Export-Import Bank of the United States
Board of Directors Open Meeting
Tuesday, September 8, 2020

The Board of Directors convened via teleconference at 10:00 a.m., Kimberly A. Reed, President and Chairman, presiding.

Present:

Kimberly A. Reed, Chairman
Spencer Bachus, III, Director
Judith Delzoppo Pryor, Director

Staff Present:

Mary Jean Buhler, Chief Financial Officer
James Burrows, Senior Vice President, Business Credit
Jim Cruse, Senior Vice President, Office of Policy Analysis and International Relations
Steven Freshour, Vice President of Business Credit
Lauren Fuller, Senior Advisor to the Chairman
Julie Kalishman, Director of Budget and Financial Planning
Ryan McCormack, Deputy Chief of Staff
Amy Shinkman, Vice President, Export Credit Insurance
Paxton Stephan, Policy Analyst, Office of Policy Analysis and International Relations
Nicole Wharton, Senior Counsel, Office of the General Counsel

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(10:05 a.m.)

Welcome and Opening Remarks

Chairman Reed: Good morning. This is Chairman Kimberly Reed. I would like to welcome everyone in attendance this morning. I call the meeting to order. May I have a motion to consider Item Number 1 on the agenda?

1. COVID-19 Update

Director Pryor: Good morning, Chairman Reed. This is Director Pryor. Motion to consider Item Number 1, the Small Business COVID-19 Update.

Chairman Reed: Is there a second?

Director Bachus: This is Director Bachus, I second the motion.

Chairman Reed: Thank you to our EXIM Office of Small Business representatives, Steve Freshour, Amy Shinkman, and Jim Burrows. Mr. Burrows, please introduce yourself for the record and present Item Number 1.

Mr. Burrows: Good morning, Chairman Reed. This is Jim Burrows. Thank you for having us, Director Pryor, Director Bachus. EXIM recognizes that COVID-19 pandemic around the world has left many in difficult situations.

In response to COVID-19, the agency's implemented several temporary relief measures. The first set of relief measures was implemented for existing clients in the short-term and medium-term programs.

The first measure was implemented on March 12, 2020 and was recently extended until October 31st. The second measure was more product-related and implemented on March 25th.

During these challenging times we're committed to our mission of supporting U.S. jobs for exports. EXIM's open and operational and we'll continue to do everything we can to support American businesses and workers.

To safeguard our staff, EXIM workforce continues to telework and stands ready to serve U.S. exporters. Since, Chairman Reed, you and your fellow Board Members were sworn in on May 9, 2019, through the close of business last week, the Agency has authorized roughly 2,069 small business transactions, totaling $2.7 billion, supporting thousands and thousands of American jobs throughout the United States.

The Office of Small Business has three operating objectives. First, to ensure our products meet our client needs. The agency's always looking for ways to improve existing products and identify gaps in the private sector.

During March's EXIM Board meeting, the Board was updated on enhancements made to several EXIM programs to assist exporters and lenders during the COVID-19 liquidity crisis.

Steve Freshour, Vice President of Business Credit, and his team, worked with our lenders to administer the working capital guarantee and supply chain finance programs.

Steve will provide updates on what's happening in both of these programs in just a few minutes. The second, the agency is continually looking for ways to find clients, including finding better data sources, leveraging our multiplier networks, and using the latest technology and social media platforms to enhance our outreach and education to exporters, lenders, insurance brokers, and other EXIM multipliers.

In a moment, I'm going to update the Board on what the Office of Small Business has done since the pandemic has started to ensure our exporters,

lenders, brokers are aware of the tools -- the trade tools available to them through EXIM.

Third, we strive to create the best transaction experience for our customers. Ongoing enhancements to our program enrich the overall client experience and increase the ease of doing business.

Amy Shinkman, our Vice President of Export Credit Insurance and her team work with businesses and insurance brokers to underwrite all insurance transactions. Amy will provide an update on what she's seen in the short-term insurance portfolios, and how they're supporting exporters and our brokers communities during the COVID-19 crisis.

Now, I'll briefly update you on what's going on in outreach and education since the pandemic started.

In pre-COVID environment, I would be updating you on the many seminars we conduct in collaboration with federal government agencies, public and private partnerships, like the District Export Council, and state and local economic development agencies, and academic institutions, and the like.

However, our paradigm has shifted during the pandemic and our office is maximizing the use of digital media.

Digital media gives us the ability to effectively reach large audiences, extending the EXIM brand through individualized high-touch communications, basically, meeting and speaking to company representatives in groups and one-on-one.

We're using the automated digital platforms to stay connected with small business during this -- this time of social distancing. EXIM's outreach and education team is driving communication strategies and tactics with three goals in mind: be proactive to the needs of the community of small business exporters, both customers and prospects, drive as much normalcy and business as usual, and maintain

a robust pipeline of actions so that when things do return to normal, we have continuity and we're keeping things moving, and we're not scrambling to catch up.

Some of the actions that we've taken since COVID has started is, we've conducted 106 webinars from March 16th to the end of August, driving 500 consultation requests, we've held 351 campaigns across multi-channels, such as LinkedIn, Google, Facebook, and blog posts, generating and touching over a million-plus inboxes, grading 8,500 new to EXIM contacts, and driving 6500 consultations and requests.

We've created a three-part audio series on receivable financing, protecting your receivables from non-payment by foreign buyers, negotiating sales terms in uncertain times. We've also accelerated our outreach through the All-American Initiative, touching all 50 states, D.C., and the U.S. territories, and we expect to have this concluded by September 30th. We're working with associations and chambers around the country, and we're publishing weekly blog posts.

In addition, we've produced numerous educational videos, such as working with -- Steve Renna, our Chief Banking Officer, recently completing a video for industry equipment news, and then we've also completed a video to support the All-American Initiative.

I'll now turn the microphone over to Amy Shinkman to give you an update on business trends in this time of COVID, how these -- how our businesses have changed and how we are supporting U.S. exporters and the communities during these difficult times.

Amy will then turn it over to Steve Freshour, who will discuss the business credit portfolio. Amy?

Ms. Shinkman: Thank you, Jim. Good morning, Chairman Reed, Directors Pryor and Bachus, and

other guests and colleagues. I am Amy Shinkman, the Vice President of the Export Credit Insurance Division in the Office of Small Business at EXIM Bank.

Thank you for the opportunity to highlight updates in our business since the last time I presented to you in December 2019. Since then, so much has happened that we couldn't have imagined.

Last time I was here, I discussed that because EXIM doesn't compete with private sector insurers, our book of business had evolved over time as companies were increasingly able to find the export insurance cover they needed from private sector insurers.

I noted the doubling of our business following the 2009 financial crisis, between 2008 and 2012, with the most pronounced increase in 2011. Now, we're in situation where, depending on how long the global economy takes to recover, following the shock of COVID-19, we could see a similar situation in the coming months and years. Indeed, the trends have already begun.

After a few years of flat or decreased application volume, due partially to our lack of board quorum and long-term re-authorization, but also because of the strong business climate and costs to private market for insurance, the trend line has turned for short-term insurance applications since the pandemic.

In July 2020, our group processed 209 applications of all transaction types, compared with 647 in February 2020 and 784 in April 2020. Within this number, we are also seeing higher proportions of new applications than we had seen in recent years, processing almost 20 percent more new applications in July 2020 than in July 2019.

Unfortunately, this is having an increase -- and having a negative impact on our turnaround time. We are working as hard as we can to process all

these new applications, which tend to be more challenging to underwrite than renewals.

The credit environment also makes underwriting more challenging. At the same time, our approved full-time equivalent employee count at 29 is flat, and our staff is feeling the strain. Our turnover has been relatively high in the last few months.

Since March, two loan officers accepted new positions within EXIM, two accepted positions at other agencies, and one has retired. In that time, we have been able to hire three new employees and we have two more joining next week, with a higher percentage coming from private sector underwriters that are feeling the strain, than we've been able to hire in the past.

At the same time, management and senior loan officers are very busy training these staff and having a higher proportion of staff with lower levels of individual delegated authority than in the past.

Despite these pressures, we have managed to keep our turnaround times to average to increase by about four days in the last year, so our average turnaround time for applications is now 14 days compared to 10 days a year ago.

At the same time, unsurprisingly, due to the global economic conditions, our claims are also increasing, and we expect this trend to continue for the foreseeable future.

Through June of this fiscal year, we had paid 49 short-term insurance claims, totaling $8.1 million U.S., compared with 28 claims totaling $1.8 million U.S. at the same time last year.

This is to be expected in our industry any time there is a financial downturn, as short-term trade credit is very sensitive to economic shocks. In the export credit insurance division, we view our business as the bread and butter of EXIM and we hope that you agree.

Our staff of 29 underwrote $1.5 billion in authorizations fiscal year to date through July, of which 68 percent directly supported small businesses. By authorization count, we approved 1,734 policies, which accounted for 89 percent of EXIM's total number of authorizations.

Our U.S. dollar volume are what's accounted for 47 percent of EXIM's total U.S. dollar authorizations fiscal year to date. Furthermore, we hope to authorize a large transaction for the Trade Bank of Iraq later today, if the special delegated authority is approved at the later board meeting.

This is our first short-term insurance transaction approved by the Board since 2015. In export credit insurance, we are a customer-driven group, constantly balancing our mission to support jobs through exports while protecting the taxpayer.

Thank you, Chairman Reed, Director Pryor, and Director Bachus, for your support of our business. We will continue to do everything we can with the resources we have to support the U.S.'s exporting community.

I'm happy to answer any questions you have now, or wait until the end of the OSB presentation, and I'm happy to turn it over now to Steve Freshour. Thank you.

Mr. Freshour: Good morning. This is Steve Freshour, VP of Business Credit. Thank you for giving me the opportunity to present today. In response to COVID-19, business credit implemented two types of temporary relief measures.

The first set of relief measures was intended for existing borrowers in the business credit portfolio. The first measures were implemented on March 12, 2020 and were recently extended until October 31, 2020.

The second measures were implemented on March 25, 2020 and run through April 30, 2021. For

temporary relief measures for existing borrowers, we have received 67 requests from 39 borrowers, totaling $113 million in authorizations, representing approximately 12 percent of the total business credit portfolio.

Sixty-five percent of the requests are reporting in collateral or exam-related due to difficulties of auditors being onsite for audits. We expect that these are temporary and not an indication of borrower distress.

Two of these requests were directly related to payment of principle and interest, which were from borrowers already on the watchlist pre-COVID-19.

The second type of temporary relief measure that the business credit group implemented were those intended to assist new borrowers using the working capital guarantee and supply chain guarantee programs.

These measures will remain in place for loan guarantees with an effective date on or before April 30, 2021. For temporary relief measures for new borrowers, we've authorized two deals, projected to support $3.2 billion in export sales, and 2,500 direct and indirect jobs.

If the deals in the pipeline are authorized, they will support an additional $1.4 billion in experts and 2,000 direct and indirect jobs.

Here are the specifics on these deals. We have authorized a 90 percent guarantee on a $510 million supply chain finance facility. The parties to this transaction took advantage of the temporary waiver of the 50 percent small business target for suppliers in the supply chain.

We have also authorized a 90 percent guarantee on a $97 million working capital facility. The parties took advantage of our expanded definition of eligible inventory, to include all potentially exportable inventory.

In addition to these two authorized transactions, the Board will vote --

(Off microphone comments.)

Mr. Freshour: In addition to these two authorized transactions, the Board will vote --

(Off microphone comments.)

Chairman Reed: Please mute your phone.

Mr. Freshour: In addition to these two authorized transactions, the Board will vote later tomorrow to approve two U.S. steel facilities, totaling $450 million, tomorrow, where the lenders took advantage of our 95 percent guarantee option for both the working capital and supply chain facilities.

We also have a $50 million supply chain finance guarantee deal in the pipeline with a 90 percent guarantee, where the parties could take advantage of the temporary waiver of the 50 percent small business target for suppliers in the supply chain.

This year, we expect business credit to have a big increase over prior authorizations, and we expect fiscal 2021 to be even bigger. Thank you. And I'll be happy to take any questions at this time.

Mr. Burrows: Thank you, Steve. This is Jim Burrows. Just a small correction to Steve's talking points, the U.S. Steel deals will be coming to Board this afternoon.

Mr. Freshour: Thank you, Jim.

Mr. Burrows: Chairman Reed, Director Pryor, Director Bachus, happy to answer any questions you may have.

Chairman Reed: Thank you so very much. Director Pryor, do you have any questions or comments?

Director Pryor: Look, I don't have any questions. These reports are so very thorough and it's

wonderful to hear all the effort that's being put into it by this team to help U.S. small businesses and those in the supply chain, really, in many cases, probably stay afloat, so thank you for all your hard work.

Amy, your report was great. Thank you, Steve, as well. I don't have any questions. I just wanted to say that we appreciate all the hard work that you and your team are putting into this.

I know that it's been difficult, I think we're on month six now of teleworking, which doesn't make it any easier, and on top of teleworking, you've had to completely change your strategy, Jim, and move to an all-digital format and reach out that way, because conferences are -- have become virtual and I know it's hard to reach people that you don't know exist out there.

So I really just wanted to offer my support, and if there's anything I can do to help in any way, I'm sure I'm speaking on behalf of my fellow Board Members and other colleagues at EXIM who want to help you and in turn, help U.S. businesses as best we can.

So please do reach out if there's anything we can do and thank you so much for a very thorough, interesting presentation, and the numbers are amazing. Thank you.

Chairman Reed: Thank you. Director Bachus?

Director Bachus: Yes. Thank you, Chairman. I do have a statement and a comment. In establishing the Advisory Committee to the Export-Import Bank of the United States, the U.S. Congress specified in the EXIM charter that the committee's membership provide Congress with its views on whether EXIM is meeting its mandate to provide competitive financing to expand small business U.S. exports, along with any suggestions for improvement in this regard.

That's a statutory requirement. And let me just refer everyone to their report to Congress, which went in last month, and I'm not going to read it, it's five pages, but it is a glowing complement to the efforts of our Office of Small Business.

It talks about new aggressive outreach activities, the Office of Small Business has more than doubled their interactions with small businesses, and they conclude with this remark, and I think this is appropriate, not only for this subject, but any time this Board meets, and this is what they said to Congress.

The days of the United States, through inaction, giving away hundreds of billions of dollars in business to foreign competitors must be seen as having come to a decisive and permanent end. An inspired, energetic advancement of the mission of the newly-empowered Export-Import Bank of the United States is going forward in making this vital objective a reality.

And that's signed by the Chairman of the EXIM 220 Advisory Committee, Congressman Steven Pearce. So I want to commend everyone in the Office of Small Business for a job well done under very, very difficult circumstances, so thank you very much.

Chairman Reed: Thank you, Director Bachus. I'd like to take a moment to recognize you, Director Bachus. Director Pryor has some responsibilities that she is championing, including Sub-Saharan Africa and renewable energy, and I've asked you to take on two very, very important topics.

One is our veteran-owned businesses, but also, small business in general. And I just want everyone on the phone to know what a tremendous job Director Bachus has done, along with his great right hand, Elizabeth Thomas, to ensure that we are very much focused on this new mandate that we have in working with our entire small business division, and across our agency, to increase what we are doing on small business in every way possible.

So, Director Bachus, I want to commend you for doing such a great job. I hope that those on the phone will be also in attendance at our EXIM annual meeting that will take place on Thursday and Friday of this week.

We are at an all-time record high attendance. Last I heard, about 1,500 people and growing. And that is even though we are doing this virtually.

I would like to say that because we're doing this virtually, and I do hope everyone is safe and doing well in this time of COVID, but us having to take on this new platform of a virtual conference has resulted in our ability to reach more and more small business participants.

And in fact, you will see a very wonderful first time ever small business track for the small businesses who are exporting, or hope to export, because we all know that that increases their success and U.S. jobs as we reopen our economy.

So I want to commend the entire small business division for overseeing this great platform and I'm very excited and I know Spencer and Judith join me in being -- looking forward to the debut of a wonderful new video.

We have an All-America Initiative. We will soon be concluding our visits in-person and virtually to all 50 states, and the U.S. territories, and the District of Columbia, and you will be seeing previewed at this conference, a beautiful All-America video that will then be put into our outreach to small businesses across our country to let them know that we are here for them.

So I want to say thank you, Jim Burrows and Elizabeth, but also, Jim, do you have anything that you would like to build on, as well as Steve and Amy, on to these comments. You're doing a tremendous job.

Mr. Burrows: Chairman Reed, we appreciate all the

support from you, and Director Pryor, and Director Bachus. It takes a village, and it certainly has been an extensive village during these extraordinary times of dealing with the pandemic.

But we appreciate the resources that you have given us to give us the tools that we need to reach American exporters and support our multiplier networks, and so thank you to you and thought team for providing us all the resources that we need during this time.

Chairman Reed: Thank you. And thank you for that update. As this presentation is for information only, no vote is required.

May I have a motion to consider Item Number 2 on the agenda?

2. Overview of Process and Decision Items

Director Pryor: Yes. This is Director Pryor, motion to consider Items Number 2B, is this right? No. Let's see, motion just to consider Item Number 2 from the PEFCO Working Group, excuse me, the overview of the process and decision items.

Chairman Reed: Do I have a second?

Director Bachus: I'll second the motion. This is Director Bachus.

Chairman Reed: Thank you. And I would like to say, thank you for presenters Jim Cruse and Lauren Fuller. And before we begin, I just want to commend all of our staff, you will soon hear what a thorough first-time ever review we have done of PEFCO in its 50-year history in such a focused way, because oversight and reform are very important to me.

And I also want to say, we have just come from -- it's been an early morning for me, I've just begun the hosting of our annual G-12 Head of Export Credit Agencies meeting, virtually, so we were up

bright and early this morning, where I was able to engage with my colleagues from leading countries of the G12 around the world on what we all do.

And so with that, just as a backdrop, I would like to recognize Lauren Fuller, Senior Advisor, and, Lauren, please introduce yourself. Thank you.

Ms. Fuller: Thank you, Chairman Reed, Director Bachus, and Director Pryor, I am Lauren Fuller, Senior Advisor to the Chairman. First, Chairman Reed, I'd like to recognize your leadership in conducting the first ever public review of EXIM's important agreement with the Private Export Funding Corporation, referred to as PEFCO.

This 50-year public-private partnership was created in 1970, was renewed once in 1994 for 25 years, and is set to expire on December 31, 2020. In your effort to reexamine how EXIM conducts business, you sought to conduct a thorough review of PEFCO from the beginning of your tenure as Chairman, in May 2019, as well as examine the key documents of the relationship to ensure that it fully supports EXIM's mission to support U.S. jobs by facilitating exports.

In line with your efforts to increase transparency and strengthen taxpayer protections, you convened a public meeting of the EXIM Board of Directors on August 13, 2020 to hear from the public and diverse experts on the issue of PEFCO's request to renew the EXIM-PEFCO partnership.

You empaneled PEFCO staff, PEFCO Board members with fiduciary duties, commercial lenders, both large and small, a leading critic of the partnership, and the EXIM staff to present their views for EXIM Board consideration.

This meeting was the culmination of dozens of meetings internally at EXIM, as well as externally with PEFCO and stakeholders. In addition, you notified and welcomed input from the participating agencies of the National Advisory Council, including

U.S. Department of Treasury, U.S. State Department, U.S. Department of Commerce, Office of Management and Budget, U.S. Agency for International Development, U.S. Trade Representative, and the Federal Reserve Board, and also notified the National Security Council and the National Economic Council.

In addition, you directed staff to notify Congress of PEFCO's request. Further, on August 12, 2020, you directed EXIM staff to provide a full briefing to interested congressional staff, including the majority and minority staff of EXIM's Senate and House authorizing committees.

At your direction, congressional members and staff were invited to attend the August 13th board meeting to hear from the stakeholders directly.

More than 100 members of the public, including representatives from at least five congressional offices, attended the virtual board meeting. At the August 13th board meeting, you read into the record, the August 10, 2020 letter from the EXIM Acting Inspector General, Jennifer Fain, which reiterated her independent authority to audit, evaluate, inspect, and/or investigate any and all allegations involving EXIM's relationship with PEFCO, ensuring yet another mechanism of oversight.

In addition, you welcomed additional public comments at the August 13, 2020 meeting of the EXIM Board of Directors.

Also, you called for a public comments process to examine the benefits or cost of continuing the partnership. The request to renew the partnership with PEFCO was published in the Federal Register for public comment on July 27, 2020 and closed on August 21, 2020; a 25-day public comment period.

In addition, on July 27th, you called for public comment on the PEFCO request to increase the interest on secured notes issued by PEFCO, with

public comment closing on August 21, 2020, again, another 25-day public comment period.

After the conclusion of the public comments periods, the EXIM Board of Directors and National Advisory Council were provided the relevant public comments to weigh those viewpoints ahead of final consideration by the EXIM Board occurring today.

EXIM received no comments from National Advisory Council agencies, and no comments from the National Security Council or the National Economic Council.

Of the 21 comments received between the two Federal Register notices, 15 were relevant to the notice and non-duplicative. Of that number, 12 were supportive of the EXIM-PEFCO partnership, or the PEFCO request to increase the interest on the secured notes, and three were more pessimistic on the benefits of PEFCO or the secured notes.

The remaining six comments were either irrelevant or a duplicative of previously submitted comments. All comments are available for review by the public on the Federal Register website. You requested the EXIM Advisory Committee members attend the August 13, 2020 meeting if possible.

A subcommittee of the Advisory Committee then met to discuss the usefulness of PEFCO and sent draft recommendations to the full Advisory Committee that await further considerations.

As part of the process, you instructed EXIM staff to engage in a thorough review of PEFCO. This included staff analysis and review by the following offices: Office of General Counsel, Office of Policy and International Relations, Office of the Chief Financial Officer, Office of Congressional and Intergovernmental Affairs, Office of Board-Authorized Finance, Office of Small Business, Office of the Program on China and Transformational Exports, and the Office of the Chairman, including review by EXIM's National Security Advisor.

In addition, you directed the Chief Ethics Officer and Chief Risk Officer to determine whether the agreement with PEFCO met all standards of sound board governance and ensured there was no undue risk to the American taxpayer.

The Board heard the conclusions reached by the Chief Ethics Officer and the Chief Risk Officer during the August 13, 2020 meeting of the EXIM Board, which support PEFCO reauthorization.

In addition, EXIM staff reviewed more than 100 documents from EXIM's library and archives from 1969 to the present, including original correspondence of federal agencies that approved of the partnership between 1969 and 1971.

Those agencies included the U.S. Department of Treasury, the U.S. Department of Justice's Anti-Trust Division, the Internal Revenue Service, and the Federal Reserve Board.

EXIM staff reviewed the legislatively history, which reflected significant congressional interests and activities surrounding PEFCO in the late 1960s and 1970s, with less activity between 1980 through 2001.

In 2001, Congress expanded PEFCO's scope by authorizing the sale of Small Business Administration loans to PEFCO in the Small Business Reauthorization Act of 2000. Staff research uncovered no remaining issues of congressional concern.

Similarly, EXIM staff reviewed all PEFCO reports from the Government Accountability Office, or GAO, the research and investigative arm of Congress, and found the early activities and reports between 1973 and 1983, but no reviews after that period.

EXIM staff also reviewed the PEFCO financial audit reports with regard to the partnership from EXIM's audit firm, KPMG, and PEFCO's audit firm, DeLoitte & Touche, both of which raised no concerns.

Further, EXIM staff reviewed credit rating reports by both Fitch and Moody, which continued to rate PEFCO as AAA. EXIM staff analysis focused significant attention on the key documents of the partnership, to determine whether reforms may be needed.

Those documents included the guarantee and credit agreement, the guarantee agreement, bylaws, standard operating procedures, and board governance documents. It is with these documents that EXIM exercises a degree of control in the partnership.

It is important to note that EXIM's Chief Financial Officer attends all of the PEFCO Board of Directors meetings in New York, and receives regular reports and audits for EXIM's review.

On August 25, 2020, you directed a third Federal Register notice to notify the public of the PEFCO matters the Board would consider on September 8, 2020. Those included, one, renewal of the guarantee and credit agreement between EXIM and PEFCO; two, amendment to the standard operating procedures between EXIM and PEFCO; three, PEFCO's secured note authorization for FY 2021; and four, a funder guarantee for the supply chain finance guarantee program.

Those four proposed proposals are listed as Items 2A through 2D today. In addition, you directed the agencies of the National Advisory Council to receive adequate notice. Moreover, you directed staff to consider certain reforms and revisions, all of which will be address subsequently by the panel today.

This comprehensive assessment of PEFCO sets the stage for the panelists you will hear today as the EXIM Board deliberates on whether to renew this public/private partnership.

With the public comments you received, and the thorough, comprehensive staff analysis, the Board is well-positioned to vote on the four items before you

for consideration today.

In conclusion, staff believes this process you directed fully reflects your commitment to following the law, upholding EXIM's congressional mandate, not competing with the private sector, increasing transparency and accountability, and strengthening American taxpayer protections, as well as reinforces your commitment to reform EXIM.

I thank you, Chairman, and I would be pleased to answer any questions.

Chairman Reed: Thank you, Ms. Fuller, and thank you for your exceptional service at EXIM, and really appreciate this presentation. Mr. Jim Cruse?

Mr. Cruse: Well, thank you, Chairman Reed. This is Jim Cruse, Senior Vice President for Policy Analysis and International Relations. I would like to introduce this issue by noting, just in case anybody hadn't, that this is a decision meeting on whether, and if so, how, to continue the 50-year relationship of EXIM Bank with PEFCO.

As Lauren has described, a full and transparent review has looked into every aspect of the relationship between PEFCO and EXIM Bank, and PEFCO's role. In presentations that will follow, I think you will see that the staff believes that the answer is positive.

However, there are improvements that can be made to make the arrangement work even better, the feedback loop more complete, and there should be regular reviews. In effect, it is a good and valuable tool, with the potential to be even better.

There are four decision issues today. The first is whether to approve the government's framework, which is the standard operating procedure. This determines the operating dynamics and the control; the what, the where, and the how. The Board needs to be comfortable with this control mechanism before deciding on the existence.

The next issue would be the existence, the governing existential document is called the credit and guarantee agreement. This legal agreement allocates fundamental roles and responsibilities. Here, the key issue will be the term.

If both of these are agreed, then one would take up two other issues, one relating to the issuance of secured notes, and the other one relating to an expansion of its program.

These all fall in an order, one after the other. However, we're not going to take them up individually. What we're going to do is present all of the packages, by three different presenters, then there will be a Q&A when all questions on all topics can be addressed, and then after the Q&As, we will take each decision issue up separately and vote on it separately.

So that is the process that we will be going through today. Are there any questions before I introduce the first presenter?

Chairman Reed: I'm great. Director Bachus and Pryor, you fine?

Director Pryor: Yes, I'm fine with Jim proceeding. Thanks.

Director Bachus: Aren't we going to reserve our comments until later?

Chairman Reed: Yes. Yes.

Director Bachus: Then I'm fine.

Chairman Reed: Thank you. Please proceed. Thank you so much.

Mr. Cruse: All right. So the first presenter will be Paxton Stephan on the two issues of the governance and the credit and guarantee agreement. Paxton?

2B. Amendment to the Standard Operating Procedures between EXIM and PEFCO

Ms. Stephan: Thanks, Jim. This is Paxton Stephan and I am a policy analyst in EXIM's Office of Policy Analysis and International Relations at EXIM. Good morning, Chairman Reed, Director Bachus, and Director Pryor, and thank you for the opportunity to present to you this morning.

Like Jim said, I'll be presenting Items 2B and 2A on the agenda, and I welcome any comments or questions after the conclusion of all presentations for Item Number 2. I'll now start with 2B, the amendment of the standard operating procedures between EXIM and PEFCO.

As Jim mentioned, the standard operating procedures, also known as the SOPs, are important because they are a policy document that guides the working relationship between EXIM and PEFCO.

Over the course of EXIM's review of PEFCO, the SOPs have become the critical means of enacting reform. Chairman Reed, in particular, has been involved in this reform effort and has emphasized the review process be as transparent as possible, including a variety of EXIM's stakeholders, as Lauren mentioned earlier.

Staff is currently proposing seven reforms of PEFCO in the SOPs. The first and most fundamental reform would be requiring a holistic review of PEFCO's operations for future renewals of the SOP.

The first report would be due no later than the end of fiscal year 2023, and would include a third-party study of PEFCO. This third-party study would review whether PEFCO complements or competes with commercial lending in the market. It would also determine whether there are any other entities that could provide a similar product as PEFCO if they had access to those special provisions of guarantee on interest of debt issuance, and expedited claims processing, that PEFCO currently has.

It should be noted that while PEFCO is currently the only entity that receives these special provisions, it does not have exclusive rights to them.

Furthermore, at each subsequent renewal of the SOPs, future EXIM Directors will have the ability to evaluate PEFCO on its merits and modify PEFCO's operations as needed, or choose to discontinue new business with PEFCO at that time.

The second reform would be requiring PEFCO to provide numerous reports to EXIM and change some of its reporting metrics to be more in line with what EXIM currently does. PEFCO would be required to change its definition of small business transactions to match EXIM's definition, and PEFCO would also be required to report on its annual activities towards each of EXIM's respective congressional mandates, including small business, the Sub-Saharan Africa exports, environmental exports, and exports related to the China and Transformational Exports Program.

On an annual basis, PEFCO would also need to report on the mitigants and protections that it has put in place for EXIM's guarantee on the interest of PEFCO's secured notes, so that that way we can ensure that the U.S. taxpayer is being protected.

The third reform would be lowering PEFCO's dividend cap from 50 percent of its earnings to 35 percent of its earnings. EXIM has capped PEFCO's dividend payment so that shareholders and their returns are not prioritized over the long-run capital position of PEFCO.

Reducing the cap reduces the amount of dividends that PEFCO would be able to pay in the future. For the record, PEFCO's last payment of dividends to its shareholders was in 2015.

The fourth reform would be adding new mandates on China and Transformation Export from EXIM's 2019 reauthorization to PEFCO's organizational goals. EXIM's new program on China and Transformational Exports supports the extension of

loan guarantees and insurance at rates and on terms and other conditions to the extent practicable, that are fully competitive with rates, terms, and other conditions established by the People's Republic of China, or by other covered countries as designated by the Secretary of the Treasury.

The program also aims to support U.S. innovation, employment, and technological standards in artificial intelligence, biotechnology, biomedical sciences, wireless communications equipment, quantum computing, renewable energy, energy efficiency, energy storage, semiconductors, semiconductor machinery manufacturing, emerging financial technologies, water treatment and sanitation, high performance computing, and associated services.

By including PEFCO in this important effort, EXIM hopes to channel as much private funding towards the China and Transformational Export Program as is possible.

The fifth reform would add restrictions on PEFCO's activity with China, consistent with Section 408 of EXIM's 2019 reauthorization. This reform would restrict PEFCO support of EXIM-guaranteed transactions over $25 million with the Government of China as the end user, lender, or obligor.

The sixth reform would add credit unions specifically to PEFCO's list of eligible lenders. The addition of credit unions to this list will encourage PEFCO to pursue new partnerships and expand support of small businesses across the country.

The seventh reform would approve PEFCO's Collateralized Notes Program. EXIM's programmatic approval of this PEFCO debt issuance, which would not receive EXIM's guarantee of interest, would offer PEFCO another way to fund EXIM-guaranteed transactions over a variety of maturities.

PEFCO would then be expected to provide an annual

report on the activity funded by the collateralized notes, without EXIM's guarantee of interest, versus the secured notes, with EXIM's guarantee of interest.

Eventually, comparing these two programs would allow EXIM to recalibrate its approval of secured notes in the future, potentially limiting EXIM's exposure to PEFCO, or at least rightsizing it, so that it can be as efficiently used as possible.

In addition to the seven reforms, there is one other substantive proposed change to the SOPs that the staff is recommending. This would be extending PEFCO's floating rate liquidity authority through 2025.

This extension would facilitate market capacity by encouraging commercial banks and non-bank lenders to fund EXIM-guaranteed loans, with the knowledge that PEFCO could provide liquidity, taking it off their balance sheet, if necessary, in the future.

This authority is essential for crowding and private lenders, due to the regulatory constraints of Basel III and commercial bank's preference for floating rate lending.

In summary, the proposed amendment of standard operating procedures between EXIM and PEFCO would reform PEFCO in multiple capacities, including the introduction of a periodic, holistic review of PEFCO every few years.

Chairman Reed: Thank you so much.

2A. Renewal of the Guarantee and Credit Agreement between EXIM and PEFCO

Ms. Stephan: I will now move on to present Item 2A and just to remind everyone that if there are questions and comments, please hold them until the end of all presentations.

So Item 2A is the renewal of the Guarantee and Credit Agreement between EXIM and PEFCO. The Guarantee and Credit Agreement, as amended, provides a legal framework for the EXIM and PEFCO relationship.

While this document is essential in providing the legal framework of the relationship between EXIM and PEFCO, renewal of this agreement does not imply EXIM's approval of any specific transaction.

For example, the Guarantee and Credit Agreement puts into place EXIM's guarantee on the interest of PEFCO's secured notes; however, EXIM must still consider approval of PEFCO's secured note issuances on both a fiscal year and individual issuance phases.

Additionally, the Guarantee and Credit Agreement is the agreement that puts into place many of the controls on PEFCO's activities, such as the requirement of EXIM approval for many activities, and EXIM's representation at PEFCO Board meetings.

Currently, the agreement is set to expire on December 31, 2020. Staff recommends renewing the agreement for another 25 years so that the new expiration date would be December 31, 2045.

A 25-year renewal of the Guarantee and Credit Agreement is critical for two reasons. One, PEFCO's credit rating, and two, the type of transactions that PEFCO funds.

First, PEFCO's credit rating is currently equivalent to the credit rating of the U.S. government. Its credit rating is based on EXIM's support of PEFCO, among other considerations.

In the most recent credit rating report to PEFCO, a perceived reduction of EXIM's support of PEFCO was noted that -- in that it could result in a credit rating downgrade of PEFCO.

Staff believes that a reduction in term of the renewal of the Guarantee and Credit Agreement could be perceived as a reduction of EXIM support, and therefore, could lead to a downgrade.

A rating downgrade of PEFCO would increase PEFCO's borrowing costs and would ultimately raise the pricing for the funding that PEFCO would be able to provide.

With increased costs, PEFCO would be able to do less activity and therefore would be less able to assist EXIM with its mission and mandates.

EXIM would then need to increase its use of direct loans to compensate for PEFCO's more limited ability in practice to fund transactions. In order to maintain PEFCO's ability to efficiently and effectively fund EXIM-guaranteed transactions, staff recommends a renewal of Guarantee and Credit Agreement for 25 years.

PEFCO was created to fund long-term transactions, so that's transactions with a repayment term of more than seven years. Some EXIM-guaranteed transactions, including nuclear and renewable projects, could feasibly have a more than 20-year duration, when you combine the disbursement period with the repayment period.

These types of deals can also be years in the pipeline before they are authorized and disbursed. Therefore, for PEFCO to provide long-term financing for export finance, and to be seen as a stable source of funding in the market, staff proposes a 25-year renewal of the Guarantee and Credit Agreement.

In sum, the 25-year renewal of the Guarantee and Credit Agreement provides a framework for EXIM to involve the private sector, like PEFCO, in EXIM transactions, consistent with EXIM's policy to supplement and encourage, and not compete with, private capital.

That concludes my presentation of Items 2B and 2A.

I welcome any comments or questions after all presentations for Item Number 2 have concluded. And with that, I would like to now invite my colleague, July Kalishman, to present Item 2C.

2C. PEFCO Secured Note Authorization for FY2021

Ms. Kalishman: Thank you, Paxton. Chairman Reed, Director Bachus, and Director Pryor, good morning, my name is Julie Kalishman and I'm the Director of Budget and Financial Planning.

I am presenting a request from PEFCO of $2 billion for the PEFCO-secured notes issuance level for fiscal year 2021.

PEFCO raises capital primarily through the issuance of secured notes in the capital market. This capital raised is to fund EXIM Bank-authorized transactions. The request for renewal of the $2 billion limit for fiscal year 2021 reflects market interest, volume of secondary market activity, and expectations going forward.

Currently, PEFCO has over $2.1 billion in anticipated deals in the pipeline. Of these, roughly $1.4 billion are new originations that are currently awaiting EXIM approval.

PEFCO's pipeline includes part of the EXIM pipeline, and is therefore dynamic and likely to change during the year. Periodically during the year, PEFCO issues secured notes. As part of the agency's agreement with PEFCO, EXIM Bank provides a guarantee of the interest related to the secured notes.

The interest guarantee related to each issuance is added to the agency's exposure. On September 30, 2020, the agency's exposure to PEFCO on the interest on secured notes is expected to be $250.3 million.

The underlying transactions funded by these secured notes are guaranteed by EXIM Bank. PEFCO

is rated AAA by Moddy's and S&P, which corresponds to EXIM's BCL 1 rating. The agency's best rating.

In keeping with past practice, I would also like to request for the Board to delegate authority to the General Counsel and the Chief Financial Officer to review and approve each note issuance within the $2 billion.

The agency reviews each issuance through an extensive document review. Staff reviews a prospective prepared by PEFCO detailing the terms of the note's issuance. Staff ensures that the SM1971 guarantee legend on the notes purchased by PEFCO are valid, and staff also ensures that EXIM's interest guarantee on the secured note issuance is valid.

Staff recommends both approval of the $2 billion secured note issuance level, and the delegation of authority to review and approve the individual note issuance to the General Counsel and Chief Financial Officer.

That is the end of my presentation and I will now turn it over to Nicole Wharton, who will give the next presentation.

2D. Funder Guarantee for Supply Chain Finance Guarantee Program

Ms. Wharton: Thank you, Julie. Good morning, Chairman Reed, Director Bachus, and Director Pryor. This is Nicole Wharton, Senior Counsel in the Office of General Counsel, presenting on Item 2D on the agenda.

PEFCO, as part of the potential renewal of is partnership with EXIM, has requested an unconditional guarantee and expedited claim payment on EXIM guaranteed supply chain finance loans, funded by PEFCO, meaning, PEFCO would be seeking to purchase a portion of a loan extended by a supply chain lender, thereby, providing liquidity to

the lender.

Given the current market disruptions caused by COVID-19 pandemic and EXIM's recent expansion to the parameters of its supply chain program, most notably, the increase from the typical 90 percent guarantee to a 95 percent guarantee, EXIM has seen a significant increase in the number of requests from lenders for supply chain guarantees.

PEFCO would like to take advantage of this increase and has requested an unconditional guarantee to enable them to fund supply chain transactions.

Under the Supply Chain Finance Program, EXIM provides a conditional, short-term guarantee to a lender that purchases accounts receivable from suppliers of a U.S. exporter. The EXIM guarantee is provided to the lender to protect against payment default by the exporter on its AR payment obligations to these suppliers.

The guarantee is conditional, meaning that the lenders are required to comply with certain documentary obligation in order to receive a claim payment following default by the obligor exporter.

PEFCO is a funding mechanism, meaning that it has no capacity for performing credit analysis, and therefore, cannot take risks, other than that of the U.S. government, which is why PEFCO has not been involved in supply chain or other short-term transactions, because these programs are conditional.

PEFCO is requesting the supply chain unconditional guarantee in order to mitigate the lender non-performance risk and the uncertainty regarding when a claim would be paid.

PEFCO estimates that it has the capacity to fund around $500 million of supply chain finance transactions in FY '21, provided there is enough lender demand.

PEFCO, in turn, will raise funds by issuing secured short-term debt using the supply chain transactions as collateral, similar to how it issues secured long-term debt using EXIM's guaranteed long-term transactions as collateral.

The market interest in PEFCO's funding of supply chain finance transactions gives preliminary indication the PEFCO's involvement will fill a gap in the market and allow for more financing to U.S. exporters and suppliers at a critical time.

With respect to documentation considerations, presently, OGC contemplates that the supply chain guarantee to PEFCO will be reflected in two primary documents. The first would be a guarantee agreement between EXIM and PEFCO, which, similar to the 1971 guarantee agreement between EXIM and PEFCO, would provide an unconditional guarantee to PEFCO, along with expedited claim payments.

The second primary document for the funder guarantee would be a tri-party agreement between the supply chain lender, PEFCO, and EXIM, pursuant to which the supply lender would agree to indemnify EXIM in the event of a claim payment by EXIM to PEFCO.

Staff is recommending that the Board approve a supply chain unconditional guarantee for PEFCO that is linked to the timing of the COVID-19 relief measures regarding supply chain transactions, currently scheduled to remain in place through April 30, 2021, and directs staff to draft and implement the final funder guarantee agreements and processes.

Chairman Reed, that concludes the presentations on Item Number 2 on the agenda. We extend the invitation for questions and comments.

Chairman Reed: Thank you so very, very much for those thorough presentations. I very much appreciate it.

I understand we answered questions from the other agencies and there are no further comments from them, and Lauren Fuller named those agencies.

Before I turn it over to my fellow Board members, because this is such a thorough review, I would like to go first, if that's okay, and then we'll turn it over to each of them.

So, Jim Cruse, I mentioned that we had just come from day one of our two-day G12 annual meeting of export credit agencies, and I'm so thrilled that the United States is hosting this this year.

Jim, I would like to ask you to share what other countries are doing when it comes to PEFCO-like structures. We are charged by Congress to ensure that we are fully competitive and we adhere to OECD rules and other mandates that we have, because of congressional oversight of us, but, Jim, would you please just share what the other export credit agencies are doing?

Mr. Cruse: Okay. Thank you, Chairman Reed. First, let me give a little background. Coming out of the financial crisis of a decade ago, the three types of ECA models, which were then in place, which is the Asian model, which had both an insurance entity and a funding entity as a team, when Japan, Korea, and China.

You had the American model, with the Canadians and Americans, where the one agency could do both a direct loan and a guarantee; and the European model, which basically had the official ECAs just doing an insurance product and depending upon the banking community for funding.

Coming out of the crisis, it was apparent to the Europeans that their model had failed, that there needed to be a new system of official funding and official liquidity, because the banking system coming out of the crisis and the regulatory model of Basel III were decreasingly of interest in funding long-term official credit.

So over the past ten years, most of the European agencies have put in place, or expanded, their either direct loan programs or their refinancing programs, which would buy up, fund, what their official ECAs insure.

So they put them in place, then, what has happened now? Well, with COVID, you have the second even of a century coming in ten years. And COVID has created many of the same problems for financing that the financial crisis did.

And the ECAs, to-date, were making clear that they were doing two things, as much as anything else, in response to this crisis. The first is that they were increasing their programs that provided refinancing of medium and long-term insurance.

This is exactly what PEFCO does. They fund EXIM Bank's guarantee. In the case of the Europeans, they have a variety of entities, but the Germans stated it best, they said that we know that when there is a liquidity funding backstop, a source where the banks can go to sell their paper and guarantee, that the commercial banks will be more aggressive, more willing, to put export credit on their books, and to be in the export credit market.

Therefore, they are increasing the capacity of their liquidity program through their government bank, KfW. That is but the most explicit example. The French program is still very active, and the Italians have reorganized their whole system to make liquidity the cornerstone of their response to COVID.

That's on the medium and long-term side. On the short-term side, all of them noted that they had either inaugurated or expanded programs, such as the supply chain program, where they make loans to commercial banks to ensure that the exporters have the resources necessary to continue to operate.

So that in both the program that PEFCO is proposing to get into, the supply chain, as well as to

the Item 8 in the reforms that Paxton mentioned, you see that what PEFCO is doing is exactly what the Europeans today are gearing up, expanding, and reinforcing in their capacity to do.

It is what the market needs today, it is what the market demands today. In effect, if we did not have a PEFCO, we would have to invent one, or we would have to adopt the procedures and policies ourselves, which would be quite administratively and -- risk challenging.

So there's no doubt: to be competitive, an ECA has to have a refinancing mechanism. For us, it is PEFCO. And to be competitive, we must continue with PEFCO.

Does that address your question, Madam Chairman?

Chairman Reed: Yes. Thank you very much, Jim. Jim, I'd also like to underscore our charter. There's a provision in our charter and it is Section 2B1B, where the bank's primary function states, is expanding United States export through fully-competitive financing.

Does this agreement or proposed agreement with PEFCO further that mandate?

Mr. Cruse: The relationship with PEFCO was begun in the context that to be competitive, to be constant and credible in the marketplace, the bank needed the type of market, private partner -- private-public partnership that PEFCO exists.

It has met that goal. There are specific aspects that PEFCO does that are critical to our competitors, particularly in various sectors, where they improve the rates and terms available under our guarantee.

They have come to the rescue of situations such as renewable energy, where the long-terms provided in the arrangement cannot be funded in the commercial market, and PEFCO has taken it up.

So they are a tool, as I said. If we didn't have them, we would have to create them or copy them in order to be competitive.

Chairman Reed: Thank you. And I know that there's other sections of our charter as well that gets to this instruction from Congress to be competitive. And I'm raising this because it is my job to follow the law, and the President of the United States has charged me with very specific things with that law, and that is supporting our U.S. workers and U.S. jobs.

Jim, we put out, in June of this year, our annual report to the United States Congress on global export credit competition. Could you talk a little bit, please, about the landscape with China and what China's doing? Thank you.

Mr. Cruse: Certainly. China has emerged over the last decade as, by far, the largest official provider of medium, long-term, and short-term export credit. In that context, it has set the pace, it has become the standard, to which all other ECAs have felt they needed to adapt or they would lose competition.

As a consequence, China, in 2019, provided as much medium and long-term support as almost all of the G7. They also provided through multiple institutions and in multiple ways. They combined quasi-A financing with standard financing, they do terms that consists of such things as a five years of grace and then a 20-year term.

This is the type of financing that is out there in the marketplace that our guaranteed and direct loans needs to compete with. In a sense, what you see in the Chinese activity is the type of term that our guarantee and everything else has to provide, and why PEFCO needs to have a life of 25 years.

Moreover, there's a variety of moves underfoot within a larger OECD to reform the parameters of OECD activity to be more competitive with China, which means that there'd be more flexibility on such

things as repayment terms, which, flexibility is usually a euphemism for longer.

So to the extent that the average terms move from 14, 15 years for project finance and 18 years for nuclear and renewable, up toward 20 years, you can see that the momentum within the competitive world, all designed to be equal to what China can do, is toward longer terms and more flexibility.

In all of these areas, PEFCO is an invaluable tool and their life is a critical component. Is there something more I can add?

Chairman Reed: Jim, as we heard, other export credit agencies also have PEFCO-like structures. In that, we guarantee loans of financial institutions to support our own U.S. exporters and U.S. jobs as they compete in the global marketplace.

Do these same banks engage with our other export credit agencies and their structures as well, is that right?

Mr. Cruse: Yes, indeed, because most of our guarantees are actually taken up by European or Japanese institutions, because they are the major players in the medium, long-term activity. Therefore, the same bank, whether they're in France or the U.K., go to EXIM and PEFCO, and they will go to KfW in Germany, or SIFIL in France, or SIMEST in Italy.

And this is critical because these banks, for example, let's take a French bank, they do not have a natural dollar base. If they can't get funding through an institution such as PEFCO, they will not be able to support their American customers to the same extent that they would be able to support their French, their German, or their Italian, or their British customers.

So once again, the world of export finance today is dominated on the commercial side by European and Asian banks. Those banks operate with all of the

major ECAs. To the extent that some ECAs don't offer the same tools and capabilities, those ECAs will get less support from these international banks.

Therefore, to be competitive, once again, with the world as it is today, we need an institution like PEFCO.

Chairman Reed: Thank you. I'm going to call on now, Ryan McCormack, our Deputy Chief of Staff. Ryan, sorry to surprise you, but I'd like to ask you, sir, could you talk about our current exposure or how much we have on our books right now and what is the maximum, and how much more we have the ability to grow based on following, of course, all of our mandates, and how hard we're working to reopen EXIM in a new reformed way to support such things as our program on China.

Mr. McCormack: Yes, absolutely, Chairman Reed. Thank you for that. At this time, we have approximately $46 billion of exposure, which leaves us with $89 billion left to go to be at our exposure cap of $135 billion.

And of that, actually, 14 percent of our current exposure, or about $6.5 billion, are in loans held by PEFCO. And of course, re-authorizing or renewing the agreement with PEFCO today certainly helps put them on a more sound footing in order to engage with exporters and work with EXIM on our mission to support U.S. jobs by facilitating exports.

Chairman Reed: And, Ryan, thank you so much. Of that, I believe small business is -- I'm looking at my sheet here, Ryan, can you help me with the small business number of that total number?

Mr. McCormack: For total exposure, I may have to ask Mary, if she's on, to chime in, but I believe that May 2019 to date it's around $2.8 billion or so that EXIM has engaged in in small business transactions, but, Mary, I don't know if you have a total number of our exposure?

Ms. Buhler: I'm looking here right now.

Chairman Reed: Of the $46 billion.

Ms. Buhler: Yes.

Chairman Reed: We can come back to this --

Director Pryor: Hi. This is Director Pryor.

Ms. Buhler: Yes, actually, we don't --I'm just looking. I've just gotten a notice from my staff, we don't have -- we don't calculate the exposure by small business, so we'd have to get back to you and do the separate calculations for that.

Chairman Reed: Okay. Thank you.

Mr. McCormack: And I can just quickly add, Chairman Reed, so of the $8.8 billion that the Board, or I guess, EXIM has authorized since May 2019, when the Board quorum was restored, around $2.8 billion of that was from the Office of Small Business. Those are small business authorizations.

Chairman Reed: Thank you. And again, that is the transactions that have taken place since Director Bachus, and Pryor, and I have come onboard, $8.9 billion, of which $2.7 billion is small business, and supporting thousands of jobs.

Director Pryor, I heard you there briefly.

Director Pryor: Thanks, Chairman Reed, I was just going to say, I don't know what the current exposure is, but that Jim Burrows had mentioned in his presentation, the 2.8, since we came onboard, but you beat me to it, so.

Chairman Reed: Great. And I guess this is my way of underscoring, as we look at PEFCO, we want to do even more with PEFCO and small business. So again, Paxton, can you underscore again for everyone, how we're going to be focused on doing even more with small business if we vote on the items before us favorably?

Ms. Stephan: Sure, Chairman Reed. I would be happy to. One of the reports that we are going to have PEFCO contribute to, should the Board vote to approve the amendment of the SOPs today, would be for PEFCO to contribute to a report where they can, basically, say what they can do to help with regards to small business.

So first, what EXIM staff is going to do is, we're going to prepare a report to see if there are any market gaps in funding for small business exporters, and then we're going to work with PEFCO to create solutions, preferably, that don't increase the amount of risk that EXIM would be taking, to try and find some creative solutions where PEFCO can play an increased role in supporting these small businesses, which are critical to our country.

Chairman Reed: Thank you. Okay. Thank you very much. I'm going to make some comments now, because I really want to underscore how much scrutiny and oversight that we are giving the considerations before us today.

Thank you for those well thought out presentations on PEFCO. The reforms we have proposed and the items to be considered by the Board today. I want to underscore and add context to your presentations.

To reiterate your presentations, the guarantee and credit agreement is, simply put, a legal framework for the EXIM and PEFCO partnership. As we have heard here today, PEFCO was created in 1970 with the input from the United States Department of the Treasury, United States Department of Commerce, United States Department of Justice, the Federal Reserve Board of Governors, and EXIM, to fund long-term transactions.

When the term of the EXIM/PEFCO partnership was first conceived in 1970, a 25-year term was agreed to because it enabled PEFCO to take on any long-term deal EXIM could approve for the duration of the combined term of the disbursement and

repayment period.

At that time, the longest authorizations EXIM could enter into were for nuclear power projects, which had a combined term of nearly 25 years.

Today, the circumstances are similar in that EXIM projects, when combining the disbursement and repayment periods, could easily reach a combined term of 25 years. Moreover, longer tenures for export finance transactions approaching the 20 to 25 year combined term seemed to be gaining attention worldwide.

As you may know, in EXIM's recent re-authorization legislation, Congress tasked EXIM with arguably the most important mandate in our agency's 86-year history, to support the extension of loans, guarantees, and insurance at rates and on terms and other conditions, to the extent practicable, that are fully competitive with the rates, terms, and other conditions established by the People's Republic of China.

At present, this program is expected to expire on December 31, 2026. As Jim Cruse underscored in EXIM's June 2020 report to the United States Congress on global export credit competition explained, China's official medium and long-term export credit activity alone was at least equal to 90 percent of the medium and long-term support provided by all G7 countries combined.

U.S. exporters are facing great competition from China and that is why in establishing this new mandate for EXIM, Congress charged us with reserving 20 percent, at least, of our portfolio, or $27 billion of $135 billion, in financing to directly neutralize export subsidies from China or advance the comparative leadership of the United States with respect to China and support U.S. innovation, employment, and technological standards through direct support of exports in ten key industries important to America's prosperity and security.

You can read these ten key industries on our website as part of our charter section, but again, these include 5G, biomedical sciences, quantum computing, artificial intelligence, biotechnology, renewable energy.

PEFCO complements this critical program by increasing U.S. competitiveness. As Newt Gingrich said in a recent op-ed published in The Hill on August 4, 2020, quote, for U.S. exporters to compete with China for contracts in places such as Africa and Latin America, EXIM needs PEFCO to be operational to maximize its impact and leverage the private sector.

Of course, EXIM has another Congressional mandate to promote the expansion of the bank's financial commitments in Sub-Saharan Africa under the loan guarantee and insurance programs of the bank.

This is worth mentioning as Mr. Gingrich correctly identified the usefulness of PEFCO to this region, where EXIM is helping American workers compete.

As is, PEFCO has a role to play in competition against China, but we are requiring that they do even more. To further bolster PEFCO's utility to this program, we have included several important reforms to PEFCO's standard operating procedures, including making one of PEFCO's core organizational goals the objective of increasing the total amount of financing PEFCO makes available for transactions which directly neutralize exports subsidies for competing goods and services provided by China, requiring an annual report from PEFCO that includes its annual activities towards EXIM's mandate to compete against China, and adding restrictions on PEFCO's activities to finance transactions with Chinese entities, consistent with Section 408 of EXIM's 2019 re-authorization to restrict PEFCO's support of transactions with the Government of China as the end user, lender, of obligor.

Knowing PEFCO's importance to this Congressionally mandated program, discussions were convened

internally to determine if a renewal of the GCA for more than 25 years was appropriate.

Considering scenarios in which a transaction could be approved with a 20 to 25-year term, but the authorization does not occur until some time after 2023, which is the latter half of the expected life of the program on China and Transformational Exports.

Jim Cruse, again, I would like to ask you, what is the longest tenor that we know of that China provides for their transactions?

Mr. Cruse: Well, as I had mentioned earlier, they have one program that does 20-year terms after a five-year grace period. That is a fairly standard feature and they sometimes actually give 25 or 30 years after a five-year, but the standard is 20.

So those are the longest programs outside of their A program.

Chairman Reed: And so as we look at taking on at least $27 billion, and I know that Congress is thinking about increasing the level even more, and you will hear from Members of Congress, from the House of Representatives China Task Force, during our annual conference on Thursday and Friday.

If we do not have PEFCO, how will this affect our ability to compete under this new mandate that Congress has given to us? Jim Cruse.

Mr. Cruse: Well, clearly, as I said, and I'll say it again, if we did not have PEFCO, we would have to reinvent it or we would have to do it ourselves in order to remain competitive, in order to deal with the Chinese practices and procedures, in order to be up to speed with what our European partners are doing.

The type of programs that they provide in a public/private partnership are the types of programs that all ECAs have generated, have expanded, and

have refreshed in today's world, a financial crisis combined with a health crisis, and a behemoth in the form of China.

Without these types of programs in PEFCO, they said we would need to replace them ourselves or to reinvent PEFCO.

Chairman Reed: Jim, if we would replace them ourselves, that would take Congressional action?

Mr. Cruse: For some features, it could because we would have to have buy floating rate paper from the market. That's not something that credit reform would do comfortably and naturally.

We also would have to have a larger staff and we'd have to have more admin resources.

Chairman Reed: Thank you. As you'll hear at our upcoming annual conference from National Security Advisor Robert O'Brien, economic security is national security. And I know that we need every tool at our disposal in order to deliver on what Congress has entrusted us to do, compete against China and deliver wins for America's workers.

However, a shorter 25-year term for PEFCO does not impede the effort. Again, we are looking at what is the scope and reality of today's landscape.

I thought it better to leave that particular issue to the discretion and judgement of future EXIM directors in assessing the usefulness and appropriateness of PEFCO with the benefit in hindsight. It was agreed that a 25-year at this time was most appropriate considering it is the longest combined term of an EXIM authorized transaction PEFCO could take on.

And again, that was staff discussions, and I know that my fellow Board Members are listening to my comments now.

In thinking of the types of projects that may reach a

25-year combined term, two specific types of projects come to mind, nuclear power projects and renewable energy projects.

To the renewable energy category in particular, Congress has given EXIM two distinct mandates to increase EXIM support of this sector. The first requirement given to EXIM in our recent re-authorization legislation demands EXIM ensure not less than 5 percent or equal to $6.75 billion of EXIM exposure to be made available to finance renewable energy related exports.

The second renewable energy requirement from Congress is within the aforementioned program on China and Transformational Exports. Within this program, Congress identified renewable energy as one of ten sectors that should be a priority for the program.

Again, Congress is clear in its intention for EXIM to participate in this specific sector. EXIM policies reflect this, as certain renewable projects may receive an 18-year repayment term, combined with up to a 7-year disbursement period, for a total of 25 years.

PEFCO also benefits U.S. small businesses, which EXIM has a Congressional mandate to support as well.

At the PEFCO stakeholder discussion on August 13th underscored, the Board heard from Steve Greene, Chief Operating Officer of American Trade Finance, or ATRAFIN, a U.S. finance company that operates as a specialized lender focused on medium-term loans for foreign buyers of U.S. goods and services.

As Mr. Greene remarked to the Board, most of the U.S. exporters supported by ATRAFIN are U.S. small businesses engaging deals too small for the larger commercial banks. In Mr. Greene's own words, and I quote, PEFCO makes what we do possible. I have been working with PEFCO for about 25 years. They are not and have never been competitive with us in

any way. The reality is exactly the opposite, PEFCO is what makes us competitive.

Similar sentiments were echoed by a number of lenders and submitted as public comments. Other comment themes were, PEFCO crowds in the private sector, to which I mean, PEFCO's first private sector involvement in investments. Lenders see PEFCO as an entity that complements their abilities, but does not compete with them.

PEFCO decreases EXIM's reliance on direct loans funded by the U.S. taxpayer. PEFCO facilitates greater market capacity by providing a balance sheet relief to banks that are constrained by regulatory capital requirements from the evolving Basel III regulatory environment.

This function has become increasingly important in the medium and long-term sector, where banks are disincentivized from booking and holding assets on their balance sheets.

The EXIM/PEFCO relationship is now more essential than ever due to the current pandemic-altered economic environment in which banks have shown greater reluctance to send in certain markets, such as small, medium-sized enterprise exports.

EXIM should approve a full 25-year extension of the EXIM/PEFCO partnership. PEFCO supports small and mid-sized enterprise exports by filling a gap in the medium-term guarantee market, where larger banks are generally unwilling to finance transactions due to their high up-front cost and lack of transaction scale.

PEFCO is essentially -- especially important partner to non-bank lenders, which often face greater balance sheet constrictions than their retail counterparts. PEFCO's institutional knowledge and expertise in structuring complicated transactions assists small, medium-sized enterprise exporters and Lenders that have less experience and resources in the field, particularly international

markets.

And PEFCO's liquidity role is valuable in EXIM's working capital guarantee and delegated authority for term financing programs.

Despite the clear benefit of PEFCO to EXIM's Congressional mandates, there are some of us who still take a pessimistic view on the usefulness of PEFCO to EXIM and U.S. exporters.

In remarks before the EXIM Board on August 13th, a leading critic of EXIM argued that if PEFCO were to shutter, the U.S. Department of the Treasury should expand their operations in order to maintain PEFCO's portfolio.

With all due respect, that recommendation seems to be wholly inconsistent with other EXIM efforts to spur private sector involvement in EXIM programs. For example, the pilot program of EXIM's reinsurance program worked with the private sector to share risk and provide an additional $1 billion loss coverage for a significant portion of EXIM's portfolio of large commercial aircraft transactions.

This effort, which was Congressionally mandated, was successful at spurring private sector involvement, and in March, we announced an RFP to actively consider expanding the program and this process continues to move forward.

And I will say personally that I have had detailed conversations with Senator Pat Toomey of Pennsylvania on this, one of the biggest proponents of this initiative.

By contrast, the proposal to eliminate the private sector participant like PEFCO and expand the federal bureaucracy to take on a function of the private sector, seems to me, a step in the wrong direction.

That recommendation is more akin to how the European export credit agencies operate, as Jim Cruse described at the beginning of this discussion.

In fact, a number of European countries have funding mechanisms similar to PEFCO, but operated by government-owned entities, including Sweden, Finland, France, Italy, and Germany.

To be clear, if we did not have PEFCO, we would have to create the same functionality somewhere within the Federal Government. Should Treasury or another government agency be required to invent this function due to added personnel and expertise requirements to manage and securitize these transactions, it would certainly require resources and approval from Congress.

And again, I'm very willing, and able, and happy to work with Congress in ways that they deem appropriate.

What there does seem to be universal agreement on is that due to PEFCO's countercyclical nature, similar to EXIM, PEFCO is most useful in times following economic hardships, like we are seeing in the aftermath of COVID-19 and as we work very hard to reopen our economy and support U.S. jobs.

In fact, PEFCO could prove to be a useful tool in the U.S. supply chain, which is precisely why a funder guarantee has been proposed to get PEFCO involved in EXIM's supply chain finance guarantee program for the first time.

That usefulness in the near term cannot be overstated. Although PEFCO is very useful and appropriate right now, I want to make clear that future EXIM directors will have the opportunity to evaluate the usefulness and appropriateness of PEFCO regularly, regardless of the 25-year term of the GCA.

And again, I want to thank a leading critic of the bank for ensuring that we do have oversight and that we regularly review this relationship.

And I note that this ability to review PEFCO is because EXIM retains the right to effectively

terminate the relationship with PEFCO at any point in time.

The controls that EXIM has in the SOPs give EXIM the ability the halt any new business with PEFCO through EXIM Board of Directors denial of either, one, new EXIM guarantee transactions, or two, new issuances of secured notes.

To assess the partnership going forward, EXIM will holistically evaluate PEFCO before each renewal of the SOPs, which typically occurs every two or three years. The next review, as Paxton Stephan stated, is slated to occur in 2023 if we support this item.

I want to, again, thank my colleagues, Director Bachus and Director Pryor, and the presenters today, and everyone who has been part of this thorough oversight and review process. And for your thorough considerations of this matter in ensuring concrete reforms would be incorporated if we support this today.

With that, thank you for your indulgence with your time, but I think it is very important that we create a record at this first-time ever in 50-year review of PEFCO. With that, Director Pryor, I turn to you for any comments.

Director Pryor: Thank you, Chairman Reed, and let me just say up-front, I'm just impressed with the overwhelming amount of information we've covered today. I know that I certainly have had much time to opine and multiple discussions with numerous staff over the months that have passed about this topic.

And so I, frankly, wasn't expecting such a thorough review, so it's really, really great that you did this. And, Lauren, your presentation was wonderful. Thank you. So thank you to Lauren and Jim, Paxton, Julie, and Nicole, everybody, for the thorough briefings today, but also for the items that we discussed during my briefing, as well as the public meetings that we had.

We had two stakeholder meetings in July and then a board meeting on August 13th to hear from a variety of the interested parties. And I really took all those comments to heart. And has been shared by many today, the majority of those comments received were supportive of a renewal for PEFCO, but a few were not.

And it's been clear, just from my discussion with staff, that all comments were weighed very carefully and have been taken under consideration. And we also spent quite a bit of time discussing those comments as well.

So I was pleased, for example, to see the modification to the SOPs, the standard operating procedures, that require a third-party market survey be conducted to ensure we continue to fulfill our mission of crowding in private sources of financing.

And I was also really pleased to see the additionally supporting requirements for PEFCO, one related to (telephonic interference), the other related to sectors and initiatives.

Paxton, could you just take a moment and provide a little bit more color on the, Paxton or Jim, or whomever, the additionally reporting requirements related to secured notes and then the sectors and initiatives.

Ms. Stephan: I would be happy to, Director Pryor. This is Paxton Stephan. So there are a full list of them in the standard operating procedures, and I'm just going to go through them very shortly. The first is for PEFCO to provide to EXIM, on an annual basis, a report on PEFCO's use of secured notes versus collateralized notes, including the EXIM programs that each debt issuance would support.

This is important because the secured notes, like I mentioned in my presentation, have EXIM guarantee on their interest, whereas, the collateralized notes do not, and so this is a way for

us to evaluate in the future, what EXIM board would be approving in terms of the guarantee on secured notes, and how to best optimize PEFCO's activity in the future.

The second report would be the one that Chairman Reed also asked about, which is on PEFCO, essentially, supporting small businesses when EXIM has shown that there are gaps in the funding market for these exporters.

The third one would be PEFCO Providing reports to EXIM on an annual basis on PEFCO's support for EXIM's mandates, so small business exports, exports to Sub-Saharan Africa, environmental exports, and then exports that contribute to the China and Transformational Exports Program.

And then the third-party market report, which you have already mentioned and spoken about briefly, and then lastly, an annual report on the mitigants and protections that PEFCO has in place for the interest on PEFCO's secured notes, and that would be on an annual basis.

Director Pryor: Okay. Great. I know we've covered these multiple times, but this has been a long meeting, so I wanted you to just summarize them again and for it to be clear that I am pleased and was very interested that we would be very interested in us doing something like this on an annual basis moving forward.

Okay. So I just have a few more questions. I know we're voting to renew the guarantee and credit agreement for another 25 years, and I know that this might seem like quite a long time to some, but I just wanted to reiterate, in fact, one area where I run point for EXIM is renewable energy and these projects often require longer term financing, as Chairman Reed mentioned, up to 18 years, plus, potentially, another 7.

So again, just to reiterate, why was 25 years initially chosen, so looking back, why was that

initially chosen for the term of the guarantee and credit agreement?

Ms. Stephan: The 25 years was initially chosen whenever PEFCO was being created to make a clear signal to the market that PEFCO was going to be a market player and was going to be in the market for the long term, so that they could support, like Jim and the Chairman have mentioned, very large nuclear projects that were being contemplated at the time.

So they would also potentially get the 18-year repayment term, plus 5 years or so for disbursement, so that would be over 20 years, door-to-door, for those kinds of deals, and those deals don't just come out of thin air, they normally take a few years to generate, so PEFCO needed to be able to have 25 years for the long tenure of these kinds of transactions, including nuclear.

Director Pryor: Okay. Okay. And --

Mr. Cruse: Director Pryor, can I also add the fact that when you were starting up PEFCO, everybody knew it would take a long time to get this experiment up and running. It would take years, and it did take years, and so the idea was to provide a long enough period to say that, we're going to get it started, we're going to get it geared up, and then we're going to go through the life of the transactions.

This was a huge experiment that had never been tried before and everything that was done at the time was aimed at telling the market, don't worry, no matter how long it takes to get this thing on its feet, and how long the transactions are for, we're doing this for long term; we're going to be around.

So there was not anything magic in the 25 years, as much as it was a part of a very strong effort to give credibility to a very tough experiment.

Director Pryor: Okay, Jim. Thank you. That helps.

Okay. So meanwhile, then we have the GCA, the 25 years, sending the right signal to the market, and then the SOPs, the standard operating procedures, which guide and define the actual EXIM/PEFCO relationship, those are required to be reviewed regularly, and could you just restate again how often they will be reviewed, please?

Ms. Stephan: Normally, the SOPs have been renewed every two to three years, so what we're proposing this time would be for the next renewal to potentially be in 2023, to give enough time for the third-party report, which will be an input --

Director Pryor: Okay. And then --

Ms. Stephan: -- to the review.

Director Pryor: Okay. Okay. And then in 2023, when we review those, we'll make a determination on when the follow-on review will be? Is that how it will work, kind of, moving forward?

Ms. Stephan: Yes, that's correct.

Director Pryor: Who makes the determination of the timeframe? Okay. Okay. All right. Okay. And then of course, the standard operating procedures can be terminated or amended at any time if necessary, completely, if you will, unrelated to the 25-year GCA window, correct?

Ms. Stephan: Yes, that's correct.

Director Pryor: Okay. All right. So just again, a few more questions, under the collateralized notes program, rather than under the secured notes program, what types of activity does PEFCO anticipate doing and how will this new program help PEFCO, and therefore, EXIM, fulfill its mission?

Ms. Stephan: I'd be happy to answer that. So, the collateralized notes were requested by PEFCO so that they could fund long-term project finance deals, and this is important because normally those

deals are done in a bank syndicate, so there are a group of banks working on the deal.

And PEFCO been able to buy, you know, one bank's share of the deal, for example, and that kind of transaction would not be eligible for secured notes funding, so they've requested collateralized notes to be able to fund those kinds of deals.

And in the long term, this would mean that PEFCO would be able to finance more project finance deals and see more of that activity on a going-forward basis.

Director Pryor: Okay. Okay. Thanks, Paxton. And I understand the secured notes issuance, the Board will vote on that each fiscal year, correct?

Ms. Stephan: Yes, that's correct.

Director Pryor: Okay. And when EXIM's Board authorizes a secured note limit for any given fiscal year, does it get drawn against EXIM's budget at that point or only when or if PEFCO issues a secured note?

Ms. Kalishman: Hello. This is Julie.

Ms. Stephan: I would --

Director Pryor: Go ahead, Julie.

Ms. Kalishman: The interest guarantee is on the budget at the point of the issuance of the note.

Director Pryor: Okay. Okay. All right. Okay. Let's just -- moving on to my next final few questions about the supply chain request. So PEFCO's requested this funder guarantee, yes?

Ms. Wharton: That's correct.

Director Pryor: Okay. I don't remember -- and I'm sorry, I've listened to all these presentations, but I don't remember if the request was spurred -- if someone stated the request was spurred by banks

approaching PEFCO or were we simply seeing an opportunity in the market or were they simply seeing an opportunity, how did this come about?

We certainly know that we've been spending quite a bit of time on supply chain issues at EXIM, so is this just an extension of that?

Ms. Wharton: I will defer to Jim Cruse on the origination of the request.

Director Pryor: I'm just curious.

Mr. Cruse: Director Pryor, as soon as we created the supply chain program and banks started looking into it, they realized that the demands would be so great, in some locations, several hundred million dollars per use, that they did not have the appetite at that time to increase their exposure to these entities, so they started talking to PEFCO, asking them what they could do.

So PEFCO is not just taking advantage of an opportunity, they are definitely responding to the interests of multiple banks to help these banks handle what the special supply chain program would provide.

Director Pryor: Okay. Thank you, Jim. Well, it just seems PEFCO seems to be another area where the U.S. has proven to be an innovative leader, if you will. Now, when I heard you talk, Jim, about what others were doing, what other ECAs were doing, and certainly, we know what's happening with funding through China, and at the end of the day, we need to support our mission, which is to grow U.S. jobs through exports.

And so we need lenders to keep pursuing longer tenures and in riskier markets, but also, in all markets so that U.S. exports can thrive.

I'd like to see us buildup our medium-term book, and we do that best by crowding in private lenders, especially those non-bank lenders who often

support these smaller transactions and smaller U.S. exporters as well.

And I don't want to hurt EXIM's competitiveness among its ECA peers, or damage U.S. supply chains, or hinder lenders of any size that will support U.S. jobs and exports.

So it is very clear to me, after much back and forth briefings and deliberations, that PEFCO is a much needed tool in our export trade tool box that helps us remain competitive.

That's it. That's all for my questions, Chairman Reed, so again, thank you for the briefing and for today's extensive and very detailed presentations. They're much appreciated.

Chairman Reed: Thank you so much, Director Pryor. Director Bachus.

Director Bachus: Thank you, Chairman. First, let me repeat something that I guess they taught us in the Army, those of you who have been in the military, and they say that we should tell people what we're going to say and we should say it, and then we should tell them what we've said.

What is today all about? And I'll tell you, the bottom-line is what I started out with this morning, and that's the statement that Congressman Steven Pearce made, and let me say this, I visited the Hill, and I think 90 percent of the members on the Hill agree with this statement, maybe all of them. I hope they all do. And that's that the days of the United States, through inaction, giving away hundreds of billions of dollars in business to foreign competitors must be seen as having come to a decisive and permanent end, and inspire energetic advancement of the mission of the newly-empowered Export-Import Bank of the United States will go far in making this vital objective a reality.

You know, sadly, there are still people who oppose

our efforts to expand exports. And I would have thought that with the COVID-19 crisis, when most Americans, I think, learned, maybe for the first time, what those of us at EXIM have seen, experienced, and witnessed, and that's the erosion of our manufacturing base in America is alarming.

It is just unsettling to me and there's a realization now that we don't even manufacture enough to meet our own strategic needs. And it is, as Chairmen Reed, you said, we're going to have testimony from the National Security Advisor, and there are Admirals of one of our specific fleets that says that it's a national security issue.

China's inroads, and as our conference is going to show, 95 out of 100 customers and clients are outside the United States. That, obviously, is a reason why we should increase our manufacturing base and our export, but even more important, we can't even meet our own strategic needs.

And yes, there are still people that seem to be advocating that we simply cede the field to our foreign competition, even though we can't even produce what we need to defend ourselves.

It's just, to me, it's unsettling. We all heard that Benjamin Friedman, now, who is Benjamin Friedman, well, he's the leading American economist, and what did he say earlier to us in a public hearing?

He was the Chairman of the Department of Economics at Harvard University, he's still a professor there in the Department of Economics, he said that when we failed to re-authorize EXIM in 2015, that it ceded the field to our foreign competition.

And I can tell you that time after time since I've been on this Board, I have seen example after example of where the Chinese and other countries have pushed us out of markets and really damaged our manufacturing base, and it's just simply, to me,

it was a nightmare when Congress didn't -- and a lot of patriotic people, patriots on the Hill, unfortunately, voted to shut us down.

And let me say this, we opened this meeting about small business, and I know we keep talking about how much for small business, how much is large business, and sometimes there are people that say, not enough for small business.

Well, let me tell you something, if there's anything I've learned, not only when I was Chairman of Financial Services, but what I've learned since then, is that the link between a U.S. exporter and being a large company, let's just say one of the largest companies in America, and its supply chain is inseparable.

And thousands of American small business employees are impacted when even one large contract is lost to a foreign competitor. We're going to consider later this afternoon, a proposal to ship rice and wheat, and other agricultural commodities.

We're going to backup and with PEFCO's help, we're going to export several billion dollars worth of agricultural goods.

Absolutely thousands of American farmers will be supplying those agricultural goods, but not a one of them will be counted in the number of jobs that this transaction supports, even though these agricultural goods are being raised, we need a market for them, we're going to expedite and allow, with PEFCO's assistance, we're going to allow the export of these goods, but not -- very few, the just very few jobs will be counted officially as being supported by this transaction, when actually, thousands of American farmers, most of them in the Midwest, will be supported.

Now, I've listened to -- and I'm going to say this, I want to thank Jim Cruse, I want to thank Paxton, I want to thank Mary and Julie, and Nicole for the last two months. I've asked several questions, we've

had several meetings, and I want to clarify two or three things that I've actually gone back and looked at the history of our relationship, EXIM, with PEFCO.

And it originated under the Nixon administration. It was a proposal by the Nixon administration, by the United States Department of Treasury, and as Kimberly said, the Commerce Department, the other departments of government participated, it was a public/private partnership.

And it continues to be a public/private partnership. You know, a lot of advocates on the Hill, and I'm one of them, I advocated public/private partnership, but, you know, when we create a public/private partnership, the very people that criticized -- or the very people that advocate public/private partnerships, they criticize a relationship because it's public/private, and they say this benefits private companies.

To me, it's just astounding. Yes, this is a public/private partnership, and it gives America, the United States, and our workers, it gives us one advantage that we have today over the Chinese, maybe one of the few, other than the fact we're a democracy, people are given the ability here, the freedom, to create entrepreneurship, but we have a deep amount of liquidity and that can only be supplied by commercial banks, and industrial companies, and finance services companies.

And this allows exporters to tap into that. One thing I want to stress, it's -- some have actually criticized this by saying that PEFCO buys loans from exporters. That's not true. PEFCO does not buy loans from exporters. That is misleading.

Now, the Nixon administration, the Department of the Treasury, EXIM, all the agencies determined 25 years was appropriate in 1970, it was instituted in '71, then under the Clinton administration, unanimous, bipartisan support by the administration and by Republicans in Congress that 25 years was necessary.

We renewed it for 25 years, and I am a believer in, once again, renewing it for 25 years. It worked then, it works now, it's a signal to our exporters, it's a signal to our competitors that we are willing to do what it takes to win back customers that we have been losing at an accelerated rate, particularly since -- in the last five or ten years, when we've allowed our foreign competition to unfairly compete against our exporters.

And let me close by making this statement, and this is a statement that I've prepared, it's a written statement, I'm going to read it, but as you know, as my fellow Board Members know, I expressed a real reservation initially over a 25-year renewal.

In fact, I said that without changes, I could not support a 25-year renewal. And as a result, I think of working with my colleagues, Kimberly, Judith, working with you, working with Jim Cruse, with people clarifying my questions, I think we're reaching a unanimous approval of EXIM; of this renewal of the GCA and the SOPs with -- and the resolutions we're going to vote on for a minute.

We're going to, hopefully, unanimously approve that, and we're going to do it, we did it with an insistence that in 2023, the EXIM Board of Directors will receive comments from both an independent third party, the Inspector General, on the EXIM/PEFCO partnership, and we can choose to re-evaluate the terms of the agreement then or at any time thereafter.

So yes, this is a 25-year renewal of the GCA, but it also gives us, and this is a new commitment, a strong commitment to strong oversight, which is contained in our renewal.

Now, I think -- and I'll say this, today, perhaps more than ever, PEFCO plays an important role in the global economy as we look to level the playing field of the U.S. exporters. At the same time, I'll reiterate this, I'm steadfast in my belief that EXIM must play a responsible role in reviewing the

relationship on a regular basis with a sufficient level of detail.

Now, I want to point out something, and I'm not sure that it's been driven home, but presently, PEFCO, there are, I'm not going to go into this, but I don't think I will, except, presently, PEFCO, there are all sorts of mechanisms, including our right to sit at every Board of Directors meeting, have a member there, as part of any decision made by PEFCO. We've got all sorts of different mechanisms whereby we can have oversight of PEFCO.

Now, let me go ahead and say this with this change, with the change we've made here, we will holistically evaluate PEFCO before each renewal of the standard operating procedures. The SOPs are typically renewed with EXIM board approval every two or three years. As Chairman Reed stated, the Board will not consider the renewal of the SOPs before the end of fiscal year 2023.

At that time, EXIM may unilaterally halt any new business with PEFCO. Let me say that again, at that time, EXIM may unilaterally halt any new business with PEFCO, whether it is through new EXIM guaranteed transactions or new issuances of security -- of secured notes. Thus, the vote we're about to take strikes a balance between the needs of our exporters today with our responsibility to protect taxpayers in the future.

The two to three-year review cycle is a much needed improvement over past practices. Additionally, and I think Judith mentioned this, and it was said, but the National Advisory Council on International Monetary and Financial Policies, which is chaired by the U.S. Department of Treasury, neither they nor any Members of Congress has expressed any concerns with EXIM's relationship with PEFCO, although we have solicited their opinions.

And none of them have expressed opposition to the vote that we're about to take. And since that time,

we've even added another layer of protection. So with that, I'll yield back the balance of my time.

And if anybody heard some background information while I was talking, my landscape service is outside my window cutting the grass and edging the lawn, so thank you, Chairman.

Chairman Reed: Thank you, Director Bachus, and it's such an honor to have you and Director Pryor with me at EXIM today, but I wish I were with you in Alabama, but anyway, I'm so happy to be at our offices overlooking Lafayette Park and the White House at the moment, but I would much rather be looking at the beautiful birds.

So with that, there will be four votes under Item Number 2. First vote is for Item Number 2B, amendment of the standard operating procedures between EXIM and PEFCO. I now call this item for a vote. Director Pryor.

Director Pryor: I vote aye.

Chairman Reed: Director Bachus.

Director Bachus: I vote aye.

Chairman Reed: I vote aye. Item Number 2B is approved. The second vote is for Item Number 2A, renewal of the guarantee and credit agreement between EXIM and PEFCO. I now call this item for a vote. Director Pryor.

Director Pryor: I vote aye.

Chairman Reed: Director Bachus.

Director Bachus: I vote aye.

Chairman Reed: I vote aye. Item Number 2A is approved. The third vote is for Item Number 2C, PEFCO's secured note authorization for fiscal year 2021. I now call this item for a vote. Director Pryor.

Director Pryor: I vote aye.

Chairman Reed: Director Bachus.

Director Bachus BACHUS: I vote aye.

Chairman Reed: I vote aye. Item Number 2C is approved. The fourth vote is for Item Number 2D, funder guarantee for supply chain finance guarantee program. I now call this item for a vote. Director Pryor.

Director Pryor: I vote aye.

Chairman Reed: Director Bachus.

Director Bachus: I vote aye.

Adjourn

Chairman Reed: I vote aye. Item Number 2D is approved. As there are no further items on the agenda, I again want to thank everyone for their immense work on this review of PEFCO and I want to say thank you as well, especially to my two fellow Board Members for your thorough review and time together today.

And with that, thank you very much. I look forward to joining you for another board meeting this afternoon. Have a nice lunch break.

(Whereupon, the above-entitled matter was concluded at 12:16 p.m.)