



EXPORT-IMPORT BANK
OF THE UNITED STATES

May 17th, 2012

Mr. Osvaldo L. Gratacós
Inspector General
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, DC 20571

Dear Inspector General Gratacós,

Thank you for providing Ex-Im Bank Management with the Office of the Inspector General (OIG)'s Semi-Annual Report to Congress covering the period from October 1st, 2011 to March 31st, 2012. This letter constitutes Management's response to the Report. Management supports the OIG's work in prosecuting and preventing fraud against Ex-Im Bank. We are also grateful for your work on the Financial Statement FY2011 audit conducted by Deloitte and Touche, the FISMA audit, and the IPERA audit. These exercises were helpful in improving Bank processes and oversight.

We would like to focus on that section entitled "Management Challenges," as we have already responded to the period's audits, evaluations, and inspections in prior correspondence. While we concur with some of the OIG's observations, we disagree with a number of the Report's conclusions. Moreover, we would like to draw your attention to projects currently underway at the Bank that address OIG concerns.

1. Human Capital —

We agree with your observation that Ex-Im Bank has achieved significant growth in authorizations and assets over the past five years. Ex-Im Bank's dedicated employees are to be commended for this laudable achievement. We disagree, however, that due diligence has suffered as a result of its asset growth or staffing constraints, and we see no evidence that Ex-Im Bank is at risk of higher default rates. In recent years, as authorization amounts and portfolio exposure have increased, Ex-Im has correspondingly strengthened its capabilities and staffing in transaction underwriting, credit and risk management, and portfolio management. Management does not believe that the statement that this increase in workload has been undertaken by the same level of staffing is correct.

Specifically, in the past three fiscal years, Ex-Im Management has put into place the following initiatives to increase capacity and manage growth:

- Increased transaction loan officer underwriters commensurate with growth.
- Strengthened capabilities in credit and risk management.
- Increased staffing in portfolio and asset management commensurate with increases in exposure.

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- Developed and delivered customized training courses to improve staff skill in credit analysis and risk management.

Increase in loan officer underwriters. As authorization volumes have grown, Ex-Im has concurrently added loan officer underwriters, both as new headcount and by redeploying current loan officers into areas of greatest needed. These additions include:

Transportation. 2 new loan officer underwriters, a staffing increase of 25%

Structured and Project Finance. 3 new loan officers underwriters, a staffing increase of 27%

Trade Credit Insurance. 3 new loan officer underwriters, a staffing increase of 17%

Trade Finance. 9 loan officers redeployed, a staffing increase of 39%.

In addition to these new headcount, five loan officers have rotated into different product areas to provide additional surge staffing to meet demand.

Strengthened capabilities in credit and risk management. In FY2010, Ex-Im restructured its Trade Finance and Credit Underwriting groups to strengthen underwriting and provide additional review of riskier and more complex transactions. Nine loan officer underwriters were redeployed to Trade Finance to work directly on transactions. With this reorganization, Ex-Im repositioned the Credit Policy team to create a group of seasoned underwriters deployed to focus on the most difficult transactions and to establish credit policies to ensure an effective and uniform credit culture across individual transactions. Further, the Credit Policy Committee conducts frequent reviews of “lessons learned” to assure that changes in underwriting practices are disseminated across divisions. In addition, a new loan officer was added to the Credit Review and Compliance group to perform audits of selected transactions and recommend any needed underwriting changes.

Increases staffing in portfolio and asset Management. As the Bank’s exposure grew, additional staff were added to the portfolio monitoring group. Five new loan officers were added, increasing FTE staffing by one-third.

Training in credit analysis and risk Management. In addition to increasing staff, Bank Management focused on skills development of the loan officer cadre. Customized training courses were delivered to about 50 loan officers in financial accounting, credit analysis, and risk analysis.

2. IT Management—

When the OIG produced last period’s Semi-Annual Report, Management concurred with its findings on IT systems as a management challenge and cited our budgetary restraints on IT investments (Please see Management Response letter to OIG dated November 16th, 2011). Over the past six months, Ex-Im Bank has received the investment resources necessary to modernize its IT systems and has launched the Total Enterprise Modernization (TEM) initiative to execute this goal.

TEM will focus on redesigning business processes and upgrading information technology systems. With the guidance of Management, the TEM team will prioritize, select, and implement projects to guide the Bank towards becoming a modern and flexible institution that is able to

adapt its IT systems and business processes as the environment around it changes. The Executive Working Group, chaired by the Chief Operating Officer, will make strategic and investment decisions and ensure that the TEM project remains aligned with the needs of the business units of the Bank and its Strategic Plan.

The TEM project is already in its initial design phases. TEM's objective, as defined by Ex-Im Bank Management, is to develop an enterprise culture of high performance and customer focus and to re-engineer business operations to meet customer needs and expectations. Further, TEM will improve data management, analytics, and reporting.

Since embarking on the TEM project, Ex-Im Bank has made a series of foundational decisions and begun several key projects. Specifically, Ex-Im Bank hired MITRE Corporation to perform a technical support review of Ex-Im Bank IT Capital Investment priorities, provide a thorough examination of Bank operations, and make recommendations for transformation. MITRE has finished its review and is finalizing its report to Ex-Im Bank. Additionally, Ex-Im Bank hired an IT contractor to recommend a service-oriented architecture (SOA) and to purchase and install the components of the selected architecture. The components have already been purchased and installed. The contractor is now proceeding with a "Proof of Concept" project to replace Ex-Im Bank's working capital guarantee processing system and create an online application process for the working capital program using the new SOA. Two other "Proof of Concept" projects are in process. The first is to develop a "Smart Form" application process for online applications, and the second is to develop a new customer management system to enhance business processes and clean customer data using a recently purchased Master Data Management tool. Lastly, Ex-Im Bank has established and staffed a TEM project team; identified and prioritized high-value projects; and begun the process of hiring a consultant to assist with business process improvement.

3. Strategic and Performance Planning—

The Report states that Ex-Im Bank has not issued an Annual Performance Plan (APP) and annual performance report. However, the Bank has, in fact, issued an APP and performance report as required by GPRA. Please find this document publicly available on the Ex-Im website at: <http://www.exim.gov/about/reports/GPRA%20Narrative%20and%20Table.pdf>.

4. Risk Management—

Management agrees with the OIG suggestion that Ex-Im's loss reserve models would benefit from the use of qualitative risk factors in addition to quantitative factors. In February 2012, the Office of the Chief Financial Officer began an internal review of its loss reserve models and developed a methodology that includes qualitative risk factors. This methodology is now in testing and will go into effect after approval by the Office of Management and Budget.

In addition, the Audit Committee of Ex-Im Bank has also undertaken an evaluation of the incorporation of qualitative factors into the Bank's reserve modeling. To this end, the Audit Committee has engaged KPMG to review the OCFO's work to revise our reserve methodology. We look forward to coordinating all of the ongoing work on this topic with the OIG's evaluation of Ex-Im Bank's loss reserve policies.

5. Customer Service—

As part of Ex-Im's Annual Competitiveness Report to Congress, the Bank conducts an exporter, buyer, and lender survey. In this survey, respondents comment on many aspects of customer service, such as cycle time and the Bank's responsiveness to buyer and exporter needs.

Management agrees that this existing survey of customers would be enhanced by development of a more formal survey instrument.

In 2010, recognizing the need for a more in-depth study of customer service, Ex-Im Bank created a survey to gauge the effectiveness of its website, its online processing systems, and general customer service. However, this survey was not implemented because the Bank learned of the OIG's similar customer service survey initiative. In order to avoid the redundancy of two simultaneous surveys, Management felt it was best for the OIG to conduct its own survey to be followed by Bank surveys in the future, if necessary. Please also note that Ex-Im staff has been working collaboratively with the OIG on its customer survey efforts, providing information on exporters and feedback on survey design.

The Bank also consistently monitors its customer service performance in accordance with its five-year Strategic Plan.¹ For instance, the Bank tracks its application turnaround time on a monthly basis to ensure that we are responding to our customers' needs in a timely manner. At present, the Bank processes 88% of applications within 30 days and 99% of our applications within 100 days.² On a weekly basis, senior Management reviews all applications that have been in the Bank for longer than 100 days to expedite the underwriting process.

As part of our investment in human capital, the Bank is creating a new position for a Vice President of Customer Experience. This individual will implement the Bank's customer service strategy (including customer service surveys) and will be responsible for the Bank's customer service performance across business lines.

Finally, the TEM initiative to modernize Ex-Im's IT systems will be closely integrated with our customer service strategy and our VP for Customer Experience. Optimizing customer service is central to TEM's goals.

6. Credit Underwriting and Due Diligence Practices—

The Report raises some concerns regarding Ex-Im's credit underwriting and due diligence practices. In particular, the OIG expresses concerns with the Individual Delegated Authority (IDA) system instituted by the Board of Directors in their July 2010 resolution.

This section of the Report enumerates three policies that should be addressed, and then also adds a fourth suggestion that lenders be required to implement "know your customer" practices.

Management partially agrees with the suggestions regarding policies, but in these cases Management has already implemented the suggested changes. A response to each of the suggested policy issues is set forth below, but first Management would like to address the Report's broader comments on IDA and credit underwriting and due diligence.

Ex-Im Bank has had an Individual Delegated Authority system for decades, including for transactions under \$10 million. In response to concerns about customer service and transaction processing times (as the Report previously noted), Management evaluated the concurrent functions of the IDA process with Credit Committee review for those transactions under \$10 million. Further, Management reviewed the bifurcation of underwriting and loan processing. The largest transactions in the Bank are underwritten and processed by the same loan officer, and these same efficiencies can be applied to transactions under \$10 million as well. Based on these

¹ http://www.ExIm.gov/pubs_center/ExImBankStrategicPlan2010_15.pdf

² Measures period from October 1st, 2011 to April 30th, 2012. Calculation based on internal ERS system metrics.

reviews, Management determined that Credit Committee review for transactions under \$10 million was not necessary alongside the IDA structure. This determination did not mean, however, that underwriting was “decentralized.” On the contrary, these changes were put in place so that the underwriting could be overseen by a manager – the Vice President of Trade Finance – who would be responsible for consistency. A frequent complaint under the prior system was inconsistency in the approach to underwriting.

In addition, as added protection, the Transaction Risk Classification Committee, (the “TRC”) provides a forum for cross-division discussion of pending transactions and ensures consistent application of credit guidelines. To supplement the TRC and provide broader oversight and guidance on matters of risk and portfolio management, the Credit Policy Committee convenes staff from across the Bank to discuss credit policy and procedures. In addition, the Credit Policy division’s work on the updated Credit Manual, which will provide a comprehensive guide to policies, will be completed in June 2012.

In February 2012, at the request of the Executive Working Group, the Credit Policy division began a review of the overall IDA system to evaluate the extent to which Ex-Im was in compliance with the governance policies and controls created in the July 2010 Board resolution. The Credit Policy division concluded that the Bank is in compliance with the resolution and that Ex-Im’s underwriting and due diligence continue to be effective under the IDA regime.

We do not believe that IDA, or our underwriting and due diligence policies in general, have resulted in inconsistencies or deterioration in the quality of underwriting. In fact, since the Board instituted the IDA system in July 2010, the credit quality of the Bank’s authorizations has improved from an average BCL of 3.87 for authorizations in the first half of FY2010 to an average BCL of 3.19 in the first half of FY2012.³ Moreover, in the first half of FY2012, we have earned \$548 million in offsetting collections and paid only \$18 million in claims, a significant decrease in claims over previous years.

Finally, Management has undertaken a forward-looking review to determine if the current IDA structure is meeting the Bank’s needs. With this review, we will continue to refine IDA as necessary to ensure that we balance customer responsiveness with prudent underwriting standards in line with our Charter obligations.

Regarding the specific policy suggestions made in the Report, we provide the following responses:

a. Management disagrees that there should be a uniform credit and underwriting standard for all Ex-Im Bank credit officers. Different programs within the Bank require different standards. Management does agree that, within each program, there should be uniform credit and underwriting standards.

b. Management agrees that, when feasible, security interests should be required to mitigate risks. Most of Ex-Im Bank’s programs are, in fact, asset-based programs, and over a year ago the Bank put in place a requirement for security interests in most medium-term transactions. Management also agrees that, subject to budget constraints, sporadic inspections and site visits would help to mitigate risk.

³ BCL (Budget Cost Level) measures the risk of an authorization on a scale from 11 to 1, with BCL 1 representing the lowest level of risk. BCL 4 and lower correspond to an investment grade credit.

c. Management agrees that financial statement reporting is a useful tool and the Bank requires such reporting in its medium-term program. Independently audited financial statements are also required on most transactions, but Management disagrees that these should be required in all transactions as the costs would interfere with the Bank's ability to and support small business transactions.

Management also agrees that lenders and other participants should apply standard due diligence and "know your customer" practices to Ex-Im Bank transactions. The Bank publishes due diligence guidelines applicable to lenders on its website at <http://www.exim.gov/pub/pdf/Due-Diligence-Guidelines.pdf>. Lenders are subject to "know your customers" requirements pursuant to the Patriot Act and other similar applicable regulatory and statutory regimes. In addition, the Bank has internal due diligence procedures which apply to all transactions and which include including Character, Reputation, and Transactional Integrity (CRTI) standards applied to all major parties to a transaction.

7. Corporate Governance, Business Processes, and Internal Control Policies and Practices—

Management agrees that it should review and continue to monitor the adequacy of its policies and practices as regards corporate governance, business processes, and internal controls to ensure that policies are clear and formalized.

The comment regarding the Nigerian Bank Facility also appeared in the OIG's Semi-Annual Report to Congress for the period from April 1st, 2011 to September 30th, 2011. Management responded to this comment in its response to that Report, dated November 16th, 2011. The Nigerian Banking Facility no longer exists and was not renewed by the Bank in the fall of 2011 due to low utilization. Please refer to our response in our November 2011 letter.

8. Renewable Energy Products and Clean Energy Export Opportunities—

Management has already responded to the recommendations of the July 2010 GAO report on Ex-Im Bank's Environmentally Beneficial Exports. Management continues to refine its business in this area and would be pleased to present its strategy to the OIG when practicable.

9. Small Business Participation—

Management agrees with the ongoing importance of performance in this aspect of Ex-Im's business. The Small Business Group has invested considerable effort and resources to build its platform – encompassing changes to products, processes, and deployment of staff. Part of this effort includes a revised strategic plan that includes targeted performance metrics. These plans are too detailed to share in the context of this letter, but this team would be pleased to share its work in this regard with the OIG when practicable.

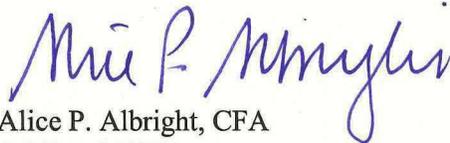
10. Economic Impact Procedures—

The Bank plans to initiate a comprehensive review of its economic impact procedures in June 2012. This process will include a public meeting to discuss proposals and to hear concerns. In the past, similar reviews of the economic impact procedures have taken about six months to

complete. This review will incorporate the views of a cross section of Ex-Im Bank stakeholders, such as affected industry, organized labor, exporters, other USG agencies, Congressional interests, as well as the recommendations and suggestions for improvements to the economic impact procedures advocated by Ex-Im Bank's OIG and the GAO. Since the Bank last conducted a wholesale review of its economic impact procedures in 2001, the Bank has processed dozens of transactions that required detailed economic impact analysis and, staff has gained valuable insights into possible improvements to the economic impact procedures. The Bank will bring all of this perspective to bear in the review process.

Thank you once again for the OIG's efforts to improve Ex-Im Bank's policies and procedures and to ensure that Ex-Im funds are not subject to waste, fraud, or abuse. The Bank appreciates your hard work and your input. We look forward to continuing to work closely with the Office of the Inspector General.

Sincerely,



Alice P. Albright, CFA
COO and EVP
Export-Import Bank of the United States

cc: Fred P. Hochberg, Chairman and President