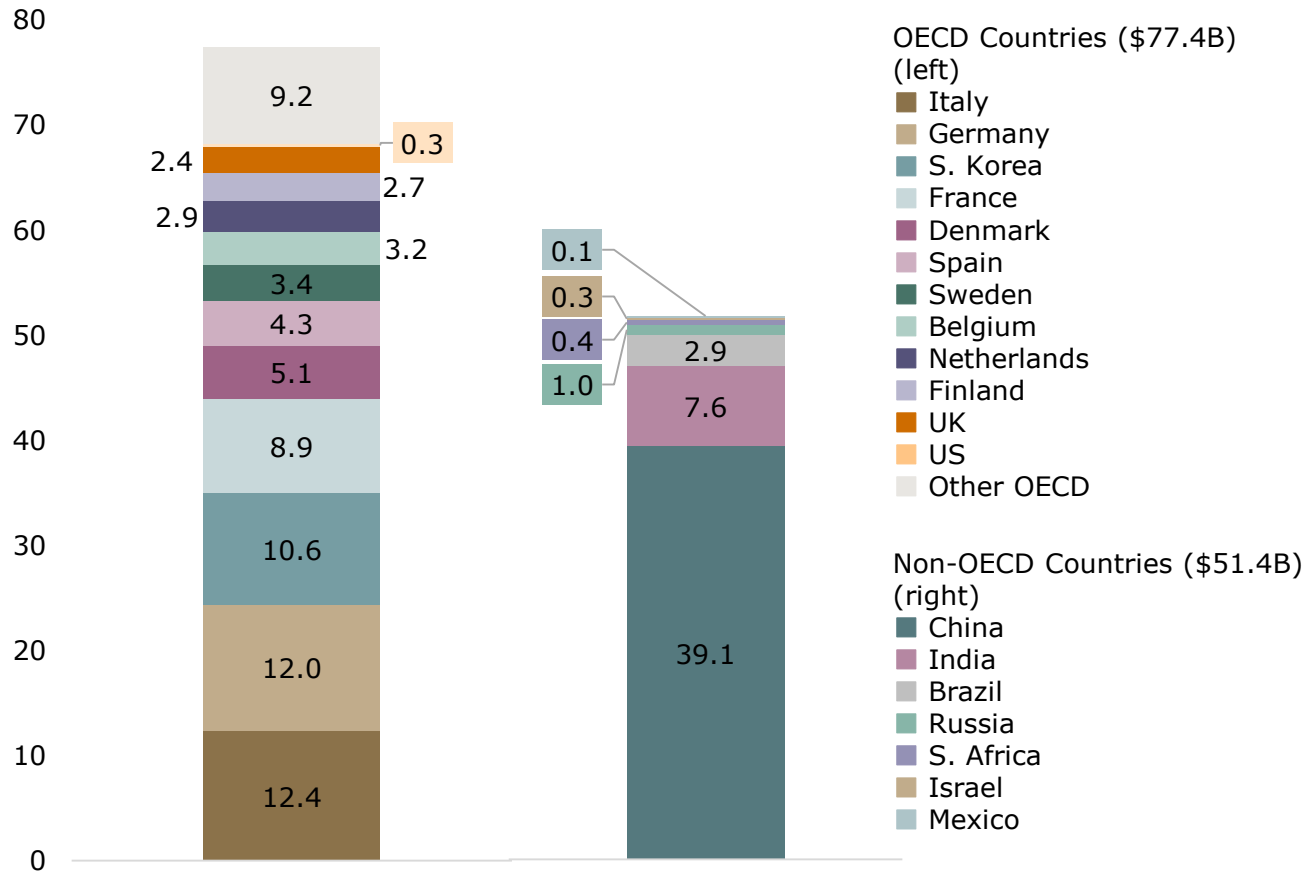


Sources: Export-Import Bank of the United States

China's MLT export financing in 2018 was greater than half of all OECD MLT financing combined

Export MLT financing by select ECAs in 2018, separated by OECD and non-OECD countries

EXPORT FINANCING IN BILLIONS OF DOLLARS



“MLT” financing—or medium- and long-term financing—refers to ECA financing with repayment terms of two years or more

Sources: Congressional Research Service

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Reauthorization debate and actions by Congress

Congress weighed several options when considering how to approach Ex-Im Bank reauthorization

- “Clean” extension of upcoming expiration date
- Extension with significant or limited revisions to the charter
- Allow charter to lapse
- Terminate the Bank and establish parameters for decreasing its existing functions
- Reorganize the Bank and its functions

The debate among supporters and opponents

Supporter arguments

- The Bank supports US jobs by facilitating viable exports that the private sector is unable or unwilling to support
- Commercial banks charge large interest rates and have other stringent terms that small businesses often cannot meet
- The Bank is able to support capital goods exports as well as exports for large-scale infrastructure projects
- The Bank’s activities reflect its goal of only filling market gaps rather than distorting the market itself

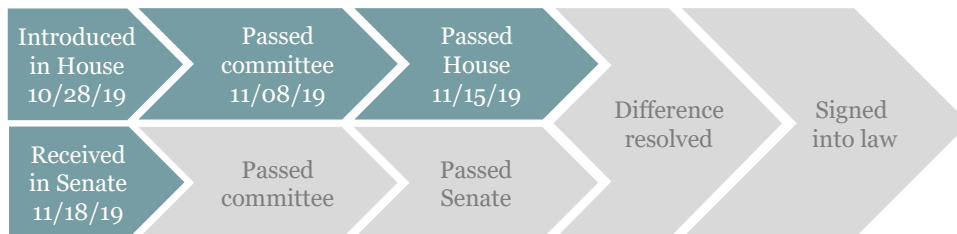
Opponent arguments

- It’s not prudent for the US government to assume risks that the private sector believes should be avoided
- The Bank “crowds out” private sector activity and increases inefficiency in the market through its act of resource reallocation
- The Bank “picks winners and losers”
- The Bank cannot be that significant if the vast majority of exports (98%) go forward without its support

H.R. 4863: The US Export Finance Agency Act of 2019

Sponsor: Rep. Maxine Waters (D-CA-43)

- Increases the Bank’s lending authority from \$135 billion to \$175 billion
- Establishes new programs to facilitate connections between foreign buyers and domestic exporters
- Changes the name of the Bank to “US Export Finance Agency”



The Export-Import Bank was reauthorized through the National Defense Authorization Act of 2019

Sources: Congressional Research Service; US Senate Banking Committee; US House Financial Services Committee.



S. 1790: National Defense Authorization Act for Fiscal Year 2020

Bill at a glance



Sen. James Inhofe
(R-OK)
Bill sponsor

Bill overview

- Authorizes FY 2020 appropriations and sets policies regarding military and national security activities including:
 - Strengthening several DOD offices
 - Supporting military personnel
 - Addressing compensation and other personnel benefits
 - Improving healthcare
 - Strengthening foreign relations and international programs
 - Reforming national security programs

Status in Congress

- Passed Senate (86-8)
- Passed House without objection
- Signed into law on 12/20/19

Co-sponsors: 0

Dem	0
GOP	0

Export-Import Bank provisions

- Renews the bank for seven years to remain fully operational through 2026
- Allows a temporary board to operate should the bank board lack a quorum
- Enables the bank to provide loan guarantees, credit insurance, and other means of support to US companies for the export of goods and services
- Creates protocol for directing loans or guarantees to the Chinese government

Sources: Congress.gov, Wall Street Journal, JOC.