

EXPORT-IMPORT BANK OF THE UNITED STATES

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BOARD OF DIRECTORS

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MEETING

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THURSDAY  
AUGUST 13, 2020

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The Board of Directors convened via  
webinar 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

MOLLY CONWAY, Deputy General Counsel  
JIM CRUSE, Senior Vice President of the Office  
of Policy Analysis and International  
Relations, EXIM Bank  
JAMES FLETCHER, Help Desk Analyst  
DAVID SLADE, Senior Vice President and General  
Counsel  
KEN TINSLEY, Senior Vice President and Chief  
Risk Officer, EXIM Bank  
LISA TERRY, Senior Vice President and Chief  
Ethics Officer, EXIM Bank  
NICOLE WHARTON, Senior Counsel, EXIM Bank

ALSO PRESENT:

DICK ALDRICH, Executive Chairman, PEFCO

MARY BUSH, PEFCO

TIM DUNNE, President and Chief Executive  
Officer, PEFCO

VERONIQUE DE RUGY, Senior Research Fellow,  
Mercatus Center

STACEY FACTER, Senior Vice President, Bankers  
Association for Finance and Trade

BENJAMIN FRIEDMAN, PEFCO

PATRICK GANG, Head of Export and Agency Finance,  
Bank of America

STEPHEN GREENE, Chief Operating Officer,  
American Trade Finance

GORDON HOUGH, Senior Vice President, PEFCO

HARRY KAPLAN, American Trade Finance

RAJ NANDKUMAR, Senior Vice President and  
Treasurer, PEFCO

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### II. Closed: None

1 P-R-O-C-E-E-D-I-N-G-S

2 10:02 a.m.

3 CHAIRMAN REED: Thank you, James.

4 Good morning. This is Chairman Kimberly Reed. I  
5 would like to welcome everyone in attendance this  
6 morning. I call the meeting to order. May I  
7 have a motion to consider item number 1 on the  
8 agenda?

9 DIRECTOR BACHUS: This is Director  
10 Bachus. I make a motion to consider item number  
11 1, stakeholder presentation regarding the request  
12 to renew EXIM's partnership with the Private  
13 Export Funding Corporation, PEFCO.

14 CHAIRMAN REED: Is there a second? Is  
15 there a second, Director Pryor?

16 DIRECTOR BACHUS: I think, Chairman  
17 Reed, you could also second the motion.

18 CHAIRMAN REED: Okay. I hope Director  
19 Pryor is on the phone with us. She may be on  
20 mute. So Director Bachus, thank you. I think we  
21 should wait for Director Pryor.

22 DIRECTOR PRYOR: Hi. This is Director

1 Pryor. I was having problems with my computer.  
2 I'm back. I'm here. And good morning, everyone.  
3 I second the motion, Chairman Reed.

4 CHAIRMAN REED: Thank you, Judith.  
5 It's so nice to have you with us. Okay. Thank  
6 you. This morning we are holding a public  
7 meeting to hear from stakeholders regarding  
8 possible renewal of EXIM's agreement with PEFCO.

9 I was born in 1971 and PEFCO was  
10 established in 1970, and I would say there has  
11 never been a public review of this 50-year-old  
12 agreement between EXIM and PEFCO. I feel that it  
13 is time that we have a very thoughtful review. I  
14 have promised the Congress that we would increase  
15 transparency, and this review of our relationship  
16 with PEFCO is a prime example of that commitment.  
17 In fact, yesterday, our leg. affairs team did a  
18 briefing with the Congress, and I do not see any  
19 of them on the call with us today, but if they  
20 are in attendance, we appreciate their focus on  
21 this topic.

22 But I also want to say thank you to

1 the more than 100 registrants who are here today  
2 for a very thoughtful and in-depth listening  
3 session and discussion. We have a very lengthy  
4 agenda. I wish we could have had more people  
5 come but of course, we are all telecommuting, and  
6 so our agenda is quite full. But we welcome and  
7 invite anyone to submit public comments through  
8 the Federal Register. And you can find the press  
9 release on our website talking about that.

10 When I was sworn in to head EXIM by  
11 President Trump in May of 2019, he told me to do  
12 great things and lead EXIM to new heights so that  
13 the world will see more products stamped with  
14 those four beautiful words, Made in the USA. And  
15 I know that we're very focused on job creation  
16 for our country, which is never more important  
17 than it is today at this time of COVID. But we  
18 also want to protect the taxpayer and follow the  
19 law. And so for those of you who are new to EXIM  
20 and how follow the law, the law is in our charter  
21 that you can find on our website. But our main  
22 charge is that we support U.S. jobs, and our

1 primary function is expanding United States  
2 exports through fully competitive financing.

3 At the end of June, we released our  
4 annual report to Congress on global export credit  
5 competition. And I would like to point everyone  
6 to this report. I am so pleased to have worked  
7 now for more than a year with Director Bachus and  
8 Director Pryor on bringing good reforms and  
9 transformations to our agency, and there's more  
10 work to do. But at the same time, we were  
11 reauthorized for a historic seven years.  
12 President Trump asked for 10 years, and Congress,  
13 on December 20, 2019, sent a bill to the  
14 President for 7 years, the longest in EXIM's 86-  
15 year history. And I want to thank everyone who  
16 was engaged in this very thoughtful process.

17 As part of this new congressional  
18 mandate, Congress has asked us to focus on  
19 advancing the United States comparative  
20 leadership in the world and neutralize China as  
21 we have seen what they have done with their  
22 export credit agencies to help support things

1     like their Belt and Road initiatives. When you  
2     read this report, you will now appreciate that we  
3     have 115 export credit agencies around the world.  
4     And EXIM now is back in focus, and we have this  
5     new mandate to focus at least 20 percent of our  
6     \$135-billion portfolio on this program on China  
7     and transformational exports.

8             Today we're going to be hearing from  
9     some key staff and PEFCO and then some outside  
10    external stakeholders. They all are going to  
11    have important historical background for this  
12    audience and for our Board to fully appreciate  
13    the role of PEFCO and its agreement with EXIM  
14    going forward. I will say that I am committed to  
15    increasing transparency, and future efforts will  
16    absolutely be focused on that.

17            So with that, let me just share with  
18    you who we have presenting today. From EXIM, we  
19    have Jim Cruse, Senior Vice President of the  
20    Office of Policy Analysis and International  
21    Relations, and on Monday, Jim just celebrated his  
22    50 years of being a public servant at EXIM.



1       Congratulations again, Jim. And Jim is an  
2       institution who will be able to share from the  
3       beginning of PEFCO the EXIM perspective.

4               You'll also be hearing from Ken  
5       Tinsley, our Senior Vice President and Chief Risk  
6       Officer; Lisa Terry, Senior Vice President and  
7       Chief Ethics Officer. I know that my fellow  
8       Board members and I very much appreciated the  
9       opportunity to approve these two very important  
10      functions at EXIM last year. We also have Nicole  
11      Wharton, our Senior Counsel.

12             With us from PEFCO's Board of  
13      Directors are Dick Aldrich, Executive Chairman of  
14      PEFCO, who will be presenting on behalf of the  
15      PEFCO Board today. Also with us but not  
16      presenting are Mary Bush, Chairman of Bush  
17      International, LLC, and Ben Friedman, William  
18      Joseph Maier Professor of Political Economy at  
19      Harvard University.

20             Thank you PEFCO Board members for  
21      joining us today.

22             PEFCO staff joining us are Tim Dunne,

1 President and CEO; Gordon Hough, Senior Vice  
2 President; and Raj Nandkumar, Senior Vice  
3 President and Treasurer. Thank you, PEFCO staff.

4 Finally, we have our external  
5 stakeholders for this very important public  
6 meeting. Joining us today are Veronique De Rugy,  
7 Senior Research Fellow, the Mercatus Center.  
8 Veronique, thank you, again, for coming back now  
9 to EXIM for the third time. And as you noted at  
10 our October 25 EXIM Advisory Board meeting, PEFCO  
11 was something that our Board should take a look  
12 at. So thank you for planting that seed. We had  
13 that thought underway, but we will have a very  
14 good discussion today.

15 Also, we have Stacey Facter, Senior  
16 Vice President, the Bankers Association for  
17 Finance and Trade; Patrick Gang, Head of Export  
18 and Agency Finance for Bank of America; and  
19 Stephen Green, Chief Operating Officer for  
20 American Trade Finance. Also joining us from  
21 American Trade Finance is CEO Harry Kaplan,  
22 though he is not a panelist today. Thank you

1 again to our external stakeholders.

2 I would also like to note that our  
3 EXIM Advisory Committee has established a  
4 subcommittee being chaired by Larry Goodman of  
5 the Center for Financial Stability. I know that  
6 we have that advisory committee subcommittee  
7 listening in today, and thank you for that. And  
8 then also any other EXIM Advisory Board or Sub-  
9 Saharan Advisory Committee members that we have  
10 on the call today, thank you.

11 So as we begin, if you would each  
12 please summarize your remarks in no more than  
13 five minutes. My fellow Board members and I will  
14 then ask questions of you at the conclusion of  
15 all remarks.

16 And again, thank you, Director Bachus  
17 and Director Pryor for taking notes throughout  
18 these presentations so we will then be able to  
19 have a robust conversation at the conclusion.

20 DIRECTOR BACHUS: Thank you, Chairman.

21 CHAIRMAN REED: I now invite Jim Cruse  
22 to -- thank you -- I now invite Jim Cruse to

1 provide an overview of EXIM's relationship with  
2 PEFCO. Jim, please introduce yourself for the  
3 record and begin your five minutes of remarks.  
4 And I would also ask that we have a timekeeper on  
5 the call to please interject if we do exceed the  
6 five minutes for each of our panelists. Thank  
7 you.

8 MR. CRUSE: Okay. Thank you, Madam  
9 Chairman. I am Jim Cruse, Senior Vice President  
10 for Policy Analysis and International Relations  
11 at the Bank and have been for some years. I am  
12 sort of the person responsible for setting the  
13 scene of this unprecedented and unique exercise  
14 in transparency. And to do that, I have, one,  
15 prepared the overview memo that you see, which  
16 quickly goes through the history of PEFCO, what  
17 it is, what the issue is in front of us, and sort  
18 of their evolution of roles over the past 50  
19 years.

20 However, given the fact that we are  
21 all hear today to listen to a variety of comments  
22 about the benefits, possible costs and

1       considerations of PEFCO, I thought it would be  
2       useful for me to make three observations and  
3       perspectives that I hope will help you, as a  
4       Board, in cutting through all the comments and  
5       getting to the core of what it is that you need  
6       to evaluate. These comments reflect the  
7       experience I've had the past few months in  
8       preparing some 17 briefing members on PEFCO as  
9       well as my own history with PEFCO, which goes  
10      back to the late 1970s when I first became  
11      involved.

12               All right. So let me identify the  
13      three aspects. The first is one needs a clear  
14      definition of the technical role PEFCO plays.  
15      PEFCO is not a bank, and I'm going to go through  
16      the aspects of this nature of its role to make it  
17      clear what one can associate with its role and  
18      what associates, really, with EXIM Bank.

19               Secondly, I think it's important to  
20      understand the character of PEFCO. Now it may  
21      sound strange to talk about a personalization  
22      aspect such as character with an entity -- a

1 corporate entity that has, in a sense, no soul,  
2 but what I hope to communicate is that this one  
3 does have some soul.

4 And third, I think it's key for you to  
5 understand exactly what it is that you're being  
6 asked to evaluate so that you can separate the  
7 wheat from the chaff.

8 So on the first point, what is PEFCO's  
9 technical role, it is important to differentiate  
10 the separate roles that, for example, a bank  
11 plays. A bank can originate a transaction. A  
12 bank can evaluate and take credit risks. A bank  
13 can provide funding, and a bank can hold an asset  
14 through maturity. However, PEFCO cannot do all  
15 of those roles. It cannot originate a  
16 transaction. It does not have the staff for  
17 that. It cannot evaluate credit nor assume  
18 credit risk. It is simply a funder. It can fund  
19 and it can hold an asset to maturity. It is  
20 important to differentiate that, because there  
21 are four components of that that you will find  
22 some confusion about as we go through the

1 testimony today.

2 The first is that all comments  
3 relating to the buyers and the exporters and the  
4 associations that they form with good or bad  
5 things really all belong on EXIM Bank's  
6 shoulders. They do not belong on PEFCO's. PEFCO  
7 can only fund what EXIM first approves as a  
8 credit.

9 Secondly, the risk that PEFCO takes is  
10 not on credit. It is on the liability side. It  
11 is on the borrowing cost being less than the  
12 lending cost. And anybody who thinks this isn't  
13 a risk just needs to talk to any savings and loan  
14 executive -- of course, there are none of them  
15 left -- from the 80s or from anybody from Lehman  
16 Brothers in terms of the issue of funding risk.

17 The third is that this role is a  
18 relatively narrow one, but it has been one that  
19 PEFCO has stayed with through waxing and waning  
20 over the 50 years. It has not wandered. It has  
21 not tried to add to its list of objectives. It  
22 has stuck to its knitting.

1                   And fourth, that role today is  
2                   critical. In the post financial crisis and Basel  
3                   III-dominated world of export finance, every ECA  
4                   has had to go find a funding, asset holding  
5                   source, because in today's world, the banks can  
6                   no longer do that as a regular matter. And so  
7                   we're lucky enough to have already had such an  
8                   entity. We have developed its attributes over  
9                   the past 10 years, but I guarantee you if we  
10                  didn't have it, we would have to create it or  
11                  EXIM Bank would have to take it on itself, both  
12                  of which have consequences. So I hope it is clear  
13                  exactly what PEFCO does and its importance today.

14                 The second thing is what is PEFCO's  
15                 character. Okay. Why am I talking about  
16                 character? It is important to note that PEFCO  
17                 was created at a unique time in the history of  
18                 the role of U.S. exports. It was of strategic  
19                 importance in the late 60s, early 70s and stayed  
20                 that way until President Nixon took us off the  
21                 gold standard. So it was a unique time when it  
22                 was created. It was created for an unprecedented



1 purpose, to create a private sector alternative  
2 to direct lending. And it was an untested  
3 mechanism.

4 So given all that, you had an  
5 amazingly rapid coordination and consensus among  
6 various U.S. agencies, Justice, Treasury, Budget,  
7 the Fed, the Hill, to allow the creation of the  
8 entity that we call PEFCO. So there was no  
9 accident. EXIM did not act alone. The monopoly  
10 situation that does exist was one that was  
11 created with full transparency.

12 The second thing is that the banks and  
13 exporters that joined PEFCO to provide equity  
14 funding did so in the sense of every bank that  
15 did export finance at that time basically all  
16 joined hands and said, we have no idea what we're  
17 about to do, so we're all going to jump into the  
18 abyss together and hope that the combination of  
19 us provides a benefit. It's more like venture  
20 capital than it was actually an investment.  
21 There was no real prospect of direct returns from  
22 the money that they put in. There was big risk

1 and a large possibility of failure. Yes, they  
2 hoped to benefit from the improved situation in  
3 U.S. exports, but to do that, their institutions  
4 would have to be competitive enough.

5 MR. FLETCHER: Excuse me, Mr. Cruse.  
6 You have reached your five minutes. If you could  
7 please conclude your statements shortly so we can  
8 move to the next presenter.

9 MR. CRUSE: Okay. So the third aspect  
10 is that the thing to look for is that there are  
11 invaluable benefits to PEFCO, but there are  
12 things that we pay for. We pay for it with a  
13 special guarantee and claims. Your job is to  
14 evaluate the benefits, how broad, how deep, and  
15 to see if the costs and extra aspects that are  
16 associated justify those. It's not that what we  
17 get is free. We have to pay something. Is what  
18 we pay worth what we get?

19 So I hope that overview helps you to  
20 cut through all the comments and evaluate what  
21 you see. Thank you.

22 CHAIRMAN REED: Thank you very much,

1 Mr. Cruse. I also want to acknowledge that we  
2 have now received RSVPs, so likely on our call  
3 are staff from Senator Toomey, Senator Lee,  
4 Senator Cruz, and Senator Sasse as well as staff  
5 from the U.S. State Department and the Federal  
6 Reserve. And Jim, I guess, just underscore  
7 again, the Federal Reserve was involved in the  
8 creation of PEFCO with EXIM as well as other  
9 agencies back many years ago.

10 With that, I now invite Dick Aldrich,  
11 Executive Chairman of PEFCO to speak. Welcome,  
12 Dick.

13 MR. ALDRICH: Thank you, Chairman  
14 Reed. On behalf of all of us at PEFCO, our  
15 thanks to you and the dedicated EXIM staff for  
16 organizing this meeting and for this invitation  
17 to speak in connection with PEFCO's request for  
18 the renewal of its guarantee and credit  
19 agreement.

20 Before I begin my brief remarks, I  
21 want to extend our congratulations to Jim Cruse  
22 on his commendation for 50 years of exceptional

1 service to EXIM.

2 Now as Chairman Reed said, I'm the  
3 Executive Chairman of PEFCO. I've had the  
4 privilege of being associated with PEFCO and its  
5 mission of supporting EXIM as a supplemental  
6 lender in the financing of U.S. exports since  
7 1980, initially as a lawyer at an outside law  
8 firm until 1997 when I was elected to the Board  
9 of Directors and served as a member of the  
10 Executive Committee and Chairman of the  
11 Compensation Committee.

12 To clarify a question about my  
13 position that's been raised and I've been asked  
14 to respond to, I was elected a Lead Director in  
15 2009. In 2017, as PEFCO's financial difficulties  
16 increased, I was asked by the Board of Directors  
17 to assume the position of Executive Chairman to  
18 increase the frequency of communication between  
19 PEFCO and the Board. Technically, under our  
20 bylaws, that's when I ceased to be the Lead  
21 Director. I would note that we will be  
22 nominating a new Lead Director at the Nominating

1 and Governance Committee to be scheduled for next  
2 week. And the Lead Director will come from one  
3 of our members of the Executive Committee. I  
4 would note that PEFCO has three unaffiliated  
5 independent directors on our Board who are all  
6 members of the Executive Committee, Mary Bush,  
7 Ben Friedman, Dr. Rita Rodriguez, and we are  
8 joined by Bill Rhodes, who is also a member, and  
9 the other members include Tim Dunne and myself.

10 I've also been asked to comment  
11 briefly on the fiduciary duties of PEFCO  
12 directors. PEFCO is a Delaware corporation and  
13 as such, its members are subject to the duty of  
14 loyalty and care under the General Corporation  
15 Law of Delaware and relevant case law. In the  
16 PEFCO context, there is, however, an important  
17 aspect of these director duties that deserves  
18 special mention: conflicts of interest. In the  
19 case of conflicts of interest, PEFCO Board  
20 candidates and directors are required to disclose  
21 to the Nominating Committee -- Nominating and  
22 Corporate Governance Committee any matters which

1 would interfere with his or her ability to  
2 discharge their duties as a director.

3 Prior to their election, candidates  
4 for the PEFCO Board are reviewed by PEFCO for and  
5 are also required to vet with their own legal  
6 counsel any potential conflict of interest  
7 issues.

8 Importantly, in PEFCO's case,  
9 candidates that are directly involved in or have  
10 oversight responsibilities for lending decisions  
11 in conjunction with PEFCO financing are not  
12 considered free of conflicts of interest.

13 In addition, it's important to note  
14 that discussions of pricing and confidential  
15 information on PEFCO loans is prohibited at Board  
16 meetings. Once elected, new directors also go  
17 through orientation with PEFCO on their  
18 responsibilities and duties as directors.

19 In the time remaining, I'd like to  
20 close with some comments on the guarantee and  
21 credit agreement. The guarantee and credit  
22 agreement guarantees the interest coupon on

1 PEFCO's long-term secured notes, which are its  
2 principal funding source; and as a result, by  
3 virtue of an SEC no action relief, these  
4 securities are exempt from registration which  
5 permits PEFCO to obtain wider investor  
6 distribution and also attractive terms.

7 The agreement is also regarded as a  
8 fundamental -- fundamental to the EXIM and PEFCO  
9 relationship and has significant importance  
10 attached to it by the rating agencies of PEFCO,  
11 which are rating PEFCO triple A, and to the  
12 lenders of PEFCO's backstopped credit facilities.  
13 At the same time, the agreement gives EXIM  
14 important oversight over PEFCO's major financial  
15 decisions and other matters including,  
16 importantly, restrictions on PEFCO's engagements  
17 and any other business from the financing of U.S.  
18 exports, and it also gives EXIM the right to  
19 attend all PEFCO Board meetings.

20 With the confirmation of Chairman  
21 Reed, Director Bachus, and Director Pryor, and  
22 with a 7-year charter authorization behind it,

1 PEFCO is ramping up its financing for U.S.  
2 exports in the midst of the COVID-19 pandemic,  
3 and lenders are increasingly requesting PEFCO's  
4 financial support for EXIM Bank-guaranteed  
5 transactions including supply chain and working  
6 capital as well as other initiatives. As it did  
7 in the 2008 financial crisis, PEFCO is eager to  
8 assist EXIM. However, in order for PEFCO to  
9 remain a viable business and to continue its  
10 mission in support of EXIM as a supplemental  
11 lender of U.S. exports, PEFCO is requesting that  
12 the guarantee and credit agreement be renewed.

13 Thank you again, Chairman Reed, for  
14 this opportunity.

15 CHAIRMAN REED: Thank you very much,  
16 Dick. I now invite Tim Dunne, Gordon Hough, and  
17 Raj Nandkumar of PEFCO to provide a brief primer.  
18 Please introduce yourselves for the record and  
19 begin your remarks.

20 MR. DUNNE: Thank you, Chairman Reed.  
21 This is -- my name is Timothy Dunne. I'm the  
22 President and CEO of PEFCO. I am pleased to be



1 presenting with Raj Nandkumar and Gordon Hough in  
2 providing an overview of who we are and what we  
3 do. I just want to add a few comments myself and  
4 what I see the role for PEFCO. I came to PEFCO  
5 back in 2005, joining as Treasurer and then  
6 eventually becoming President and CEO. My  
7 original attraction to joining PEFCO was really  
8 to support what the mission was and what the  
9 overall effort is to support the export loan  
10 market. I think that the features that you'll  
11 see in the presentation are quite interesting and  
12 illustrative on what we do, where we came from,  
13 and how we fund ourselves. And I gladly now turn  
14 over to Gordon Hough to start the presentation  
15 for you, which should be up on the screen.

16 MR. HOUGH: Yes. Thank you, Tim. I'm  
17 going to run through a couple of slides fairly  
18 quickly, but we very much, all of us here at  
19 PEFCO, look forward to the Q&A session at the  
20 end.

21 By way of introduction, as I think Tim  
22 may have mentioned, I'm in charge of the lending

1 activities of PEFCO, have been with PEFCO for  
2 nearly the last seven years. Prior to that, I  
3 spent over 25 years in the banking community, a  
4 variety of different banks, always focused on  
5 trade, structured trade, project finance  
6 activity. Much of my personal time was involved  
7 with export credit agencies and EXIM Bank.

8 So I think as far as who we know -- or  
9 who we are, presumably everybody on the call has  
10 a pretty good understanding, but I do think it's  
11 worth noting and pointing out, as Chairman Reed  
12 indicated, we've been around for 50 years. The  
13 drivers behind the organization of PEFCO were the  
14 primary constituents in the export finance  
15 marketplace at the time, including EXIM Bank. As  
16 Dick Aldrich mentioned, EXIM Bank participates in  
17 our board meetings on a regular basis. They  
18 oversee all of our activities. It's been a very,  
19 very solid partnership over the years and a  
20 partnership which I think everybody at PEFCO  
21 greatly values.

22 One of the points down below, PEFCO

1       shareholders, among them are 26 different  
2       commercial banks. Most all of those banks have  
3       been shareholders from the get go. There were a  
4       couple added in 2008 but by and large, it's the  
5       original group. And it's interesting, I think,  
6       to note that only a portion of those 26 banks,  
7       probably roughly around half, I would say, are  
8       actually active in the EXIM Bank marketplace and  
9       have dialogues with EXIM Bank.

10               As far as our mission and objectives,  
11       again, I think this is pretty much self-evident,  
12       but it's to support EXIM's financing activities.

13       PEFCO partners with lenders to bring  
14       supplemental liquidity to the market. Jim Cruse  
15       said it very clearly, PEFCO is prohibited from  
16       marketing for loan transactions. Rather we work  
17       through the lending community, lending partners.  
18       We are not in a position to chase transactions on  
19       our own. We very often become aware of  
20       transactions in the market from previous clients  
21       of PEFCO's who have repeat acquisitions from the  
22       U.S., they intend to use EXIM Bank. They want to

1 consider availing themselves to PEFCO's funding,  
2 but we tell them we cannot bid to them directly,  
3 we work through the banking community.

4 I think in this way, PEFCO serves as  
5 something of a catalyst for bank participation in  
6 the EXIM financing market.

7 I know some of the -- a number of the  
8 banks would not be in a position to continue to  
9 bid on transactions if they didn't have the  
10 confidence that they might be able to reposition  
11 their portfolios, sell assets, sell loans out of  
12 their balance sheet. That's become ever more  
13 important with the implementation of Basel III  
14 and increased regulatory oversight.

15 PEFCO does rely on EXIM for its loan  
16 guarantees and engages in transactions that are  
17 only -- have already been approved by EXIM Bank  
18 credit review. We in no way influence the  
19 underwriting process. We get brought in well  
20 after that has taken place. I think it's  
21 important to note that when PEFCO is making their  
22 services, their liquidity available to the

1 market, we do so on a non-discriminatory basis,  
2 and to all lenders, potential arrangers on a  
3 level playing field. That is to say that we  
4 regularly are approached by multiple banks on the  
5 same transaction. We offer identical terms and  
6 conditions to them, and then they compete with  
7 the -- with -- in the market with the potential  
8 borrower to provide ancillary services and  
9 ancillary complementary financing that may be  
10 required for the transaction or the project. But  
11 PEFCO, it's all consistent amongst all of the --  
12 anyone that approaches us.

13 The final point on sort of our mission  
14 objectives, I think it's important for everyone  
15 to understand that PEFCO has been and continues  
16 to be open for all of EXIM's Bank's programs  
17 under the guarantee structure, you know, so  
18 that's it.

19 On the next slide, it's something of  
20 a snapshot of PEFCO's activities. It articulates  
21 that there are some \$3.8 billion in outstandings,  
22 our current portfolio. That clearly is not

1 representative of where we would like to be or we  
2 would expect to be. That's reflective of the  
3 decrease in activity of EXIM Bank over the last  
4 four and a half years. We expect that to ramp  
5 up. We've got very -- we're very optimistic that  
6 it will be, because there's a high level of  
7 engagement with the banking community. We've  
8 been asked to quote on nearly \$10 billion of  
9 loans just in fiscal year 2020. So there's -- we  
10 expect that to grow considerably.

11 We have a geographic representation  
12 here of where our exposure is. Personally, I  
13 find that interesting. I think a lot of people  
14 do, but to be perfectly candid, I think it's  
15 fairly irrelevant to PEFCO. We're agnostic about  
16 geographies. We basically are here to fund  
17 whatever the banks ask us to do.

18 Now that being said, we're fully aware  
19 of the sensitivities of China, and we've got a  
20 very large exposure in China. We -- that's,  
21 frankly, reflected on the large exposure that  
22 EXIM Bank has had in China over the years. So

1       there's no surprise there.

2                       We -- I would emphasize again, we  
3       don't lobby on the transactions that we fund.  
4       Rather we only fund transactions that have been  
5       approved by EXIM Bank.

6                       The column on the right-hand side of  
7       this slide, you know, identifies the volumes of  
8       activities of lending that we've had over the  
9       last couple years. Again, this is not terribly  
10      reflective of business as usual given the  
11      situation EXIM Bank has been through the last  
12      several years. We would normally expect to have  
13      annual funding of about \$1.5 to \$2 billion, and  
14      we're down, you know, at a fraction thereof.

15                      I do think it's important to note that  
16      the first box on top of the medium-term  
17      commitments, while the trend -- the dollar values  
18      are not large, we would argue that it represents  
19      a very high percentage of EXIM Bank's  
20      authorization in that space. Conversely, in the  
21      long-term side, while the dollar values are  
22      larger, and particularly in a business as usual

1 mode would be larger, it would be a fairly modest  
2 percentage of EXIM authorization in that segment  
3 of the market.

4 This slide here, the next slide,  
5 basically shows how an EXIM Bank transaction  
6 works and accessing the different silos of  
7 liquidity, if you will. So you could have an  
8 offshore borrower in Mexico or India would  
9 typically work with a commercial bank in the  
10 states to arrange for an EXIM Bank guarantee  
11 against -- or EXIM Bank's support for a  
12 transaction. The borrower then would have four  
13 options in which to effectively fund the loan: a  
14 direct from EXIM Bank, PEFCO capital markets, an  
15 EXIM Bank bond issue, or a bank, you know, a bank  
16 lending balance sheet.

17 I think it's important for everyone to  
18 consider that PEFCO is in no way, shape, or form  
19 in the driver's seat here in making that  
20 determination. It is really the borrower with --  
21 and the commercial bank or financial advisor for  
22 the borrower that is going to drive which source



1 of liquidity they would access to fund the  
2 transaction. You know, you might question well,  
3 why would they choose PEFCO. Without question,  
4 PEFCO has demonstrated itself as a reliable  
5 source of liquidity. Back in the financial  
6 crisis and, you know, and on multiple times, in  
7 times of stress and market disruptions, we've  
8 been able to step up to the plate and fund  
9 transactions when banks often were running for  
10 the hills.

11 Oftentimes banks will come to us with  
12 transactions that while they might be able and  
13 willing to put it on their balance sheet,  
14 oftentimes these are large transactions. They  
15 have balance sheet -- you know, they eat up  
16 capacity. In the current regulatory environment  
17 of Basel III, highly rated credit, large assets  
18 that are priced very competitively are just not  
19 that attractive to the banking community these  
20 days. Other times banks will be looking to  
21 manage various different limits, whether it be a  
22 counter-party limit of a borrower, an industry

1 limit, or a particular industrial sector, or a  
2 country limit. They arrange it, push it over to  
3 PEFCO, and they don't have to, you know, dance  
4 through that minefield internally of various  
5 different limits.

6 Oftentimes we are approached by  
7 foreign banks. The foreign banks are very active  
8 in the export finance market, and many of them  
9 have limited U.S. dollar liquidity. So PEFCO  
10 brings an alternative source of U.S. dollar  
11 liquidity that allows them to be competitive in  
12 the space.

13 Finally, I would comment that we are  
14 very active with the small nonbank lenders, and  
15 that is -- we feel that's absolutely critical,  
16 critical to EXIM Bank's support of penetrating  
17 and furthering their goals in supporting small  
18 business. The bulk of the small -- well, quite a  
19 large share of the small business is handled by  
20 nonbank lenders. They don't have the capital in  
21 the balance sheet to support a level of activity,  
22 and they are very, very dependent upon PEFCO.

1 And you will be hearing from one of those lenders  
2 later in the presentation.

3 That concludes my remarks. I'm going  
4 to turn this over to my colleague, Raj Nandkumar  
5 on PEFCO's funding and other related issues.  
6 Thank you so much.

7 MR. NANDKUMAR: Thank you, Gordon.  
8 This is Raj Nandkumar, the Senior Vice President  
9 and Treasurer of PEFCO. I also want to thank the  
10 EXIM Board including Chairman Reed for giving us  
11 the opportunity to present.

12 I've been with PEFCO for nearly eight  
13 years now in the treasury capacity and prior to  
14 that, I was in the trading desk at a couple of  
15 Wall Street banks trading mortgage-backed  
16 securities. And prior to that, I spent some time  
17 in venture capital and in management consulting.

18 Looking at the slide in terms of how  
19 PEFCO funds itself, the way we operate is  
20 actually quite simple. We use short-term debts  
21 that have commercial paper and unsecured medium-  
22 term notes to fund transactions until we can gain

1 liquidity, long-term liquidity through funding  
2 using either the collateralized notes program or  
3 the secured notes program. The typical tenure  
4 for warehousing loans is anywhere from a few  
5 weeks to a few months.

6 All of these funding programs are  
7 capital market based. The difference is the  
8 commercial paper, medium-term notes and the  
9 collateralized notes, commercial paper and  
10 medium-term notes don't have underlying assets  
11 that are pledged as eligible collateral, whereas  
12 the collateralized notes and the secured notes  
13 do, as you can see towards the middle of that  
14 screen.

15 In terms of the difference between the  
16 collateralized notes and the secured notes, the  
17 collateralized notes consist of EXIM Bank's loan  
18 with the standard guarantee which is available to  
19 all commercial lenders, and the secured notes  
20 comprised of an EXIM Bank loan that has a 1971  
21 Guarantee. And there are some criteria as you  
22 will see with the 1971 Guarantee including PEFCO

1 needs to be the servicer of the loan. PEFCO  
2 needs to own the loan note, and PEFCO should be  
3 able to file a claim directly with EXIM Bank.

4 As I mentioned, you know, there isn't  
5 really a risk to EXIM Bank for three of the four  
6 funding programs that PEFCO has, because they are  
7 a capital market-based solution. The commercial  
8 paper and medium-term note we issue, under the  
9 4(a)(2), 3(a)3 and 144A or Regulation S program,  
10 and we issue two underwriting banks directly to  
11 investors.

12 The collateralized notes is also a  
13 market based solution.

14 As far as the secured notes go, on  
15 which EXIM Bank provides a coupon guarantee, EXIM  
16 Bank has a minimal risk, because there are  
17 criteria that cover who can engage in that  
18 funding, including EXIM Bank needs to approve,  
19 exclusively approve of any issuance, and this is  
20 an annual approval.

21 MR. FLETCHER: Excuse me.

22 MR. NANDKUMAR: As well as there is a

1 contingency reserve account.

2 MR. FLETCHER: Excuse me, Mr.  
3 Nandkumar, you have reached the end of your five  
4 minutes. If you could please conclude your  
5 statement shortly so we can move on to the next  
6 presenter.

7 MR. NANDKUMAR: Thank you. Let's  
8 focus on our next slide in terms of why various  
9 constituents in the EXIM space need PEFCO.  
10 PEFCO's existence is critical for the EXIM space,  
11 for EXIM Bank, we crowd in bank participation, as  
12 Gordon said, and we are critical for the medium-  
13 term products. We are the lender of last resort  
14 for many of them.

15 For the commercial banks that want  
16 balance sheet relief or have liquidity  
17 constraints, we are able to -- they can't pitch  
18 transactions, many of them, and they need PEFCO  
19 as a backstop.

20 We are especially critical to the  
21 small business lenders. They need PEFCO  
22 financing to remain viable, and they are very

1 much attracted to PEFCO's simplicity, ease of  
2 use, and the service.

3 And the capital markets have their own  
4 dynamics. The markets are volatile. There's  
5 limited demand for floating rate products, and  
6 they can't handle multiple disbursement periods  
7 associated with project transactions.

8 So with that, I am going to -- the  
9 last slide is basically self-evident. We are  
10 looking to renew the 1971 Guarantee and Credit  
11 Agreement, and there are also standard operating  
12 procedures with EXIM Bank that govern and dictate  
13 how we can operate. With that, I turn it back to  
14 Chairman Reed. Thank you.

15 CHAIRMAN REED: Thank you very much,  
16 and before we continue on, I just want to  
17 underscore for all of the listeners, I just heard  
18 PEFCO talk about China, and I just want to be  
19 sure that everyone knows that we have this new  
20 legislative mandate. I will point you to Section  
21 408 where we consult with the Department of State  
22 regarding transactions in excess of \$25 million

1 where the end user, lender, or obligor is the  
2 government of China, and it also requires us to  
3 report these transactions to Congress. So just  
4 wanting to underscore from today going forward.

5 With that, I would like to ask  
6 Veronique de Rugy, to please introduce yourself  
7 for the record and begin your five minutes of  
8 remarks. Thank you.

9 MS. De RUGY: Thank you, Chairman  
10 Reed. Hi, everyone. My name is Veronique de  
11 Rugy. I'm a Senior Research Fellow at the  
12 Mercatus Center at George Mason University.

13 I'm here today to express how saddened  
14 I am to hear that the members of the Board of  
15 Directors of the Export-Import Bank are ready to  
16 renew their partnership with PEFCO. Member of  
17 Congress has never reviewed this monopoly since  
18 it was set up 50 years ago in spite of taxpayers'  
19 exposure. It lacks transparency, and it fails  
20 all serious tests of additionality. As such, 25-  
21 year renewal of PEFCO would be at odds with  
22 Chairman Reed's commitment to be a reformer.



1 Rolling over a half-century entity like PEFCO for  
2 another quarter century without changing a thing  
3 other than actually raising its taxpayer-backed  
4 guarantee is no reform. It's business as usual.

5 This hearing is supposed to be a  
6 review of PEFCO, and while I truly appreciate the  
7 chance you have given me today to be here as a  
8 critic, I regret that I'm the only independent  
9 scholar and non-special interest on this panel.  
10 So let's start.

11 I have heard, including today, PEFCO  
12 proponent make arguments in favor of it that make  
13 little sense. For instance, we just heard that  
14 PEFCO helps small businesses, but according to  
15 PEFCO's own annual report, small business lending  
16 accounts for less than 4 percent of PEFCO's  
17 portfolio. The only thing small about this is  
18 the size of this number. PEFCO is an entity that  
19 is created to serve EXIM's potentially-connected  
20 beneficiaries, and there are no better connected  
21 beneficiaries of EXIM's activities than Boeing.  
22 And you wouldn't be surprised to hear that 86

1       percent of PEFCO's portfolio is aircraft.

2               Worth mentioning here, too, 19 percent  
3       of the portfolio is China and Hong Kong, which  
4       should give pause to the congressional staff  
5       listening since whether it's PEFCO's or EXIM's  
6       fault, EXIM has a congressional mandate to give  
7       special vetting to loans to China.

8               Second argument is that PEFCO is  
9       necessary to crowd in the private sector to  
10      provide export financing. So what argument we  
11      hear is that it makes credit and liquidity  
12      available during a financial crisis. And that  
13      would be an okay argument if its role was  
14      temporary and limited to financial crisis, but  
15      it's not. In fact, PEFCO's role in the market is  
16      expanded after the great recession ended, and as  
17      global market, we cover crowding out, the risk-  
18      taking commercial lenders.

19              EXIM also argues, and we've heard it  
20      on this call many times, that Basel III banking  
21      regulations make PEFCO necessary. I dislike  
22      regulation as much as the next free market

1 person, but this does not hold water. PEFCO is  
2 dealing exclusively in loans that carry 100  
3 percent government guarantee, and it takes no  
4 risk, which it says itself in its annual report.  
5 In reality, PEFCO does the opposite of its claim,  
6 and I'm happy to talk about this during the Q&A.

7 Risk-taking commercial banks are  
8 crowded out of a normal risk-taking role. The  
9 crowding out is done by PEFCO, which reduces  
10 commercial lenders to the role of originators of  
11 government loans.

12 Now, let me tell you what PEFCO is.  
13 It is a quintessential case of EXIM's self-  
14 dealing and cronyism. So on the self-dealing,  
15 the same banks that sell their EXIM guarantee  
16 loans to PEFCO are the banks that own PEFCO. Its  
17 consumers are its owners. I'm sure there's a lot  
18 of rationale for it submitted to the general  
19 public and members of Congress, and it will be  
20 stopped. The large corporation exporters,  
21 including Boeing and GE, that accounts for the  
22 bulk of EXIM's financing also are among PEFCO's

1       shareholders; 86 percent of the underlying assets  
2       of EXIM guaranteed loans are PEFCO acquired, are  
3       in the aircraft.

4               Also, by the way, Boeing Senior VP of  
5       Finance and Treasurer is on the PEFCO's Board of  
6       Directors, so the cronyism. PEFCO is a  
7       privately-controlled institution with the  
8       exclusive rights to its guarantee arrangement  
9       with EXIM. It's a monopoly. As far as we are  
10      aware, there has been no bidding process or any  
11      other transparent mechanism for PEFCO to retain  
12      this exclusive benefit. PEFCO can pay dividends  
13      to its commercial shareholders even though the  
14      entity takes zero risk. Again, it's annual  
15      report says so.

16             So what should happen now? Well, in  
17      my opinion, it should not be renewed, period. I  
18      mean let's remember that economic crises or not,  
19      without PEFCO, EXIM still would be available to  
20      guarantee U.S. export transactions, but at a  
21      minimum, PEFCO's exclusive benefit should not be  
22      extended for another 25 years and without

1 competition. PEFCO should be renewed for no more  
2 than one year and at the end of which, Congress  
3 should evaluate PEFCO's usefulness in the context  
4 of economic conditions at the time with an eye --

5 MR. FLETCHER: Excuse me, Ms. de Ruky,  
6 you have reached your five minutes. If you could  
7 please conclude your statement shortly, so we can  
8 move on to the next presenter.

9 MS. De RUGY: Yes. I'm going to  
10 repeat that sentence, which is my last sentence.  
11 So -- because I want this to be clear. PEFCO  
12 should be renewed for no more than one year, at  
13 the end of which Congress should evaluate PEFCO's  
14 usefulness in the context of economic conditions  
15 at the time and with an eye towards steering  
16 risk-taking back to the commercial entities that  
17 profit from its activity. Thank you.

18 CHAIRMAN REED: Thank you very much,  
19 Veronique. We really appreciate that. Again, I  
20 want to underscore the deals with China were  
21 under a previous administration before we had a  
22 program on China. So thank you for that. I now

1 would like to call on Stacey Facter. Please  
2 introduce yourself for the record and begin your  
3 five minutes of remarks.

4 MS. FACTER: Hi. I am Stacey Facter,  
5 the SVP for Trade Products at BAFT, Bankers  
6 Association for Finance and Trade, an  
7 international trade association. Chairman Reed  
8 and members of the Board, I want to thank you for  
9 the invitation to speak today on behalf of BAFT's  
10 member banks.

11 BAFT's Structure Trade Export Finance  
12 Committee covers EXIM and other structured trade  
13 and export finance programs. It consists of more  
14 than 35 banks of all sizes, smaller, regional,  
15 global, including U.S. and non-U.S. banks. When  
16 I put out the question about providing comments  
17 on this Federal Register notice, we received  
18 overwhelming support for submitting a comment  
19 letter and highly positive feedback for  
20 continuing and maintaining the partnership with  
21 PEFCO. I am pleased to confirm that we submitted  
22 our comment letter yesterday, and it is now a

1 matter of public record.

2 Highlights of the letter include, as  
3 Mr. Cruse mentioned earlier, PEFCO does not have  
4 origination capabilities and, therefore, does not  
5 compete with the banks. It provides increased  
6 liquidity, particularly important in a post-COVID  
7 environment. It allows for U.S. exporters of all  
8 sizes to better compete with foreign suppliers  
9 that are generally supported by and even funded  
10 by their less conservative ECAs. Most  
11 importantly, it provides easier access to  
12 institutional investors, allowing for globally-  
13 competitive pricing, providing a place to  
14 distribute assets in a Basel III, capital-  
15 constrained and risk-rated asset environment.

16 And, finally, given their expertise,  
17 PEFCO adds value from a transaction structure  
18 perspective for banks, for transactors, for  
19 exporters, and especially for the small- and  
20 medium-sized exporters. Therefore, BAFT and its  
21 members are highly support of EXIM Bank and its  
22 partners, including its essential partnership

1 with PEFCO to ensure a fully-functioning and  
2 highly-competitive export credit agency in the  
3 USA to support U.S. exports and U.S. stocks.  
4 Thank you for your time.

5 CHAIRMAN REED: Thank you very much,  
6 Ms. Facter. Now we will call on Patrick Gang.  
7 Please introduce yourself for the record and  
8 begin your five minutes of remarks.

9 MR. GANG: Thank you very much,  
10 Chairman Reed, and thank you to yourself and the  
11 rest of the Board members and, of course, the  
12 entire EXIM Bank team for taking the time to  
13 review this important relationship and the  
14 pending renewal.

15 I'll preface my comments by noting  
16 that BofA is a shareholder of PEFCO and we also  
17 provide banking services to PEFCO. My role here  
18 at Bank of America is that I am the Global Head  
19 of Export Finance, so I look after all of our  
20 geographies and various export credit agencies  
21 around the world. So I certainly have a unique  
22 position to be able to comment on competition and



1 the various structures that make up ECA financing  
2 and how that fits into what you, as EXIM Bank, is  
3 doing.

4 So I'll be referencing several of the  
5 key messages in the August 12th published BAFT  
6 letter on this topic, which we do feel certainly  
7 represents the majority sentiment across the  
8 banking community. As previously mentioned,  
9 PEFCO's mission is to provide supplemental  
10 liquidity beyond traditional commercial bank  
11 lenders. We believe PEFCO plays an important  
12 role in facilitating incremental U.S. dollars to  
13 EXIM financing, particularly during times of  
14 challenging credit cycles like we're in now.  
15 This enables American exporters and their  
16 respective importers to receive further price  
17 stability and the potential to obtain more  
18 competitive financing when sourcing U.S.  
19 products. Very simply put, the additional  
20 liquidity and the additional supplies from PEFCO  
21 make U.S. exporters more competitive when  
22 financing options are essential to win contracts

1 with foreign competition.

2 PEFCO notably, through its secured  
3 notes program, expertly mobilizes institutional  
4 capital to indirectly invest in EXIM guaranteed  
5 financing. To be clear, we feel private sector  
6 participation for EXIM financing is actually  
7 enhanced with PEFCO involvement since relatively  
8 few PEFCO investors through its secured notes  
9 program would directly fund EXIM-guaranteed  
10 assets due to the normal structural limitation.  
11 We feel PEFCO bridges that gap and brings  
12 additional supplies to the market. Those new  
13 investors that PEFCO brings to the table -- which  
14 may result in lowering the prevailing interest  
15 rate for EXIM assets -- creates improved  
16 economics for EXIM borrowers and our client. In  
17 short, the PEFCO mandate supports our goal of  
18 providing clients with the most competitive  
19 structures available when leveraging EXIM  
20 financing.

21 Additionally, PEFCO has extensive  
22 experience structuring and funding EXIM

1 transactions that support a wide variety of small  
2 businesses across the U.S. Some of these  
3 entities might have a smaller banking network so  
4 certainly, PEFCO deal participation effectively  
5 ensures that those competitive funding rates can  
6 be transpired across a number of different  
7 outlets as opposed to the largest money center  
8 banks in the U.S.

9 It's important to note that PEFCO's  
10 role, in the broader ECA landscape, is not  
11 unique. Many of the ECAs have similar  
12 government-linked conduits that really have been  
13 established to ensure price efficiency. And I  
14 think that's the important point we want to note  
15 today is price efficiency. How can we get to the  
16 most important metrics, you know, for borrowers  
17 of EXIM products and users of EXIM products.

18 Some examples internationally included  
19 are certainly Swedish Export Credit in Sweden,  
20 Finnish Export Credit, FEC, in Finland, and KFW  
21 in Germany. The list is quite long, but I'll  
22 just name a few. And certainly -- we certainly

1 feel that PEFCO has established a model that is  
2 really quite effective.

3 It's also important to note that PEFCO  
4 does not compete with commercial banks, and we  
5 can say that here today. I think it's been  
6 mentioned multiple times that they have no  
7 origination capability. We call them, they don't  
8 call us in terms of the point of contact, and  
9 it's when we think it can be a helpful solution  
10 for our client. PEFCO is often used as an  
11 important benchmark for transactions or  
12 syndications that might constrain lenders'  
13 balance sheets because of the regulatory and  
14 various Basel issues that have already been  
15 mentioned. So we do certainly feel that PEFCO  
16 crowds in other investors and other potential  
17 participants to really enable streamlined  
18 execution.

19 So with all that being said,  
20 considering liquidity in a credit-challenged  
21 environment created by COVID-19, the EXIM-PEFCO  
22 partnership and PEFCO's funding capacity becomes

1 even more important to navigate the uncertain  
2 credit cycle ahead.

3 Once again, thank you all for the time  
4 today, and I would be happy to talk through any  
5 other questions at the end of the call. Thank  
6 you, Chairman Reed.

7 CHAIRMAN REED: Thank you very much  
8 Patrick, very much appreciate all of our external  
9 participants. And the final one is Stephen  
10 Greene. Please introduce yourself for the record  
11 and begin your five minutes of remarks.

12 MR. GREENE: Good morning. This is  
13 Steve Greene from ATRAFIN, American Trade  
14 Finance. ATRAFIN is a U.S. finance company that  
15 operates as a specialized lender from our base in  
16 Connecticut. We have a master guarantee  
17 agreement with EXIM Bank. We focus on medium-  
18 term loans for foreign buyers of U.S. capital  
19 goods and services. ATRAFIN has been doing this  
20 for 15 years.

21 We fill an important gap in the  
22 market. Most of the U.S. exporters we support

1 are U.S. small businesses. The projects we  
2 finance are very important to their success, and  
3 this business is their path to growth. We  
4 finance projects that typically range from  
5 \$250,000.00 up to \$10 million. These projects  
6 are too small for the larger international banks.  
7 Additionally, the U.S. exporters are simply  
8 unable to take this risk, especially for five  
9 years or more in very challenging markets. Local  
10 bank financing is difficult for these buyers to  
11 obtain and very limited both in amount and in  
12 term. This presents a major obstacle for their  
13 ability to buy a U.S.-made machine.

14 With the changes in the economy due to  
15 COVID, credit is tighter than ever all over the  
16 world, and especially in emerging markets. And  
17 the financing supported by EXIM Bank is,  
18 therefore, more important than ever before. A  
19 project's refinance, despite being small, can be  
20 quite complicated and require specialized  
21 knowledge to successfully fund.

22 Then there's the location of these

1 foreign buyers. Many of the foreign buyers, we  
2 find, it's a location in sub-Saharan Africa, some  
3 in the Middle East, Eastern Europe, and Southeast  
4 Asia in addition to Latin America. We have a  
5 strong track record in financing these countries.  
6 To name a few countries, we have financed  
7 transactions recently in Zambia, Gabon, Nigeria,  
8 Kenya, Mauritius, Tanzania, Ukraine, Sri Lanka,  
9 Cambodia, Saudi Arabia, South Africa, India,  
10 Paraguay, and many more.

11 These are critical orders for the U.S.  
12 exporters to win. Financing is often the key  
13 advantage that enables the U.S. exporters to win  
14 the order. U.S. exporters are typically facing  
15 very tough foreign competition. A lot from China  
16 and also from Europe, the foreign competition  
17 offers financing, and if the U.S. companies do  
18 not, they will lose the business.

19 As you can see, ATRAFIN fills this gap  
20 in the market for these smaller complicated  
21 financing transactions in challenging markets  
22 that's so important to this U.S. exporter.

1                   That brings us to PEFCO, Private  
2                   Export Funding Corporation. ATRAFIN is not a  
3                   bank. We are a finance company. Unlike the  
4                   large banks, we don't have a traditional bank  
5                   balance sheet. We don't have funding in the form  
6                   of deposits. PEFCO makes what we do possible. I  
7                   have been working with PEFCO for about 25 years.  
8                   They are not and have never been competitive with  
9                   us in any way. The reality is exactly the  
10                  opposite. PEFCO is what makes us competitive.  
11                  PEFCO is what allows us to fill this critical gap  
12                  in the market that allows the U.S. exporters to  
13                  grow and compete. When we work with PEFCO, we  
14                  are able to offer competitive rates to the buyers  
15                  of U.S. capital goods and services, so that's a  
16                  big support to these small business exporters.

17                  Behind the scenes, PEFCO is quietly  
18                  enabling small business U.S. exporters to be  
19                  competitive against their foreign competition.  
20                  If PEFCO is not renewed, U.S. exporters will lose  
21                  business to their foreign competition. As a  
22                  result of this, ATRAFIN strongly supports the



1 renewal of PEFCO for another 25 years. Thank you  
2 very much.

3 CHAIRMAN REED: Thank you very much,  
4 Mr. Greene and again, I want to say thank you to  
5 our four presenters from stakeholder groups. And  
6 now we're going to turn back to our EXIM staff.  
7 Nicole Wharton, I invite you to present remarks  
8 on behalf of EXIM's Office of General Counsel.  
9 Please introduce yourself for the record and  
10 begin your five minutes of remarks.

11 MS. WHARTON: Thank you, Chairman  
12 Reed. Good morning. This is Nicole Wharton,  
13 Senior Counsel in the Office of General Counsel.  
14 As has been stated, PEFCO is seeking to have the  
15 EXIM Board of Directors renew the relationship  
16 between EXIM and PEFCO. That relationship is  
17 governed primarily by three agreements, the  
18 Guarantee and Credit Agreement, the 1971  
19 Guarantee Agreement, and the Standard Operating  
20 Procedures, the SOPs. I will provide a brief  
21 overview of these three documents.

22 The Guarantee and Credit Agreement is

1 one of the two foundational agreements that  
2 established the relationship between EXIM and  
3 PEFCO. It was entered into between EXIM and  
4 PEFCO on February 1, 1971 at the inception of the  
5 relationship. It was renewed on April 8, 1994  
6 and will expire on December 31, 2020. PEFCO is  
7 seeking a 25-year renewal of this agreement, the  
8 same length of time as the original agreement and  
9 its 1994 extension.

10 The Guarantee and Credit Agreement  
11 outlines the features and parameters of the EXIM-  
12 PEFCO relationship. Its most important element,  
13 as has been said before, is EXIM's guarantee of  
14 interest payments on PEFCO's secured notes.

15 In addition to the interest guarantee,  
16 the Guarantee and Credit Agreement gives EXIM a  
17 broad measure of supervision over PEFCO's  
18 operation. Pursuant to this agreement, EXIM  
19 approval is needed for PEFCO to engage in a  
20 number of activities, including issuing long-term  
21 debt of any kind, engaging in business unrelated  
22 to financing U.S. exports, and investing surplus

1 funds in asset types not specified in the  
2 agreement.

3 The Guarantee and Credit Agreement  
4 also entitles EXIM to representation at all of  
5 PEFCO's Board of Directors and Advisory Board  
6 meetings as well as full information regarding  
7 PEFCO's budget, financial condition, and  
8 operating results.

9 The second foundational agreement  
10 between EXIM and PEFCO is the Guarantee  
11 Agreement, which was entered into between EXIM  
12 and PEFCO on December 15, 1971, which is  
13 generally referred to as the 1971 Guarantee.  
14 This agreement outlines the guarantee that EXIM  
15 provides to PEFCO on loans, whether these loans  
16 are made by PEFCO directly to the borrower or are  
17 purchased by PEFCO from an EXIM-guaranteed  
18 lender.

19 The most important element of the 1971  
20 Guarantee is that it permits PEFCO to put the  
21 loan payments from the borrower into a trust to  
22 use as collateral to secure the principal

1 payments for PEFCO's secured note issuances.

2 The other important feature of the  
3 1971 Guarantee is expedited claim payment 10 days  
4 from PEFCO demand.

5 The 1971 Guarantee Agreement, unlike  
6 the Guarantee and Credit Agreement, does not have  
7 an expiration date.

8 PEFCO is also seeking renewal of the  
9 Standard Operating Procedures between EXIM and  
10 PEFCO, the third primary agreement governing the  
11 relationship. Unlike the 1971 Guarantee and the  
12 Guarantee and Credit Agreement, the SOP is not a  
13 strictly legal agreement, but rather a statement  
14 of intent and expectation. It does not create  
15 any legally enforceable rights or obligations.  
16 However, both parties -- EXIM and PEFCO -- agree  
17 that failure by either party to materially comply  
18 with the terms of the SOP would, in and of  
19 itself, be sufficient grounds for the other party  
20 to choose to decline to participate in future  
21 transactions.

22 The SOP, in its current form, was

1 first entered into between EXIM and PEFCO in  
2 2002. However, prior to 2002, there were  
3 documents which played a similar role. The role  
4 of the SOP is to guide the day-to-day working  
5 relationship between EXIM and PEFCO. It serves  
6 to build out the legal framework established in  
7 the 1971 Guarantee and the Guarantee and Credit  
8 Agreement by providing more specificity with  
9 respect to PEFCO's functions and EXIM policy  
10 regarding these functions.

11 Primarily, the SOP directs PEFCO to  
12 support specific EXIM policy objectives while  
13 ensuring that PEFCO complements rather than  
14 displays its commercial sources of financing.

15 Among other things, the SOP details  
16 which types of assets are qualified to be placed  
17 in the secured notes collateral pool under the  
18 1971 Guarantee.

19 The SOP is updated and approved  
20 periodically by the EXIM Board in order to ensure  
21 that PEFCO can operate effectively in whatever  
22 the existing market environment is at the time.

1 It was last amended in October 2019 in order to  
2 reinstate PEFCO's authority to include EXIM-  
3 guaranteed floating rate notes purchased on the  
4 secondary market in the secured notes collateral  
5 pool.

6 This concludes my presentation. Thank  
7 you.

8 CHAIRMAN REED: Thank you very much,  
9 Nicole. I now invite Ken Tinsley to provide  
10 remarks from an EXIM Bank risk perspective. Ken,  
11 please introduce yourself for the record and  
12 begin your five minutes of remarks. Ken Tinsley?

13 (No response.)

14 CHAIRMAN REED: Mr. Tinsley?

15 DIRECTOR BACHUS: Chairman, maybe we  
16 could move on to --

17 CHAIRMAN REED: Yes.

18 DIRECTOR BACHUS: -- Lisa --

19 CHAIRMAN REED: -- we will --  
20 absolutely. So we will come back to Chief Risk  
21 Officer Ken Tinsley. We know this is  
22 technologically complicated to have these many

1 people speak at one time. So we will go back to  
2 Ken. I now invite Lisa Terry, EXIM's Chief  
3 Ethics Officer, to provide remarks from an ethics  
4 perspective. Lisa, please introduce yourself for  
5 the record and begin your five minutes of  
6 remarks.

7 MS. TERRY: Thank you. Good morning.  
8 Good morning Chairman Reed, members of the Board  
9 of Directors, PEFCO representatives, and  
10 stakeholders. My name is Lisa Terry, and I serve  
11 as EXIM's Chief Ethics Officer. I was appointed  
12 to this position in October 2013 and officially  
13 appointed by this Board on May 30, 2019. While  
14 EXIM has always had ethics officials, this is the  
15 first time EXIM has had a full-time, senior-level  
16 ethics officer who reports directly to the Board  
17 of Directors.

18 As part of EXIM's due diligence review  
19 for the renewal of its partnership with PEFCO,  
20 Chairman Reed asked me to review PEFCO's  
21 corporate governance structure and provide my  
22 opinion on its soundness from an ethics

1 perspective. As part of my review, I spoke with  
2 PEFCO's Executive Chairman, participated in PEFCO  
3 and EXIM briefings on PEFCO's operations, and  
4 reviewed pertinent governance documents. In my  
5 opinion, PEFCO has a solid governance structure  
6 that includes procedures aimed at protecting  
7 against potential conflicts of interest among its  
8 board members.

9 I would now like to highlight some of  
10 my findings. The Board constitution and  
11 qualifications. PEFCO's governance guidelines  
12 provide that the Board must consist of not less  
13 than 8 and no more than 14 Directors. The Board  
14 currently consists of 11 members which include a  
15 mix of management and non-management directors,  
16 stockholder representatives, and non-stockholder  
17 representatives. The guidelines include  
18 provisions that are aimed at ensuring integrity,  
19 diversity, relevant skill and experience, and  
20 independence among its members. These include  
21 that one --

22 MR. TINSLEY: Chairman Reed, can you



1 hear me?

2 MR. FLETCHER: Hello, Ken.

3 CHAIRMAN REED: I'm going to -- oh --  
4 please continue, Lisa.

5 MS. TERRY: These provisions include  
6 that one, that we, as the Directors, must be  
7 unaffiliated, independent Directors; two, the  
8 Board must affirmatively determine that an  
9 unaffiliated, independent Director does not have  
10 any direct or indirect material relationship with  
11 the company that would impair his or her  
12 judgment; three, candidates to the Board must be  
13 free of conflict of interest and confirm annually  
14 that they are free from conflicts; and four, the  
15 company's code of conduct applies equally to  
16 employees and members of the Board alike. Such  
17 criteria provide a good deal of protection from  
18 unwanted conflicts.

19 The governance guidelines also provide  
20 that EXIM has a right to have two representatives  
21 present at all meetings of the Board and the  
22 Executive Committee. In this regard, EXIM serves

1 as an informal check on PEFCO's operations.

2 In my opinion, all of these guidelines  
3 are designed to ensure that the Board operates  
4 ethically.

5 Next, Board duties. The Board serves  
6 in an oversight role that has ultimate  
7 responsibility for the company's operations.  
8 Notably, the Board is not responsible for  
9 approving or otherwise opining on transactions  
10 that come to PEFCO for consideration. That  
11 function occurs solely at the operational level  
12 pursuant to an EXIM PEFCO standard operating  
13 procedure which was just discussed. The SOP --  
14 which allows for little flexibility in the  
15 financing model and whether or how a loan is  
16 approved -- provides the mechanism for loan  
17 pricing and similar terms. It is mostly an  
18 automated process, and EXIM sets the parameters  
19 for the financing model. As such, the Board is  
20 not able to influence which transactions receive  
21 PEFCO support. Indeed I am advised -- and as Mr.  
22 Aldrich mentioned this morning -- matters such as

1 loan pricing are not discussed at Board meetings,  
2 and transactions are brought to the attention of  
3 the Board only in the context of quarterly  
4 activities.

5 On to compensation. The Board's  
6 Compensation and Management Development Committee  
7 recommends to the Board for its approval the form  
8 and amount of compensation to be paid Directors.  
9 Only non-management Directors receive  
10 compensation for Board service. Directors  
11 receive an annual retainer for service, a  
12 quarterly fee for attending Board meetings, as  
13 well as fees for attending committee meetings.

14 The Committee is also responsible for  
15 evaluating performance of the president and  
16 recommending compensation.

17 Compensation is reviewed annually by  
18 the Committee, which performs market surveys of  
19 salary trends. PEFCO has no equity incentive in  
20 its compensation package. During the course of  
21 my review, I did not find any aspects of PEFCO's  
22 compensation structure concerning.

1                   This concludes my remarks. I will be  
2                   glad to answer any questions. Thank you very  
3                   much.

4                   CHAIRMAN REED: Thank you, Ms. Terry.  
5                   Do we have our Chief Risk Officer Ken Tinsley now  
6                   available to present comments?

7                   MR. TINSLEY: I think I'm connected  
8                   now, Madam Chairman. Can you hear me?

9                   CHAIRMAN REED: Yes, sir. Thank you.  
10                  And thank you for taking time from your vacation  
11                  to join us today.

12                  MR. TINSLEY: Thank you, and my  
13                  apologies. I was having some technical  
14                  difficulties, and my apologies for not making my  
15                  presentation in a timely fashion. So anyway,  
16                  good morning, Chairman Reed. Good morning  
17                  Director Bachus and Director Pryor.

18                  My name is Ken Tinsley, and I am the  
19                  Senior Vice President and Chief Risk Officer of  
20                  the Bank. As Chief Risk Officer, I report  
21                  directly to the Chairman and am responsible for  
22                  all risk to which EXIM is exposed.

1                   The primary focus of my comments will  
2                   be an analysis of the risk I believe PEFCO poses  
3                   to EXIM and the U.S. taxpayer. I think, first of  
4                   all, I need to define risk, because oftentimes  
5                   when one defines risk, the focus is entirely on  
6                   vulnerabilities. Risk is defined as the  
7                   uncertainty in meeting an objective. Uncertainty  
8                   entails not just vulnerabilities but also  
9                   opportunities. Thus, my analysis requires an  
10                  assessment of both.

11                 Some of what I have to say you've  
12                 already heard the same sorts of things from the  
13                 prior speakers, but I have to include those  
14                 comments just in terms of explaining very fully  
15                 how I assess the risk or uncertainty associated  
16                 with PEFCO.

17                 By way of background, PEFCO is a  
18                 public-private partnership that has been  
19                 operating successfully since its inception  
20                 approximately 50 years ago. Its equity capital  
21                 comes totally from private sector shareholders  
22                 and through the retention of income generated

1 from its operations. Its current shareholder  
2 group is comprised of 26 commercial banks, a  
3 financial services company, and 6 industrial  
4 companies.

5 PEFCO's annual reports are available  
6 to the public and provide an adequate level of  
7 transparency including details about its funding  
8 and lending activities and its agreements with  
9 EXIM.

10 PEFCO provides a source of liquidity  
11 for EXIM transactions when needed, without which  
12 there would likely be less funding capacity among  
13 commercial lenders and private capital available  
14 to support EXIM transactions. Less capacity  
15 would likely result in less exports and less  
16 deployment of private capital and export  
17 transactions. Simply put, lenders under EXIM  
18 programs are able to sell EXIM-backed loans to  
19 PEFCO providing a source of liquidity to lenders  
20 that, in turn, permits them to make additional  
21 EXIM Bank-backed loans. Such funding is  
22 particularly beneficial for smaller lenders who

1 have limited capital and are more active in  
2 transactions involving small, medium-sized  
3 enterprises.

4 I view PEFCO's engagement of private  
5 capital in support of EXIM's mission as the chief  
6 opportunity accruing to EXIM and the U.S.  
7 taxpayer. Thus, without PEFCO, opportunity lost.  
8 PEFCO does not take credit risk in the  
9 transactions it funds or purchases from lenders.  
10 Rather, it relies exclusively on EXIM's  
11 underwriting and its 100 percent undertaking of  
12 the risk in that regard.

13 PEFCO manages its liquidity and  
14 interest rate exposures through a combination of  
15 solicitor borrowings, secured and unsecured long-  
16 term debt issuances, and interest rate  
17 derivatives. The secure note borrowings are a  
18 source of what I view as the chief vulnerability  
19 to EXIM and the U.S. taxpayer. Under a Guarantee  
20 and Credit Agreement originally signed in 1971,  
21 payment of interest on the secured notes is fully  
22 guaranteed by EXIM in return for a fee paid to

1 EXIM by PEFCO. It is noteworthy the secured  
2 notes are fully backed by collateral assets held  
3 in a trust arrangement.

4 If EXIM has to make an interest  
5 payment pursuant to the 1971 Agreement, there is  
6 a requirement on the part of PEFCO to reimburse  
7 EXIM through a variety of measures including the  
8 use of unpledged securities, cash, and possible  
9 capital calls.

10 The 1971 Agreement with PEFCO provides  
11 EXIM with a broad measure of control over many  
12 aspects of its lending and funding activities.  
13 For example, the Agreement gives EXIM the right  
14 to have a presence at PEFCO's Board meetings and  
15 rights to receive information on its budget,  
16 financial condition, and operating results.  
17 Further controls are contained in an operating  
18 agreement with EXIM.

19 As evidence of its prudent risk  
20 management, including its partnership with EXIM,  
21 PEFCO has the same triple A credit rating as the  
22 U.S. Government. The risk of default and loss



1 associated with a triple A-rated entity is  
2 extremely low. Thus, in my view, the  
3 vulnerability associated with the 1971 Agreement  
4 is substantially mitigated.

5 In conclusion, working in partnership  
6 with EXIM, PEFCO efficiently and effectively  
7 mobilizes private capital in support of U.S.  
8 exports as a supplement to the financing  
9 available directly through EXIM, thus creating  
10 this noteworthy opportunity. Based on its  
11 prudent management capital structure and close  
12 working relationship with EXIM, I believe the  
13 risk associated with PEFCO -- mainly the benefit  
14 or opportunity to mobilize private capital in  
15 support of mission -- warrant, if not exceed, the  
16 very modest vulnerabilities to EXIM and the U.S.  
17 taxpayer.

18 So that concludes my comments, Madam  
19 Chairman. Thank you.

20 CHAIRMAN REED: Thank you very much,  
21 Ken Tinsley, and my thanks to everyone who has  
22 made remarks. Again, we are sorry that we have

1 to limit it in this way to EXIM staff, PEFCO  
2 staff, PEFCO Board, and then four external  
3 stakeholders. But again, we have open  
4 opportunity for written comments, and we really  
5 invite the public and other respected experts and  
6 even members of Congress to send in comments and  
7 letters. And I know that my fellow Board members  
8 will join me in thoughtfully reviewing  
9 everything. And with that, I just want to let  
10 Directors Bachus and Pryor know I'm going to come  
11 to you in a second for you to ask your questions  
12 first, but I just want to -- because we are so  
13 limited, I really wanted to put a couple other  
14 things into the discussion today just so that we  
15 know.

16 And first, I had a conversation with  
17 our Acting Inspector General, Jennifer Fain, and  
18 she sent me a letter on August 10, and I would  
19 like to read this for everyone.

20 Dear Chairman Reed: On July 27, 2020,  
21 EXIM announced the public review of its  
22 partnership with the Private Export Funding

1 Corporation. PEFCO was incorporated in April of  
2 1970 to assist the financing of U.S. exports  
3 through the mobilization of private capital as a  
4 supplement to the financing already available  
5 through EXIM's commercial banks and other lending  
6 institutions. PEFCO thereafter entered into a  
7 Guarantee and Credit Agreement with EXIM in  
8 February 1971. The parties amended the agreement  
9 in March 1971 and April 1994. Because it  
10 terminates on December 31, 2020, PEFCO recently  
11 requested that EXIM renew the Agreement. EXIM's  
12 Board of Directors scheduled an open meeting on  
13 August 13, 2020 offering stakeholders to provide  
14 comment on PEFCO's renewal request. After the  
15 renewal of the Agreement in 2014, some  
16 individuals criticized the relationship between  
17 EXIM and PEFCO, accusing PEFCO of self-dealing  
18 and expressing concerns that PEFCO is not subject  
19 to any oversight. Among other oversight  
20 mechanisms, Congress empowered the Office of  
21 Inspector General for EXIM to conduct internal  
22 oversight of any programs and operations of EXIM,

1 including its transactions with and supervision  
2 of PEFCO. Consistent with the statutory  
3 authority, we prepare an annual work plan that  
4 outlines the audit inspection and evaluation  
5 review priorities for the fiscal year. The plan  
6 --- updated on a quarterly basis -- categorizes  
7 reviews that EXIM's OIG has identified, as  
8 mandated by law, or of high or medium risk to  
9 EXIM. Due to resource constraints, mandatory  
10 audits and prioritization of higher risk issues,  
11 EXIM OIG has not yet conducted a review of PEFCO.  
12 EXIM OIG takes no position with respect to  
13 PEFCO's renewal request. Regardless of whether  
14 EXIM terminates or extends the agreement, EXIM's  
15 OIG reaffirms its independent authority to audit,  
16 evaluate, inspect and/or investigate any and all  
17 allegations involving EXIM's relationship with  
18 PEFCO. I hope this has clarified EXIM OIG's role  
19 in conducting oversight of EXIM's programs and  
20 operations. Please feel free to contact me with  
21 any additional questions or concerns. Thank you.  
22 Sincerely, Jennifer L. Fain, Acting Inspector

1 General.

2 So I just wanted to share that, and  
3 now I will call on Director Bachus for any  
4 questions that you would like to ask our  
5 panelists.

6 DIRECTOR BACHUS: Thank you, Chairman.  
7 I would like to ask some questions. I want to  
8 acknowledge Professor de Rugy's -- I got your  
9 testimony, Professor, yesterday, and, you know,  
10 some of the things that the Professor asked, I  
11 want to ask some of our panelists, because I  
12 think they are very important questions. She --  
13 and Professor, if I mischaracterize anything you  
14 say, just please interrupt me -- but Professor de  
15 Rugy has characterized PEFCO as a monopoly. And a  
16 monopoly, of course, as we all know, is an  
17 exclusive arrangement whereby the participants --  
18 in other words, the members of PEFCO -- have  
19 exclusive use of either a commodity or service,  
20 and it's not open to others. I would ask the  
21 PEFCO -- representatives from PEFCO, is PEFCO a  
22 monopoly, as the Professor has said in her

1       remarks? I'd open that up to any of --

2               MR. HOUGH: This is Gordon Hough, I'm

3       --

4               DIRECTOR BACHUS: Is it open to other  
5       commercial banks or is it exclusively for the use  
6       of the members? And is membership opened to  
7       other banks, other commercial --

8               MR. HOUGH: This --

9               DIRECTOR BACHUS: -- banks or  
10      entities?

11              MS. De RUGY: If I can add something.  
12      Actually --

13              MR. HOUGH: This is --

14              MS. De RUGY: So just a few points is  
15      that I did write it in my testimony. I did say  
16      it in my oral testimony, but I want to note that  
17      there is a -- one of the presenters before me  
18      actually acknowledged, without me saying it, that  
19      it was a monopoly.

20              DIRECTOR BACHUS: Okay. Are you --  
21      I'm sorry. I'm having trouble --

22              MR. HOUGH: This is Gordon Hough --

1 DIRECTOR BACHUS: -- hearing --

2 MR. HOUGH: -- from PEFCO.

3 DIRECTOR BACHUS: Yes. Is --

4 Professor, were you saying it is a monopoly?

5 MR. HOUGH: They can say categorically

6 on the lending --- is there a question --

7 DIRECTOR BACHUS: Go ahead.

8 MR. HOUGH: Yes.

9 DIRECTOR BACHUS: Just identify --

10 MR. HOUGH: This is Gordon --

11 DIRECTOR BACHUS: -- yourself for the  
12 record.

13 MR. HOUGH: -- Hough from PEFCO, and  
14 -- yes, sir, Gordon Hough from PEFCO, and I'm  
15 responsible for the lending activity. And I can  
16 say categorically that PEFCO makes our liquidity  
17 available on equal terms to shareholders and non-  
18 shareholders alike.

19 DIRECTOR BACHUS: Do others -- other  
20 than the --

21 MR. DUNNE: This is Tim Dunne.

22 DIRECTOR BACHUS: -- stakeholders --

1 do other commercial banks participate?

2 MR. HOUGH: Yes.

3 DIRECTOR BACHUS: Okay.

4 MR. HOUGH: And in fact, you heard  
5 from not -- well, not a commercial bank. You  
6 heard from one entity, Steve Greene from ATRAFIN,  
7 who is a regular user of PEFCO activities and  
8 services, and they are not a shareholder at all.  
9 There are a number of others.

10 MS. De RUGY: But all ---

11 MR. HOUGH: Yes, we do business with  
12 our shareholders, but we also do business with  
13 anyone who requests our services.

14 MS. De RUGY: The monopoly --

15 DIRECTOR BACHUS: And others --

16 MS. De RUGY: -- monopoly is --

17 MR. HOUGH: There are also other --

18 DIRECTOR BACHUS: Excuse me --

19 MS. De RUGY: Excuse me, but the  
20 monopoly --

21 DIRECTOR BACHUS: The other --

22 MS. De RUGY: -- is not in that



1 direction -- the monopoly did not go in that  
2 direction. The monopoly means that EXIM loan  
3 guarantees is only available to buy by PEFCO.  
4 There's no secondary market that is open to  
5 everyone like you find with SBA, like you find  
6 with other loan guarantee programs. And in fact,  
7 this is --

8 DIRECTOR BACHUS: Oh --

9 MS. De RUGY: -- one of the problems  
10 with monopoly is that it this is a situation that  
11 can actually happen and happens in the market  
12 naturally.

13 DIRECTOR BACHUS: Well, I'm just  
14 reading --

15 MR. DUNNE: This is Tim Dunne from  
16 PEFCO. Actually, yes, that's not correct. Other  
17 buyers, other banks can -- or lenders can  
18 purchase EXIM loans if they so choose. We're not  
19 an exclusive purchaser and the only purchaser of  
20 EXIM loans. However, as an entity, we ensure  
21 that -- to the extent there is needed  
22 supplemental capacity to buy these loans -- we

1 are there to do that. In fact, we have an  
2 arrangement with EXIM Bank that we have to  
3 allocate a minimum of \$800 million every year to  
4 purchase secondary long-term guaranteed loans.

5 MS. De RUGY: I'm sorry, but the other  
6 banks that are actually buying --

7 MR. DUNNE: I'd just like to add --

8 MS. De RUGY: -- the other banks that  
9 are buying EXIM guarantees don't have their  
10 interest rates on their notes guaranteed by EXIM,  
11 by taxpayers themselves. They'll -- and it just  
12 -- it's a completely exclusive arrangement to  
13 PEFCO that other commercial banks don't benefit  
14 from.

15 MR. DUNNE: Other commercial banks --  
16 this is Tim Dunne again -- other commercial banks  
17 have other sources of liquidity available to  
18 them. This just provides an ability for us to go  
19 to market in any market conditions. During normal  
20 times, liquidity tends to be priced relatively  
21 thinly and has less of an impact, in times of  
22 high market stress it becomes an important factor

1 in ensuring that we can fulfil our mission.

2 At the same time, as part of the SOP,  
3 there are specific requirements that we have to  
4 meet in order to avail ourselves of the secured  
5 notes program. Those requirements are detailed  
6 in the SOP itself in terms of which loans would  
7 qualify for secured note funding. We do do other  
8 loans, such as the Medium-Term Guaranteed  
9 Program, which we tend to use other sources for,  
10 and we do support a wide range of transactions in  
11 the market from that capacity. We're not  
12 exclusive and nor are we funneling everything  
13 through the secured note program.

14 MS. De RUGY: Mr. --

15 (Simultaneous speaking.)

16 MS. CONWAY: Excuse me.

17 (Simultaneous speaking.)

18 DIRECTOR BACHUS: If you -- if you  
19 would allow me to maybe ask the questions, and  
20 then you could dispute the answer, I think it  
21 might go a little better that way. And I do want  
22 to commend you for your exhaustive remarks. I

1 mean that sincerely, and I'm trying to -- I've  
2 tried to frame some questions based on what you  
3 have said, which I think are legitimate  
4 questions. And one of the questions you -- you  
5 know, I want to ask -- and this is me asking as a  
6 Director -- is the use of PEFCO limited to its  
7 shareholder entities, which would indicate a  
8 monopoly.

9 MR. HOUGH: And this is --

10 MS. CONWAY: This is Molly. Before --

11 MR. HOUGH: -- and this is PEFCO  
12 answering that question very straightforward and  
13 very simply. It is not restricted to the  
14 shareholders. It is open to any and all  
15 financial partners.

16 MS. De RUGY: Right. So --

17 DIRECTOR BACHUS: Okay. All right.  
18 My next --

19 MS. De RUGY: -- in the -- the  
20 question was directed to me. Mr. Cruse, an hour  
21 ago, said that PEFCO was indeed a monopoly.  
22 Second, EXIM gives PEFCO an exclusive guarantee

1 on interest payments. The fact that it comes  
2 with condition is actually the way it works  
3 always with grant and subsidies and privilege  
4 from the Government, that's absolutely the rule.  
5 Who else was PEFCO's benefit of EXIM guarantee on  
6 its interest payment? And by the way, you are  
7 asking to raise the guarantee in the current  
8 renewal of PEFCO. These are like unique  
9 conditions that are granted exclusively to PEFCO  
10 and to PEFCO alone.

11 DIRECTOR BACHUS: Well --

12 MS. CONWAY: Excuse me. This --

13 DIRECTOR BACHUS: -- let me --

14 MS. CONWAY: -- if I can please --

15 DIRECTOR BACHUS: -- go ahead.

16 MS. CONWAY: -- interrupt for a  
17 moment? This is Molly with the General Counsel's  
18 office. If we could please -- if each Director  
19 could please direct their question to one  
20 panelist and then that panelist -- everyone allow  
21 that panelist to please finish, turn it back to  
22 the Director to allow any other panelists to

1 respond, I think that will help this go a lot  
2 more smoothly. Thank you.

3 DIRECTOR BACHUS: Yes, thanks. And --  
4 yes, I'm just going by, you know, the -- I looked  
5 at both Black's Legal --- Law Dictionary and also  
6 Webster's, and I think what we're -- when we talk  
7 about a monopoly, and this might -- I'm going by  
8 these definitions -- I always thought that was,  
9 you know, as they say, exclusive use of the  
10 service or the commodity; in other words, in this  
11 case, liquidity. And it's my understanding by  
12 the answers from our panelists is that the use of  
13 PEFCO is not limited to its shareholders -- or I  
14 think the legal term is stakeholders. In fact, I  
15 know a bank that is headquartered here in Alabama  
16 that's not a stakeholder has informed me that  
17 they believe PEFCO has been helpful to them.

18 I guess another follow-up to that,  
19 it's also my understanding that any bank, and  
20 I've talked to a bank -- I'm not going to  
21 disclose -- we're not supposed to disclose our  
22 confidential conversations or financial

1 information -- but they believe they have not  
2 joined PEFCO because they believe that it  
3 actually is a negative that they -- that the  
4 PEFCO stakeholders actually, it's more of a  
5 liability than a benefit, which leads to my  
6 second question. The Professor talked about the  
7 dividends that -- that we're saving dividends.  
8 How much have you paid in dividends, say, in the  
9 last five years, and how attractive is a PEFCO  
10 share to the equity market? I mean, most banks  
11 have chosen not to join, even those that utilize  
12 your services. And I'll direct that to any of  
13 the stakeholders.

14 MR. SLADE: This is David Slade. I --

15 MR. NANDKUMAR: This is Raj Nandkumar  
16 from PEFCO.

17 MR. SLADE: I'm sorry. This is David  
18 Slade, the General Counsel. I just want to make  
19 it clear -- to remind PEFCO they don't need to  
20 disclose any confidential business information  
21 regarding their dividends unless that information  
22 is public. There's no need, obviously, to

1 respond.

2 DIRECTOR BACHUS: Well, the -- in the  
3 last -- you made those public, so --

4 MR. SLADE: Okay. I just want to make  
5 sure there's --

6 DIRECTOR BACHUS: Yes. Just what's  
7 been made public, how many dividends have been  
8 paid in the last five years? I mean, that  
9 information is in the public realm.

10 MS. De RUGY: So based on what I've  
11 seen on the public website, it has been -- when  
12 the board -- when basically EXIM was dormant,  
13 PEFCO was also, you know, having much less  
14 activity, and the fact that there weren't any  
15 dividends paid and relatively, you can say that  
16 those dividends are relatively modest. But the -  
17 - so -- but it's hardly the point that they have  
18 paid no dividends in the last five months. The  
19 fact is that they're entitled to a dividend, and  
20 that in and of itself is a problem considering  
21 that their shareholders are also the consumers of  
22 the service.



1                   DIRECTOR BACHUS: Okay. All right.  
2                   So no dividends paid in the last five years, am I  
3                   correct?

4                   MS. De RUGY: No, because EXIM was  
5                   non-functioning.

6                   DIRECTOR BACHUS: Okay. Well, I would  
7                   ask -- I'm just saying, Professor, you had raised  
8                   that they were getting the benefit of the  
9                   dividends, and I'm not -- I'm trying to ask some  
10                  questions, legitimate questions that you have  
11                  raised in your testimony. I'm not trying to be  
12                  agnostic. I mean I'm not trying to be  
13                  antagonistic, okay. Let me -- my final question  
14                  --

15                  MS. De RUGY: I appreciate it --

16                  (Simultaneous speaking.)

17                  MS. De RUGY: appreciate it but still,  
18                  the only one --

19                  PARTICIPANT: However, the question is  
20                  directed to PEFCO, though, the question is  
21                  directed to PEFCO, and PEFCO should answer the  
22                  question, not yourself.

1                   MR. NANDKUMAR: This is Raj Nandkumar  
2                   from PEFCO. Over the last five years, we have  
3                   not paid any dividends. That is public  
4                   information available on our annual report. Even  
5                   prior to 2015, when EXIM Bank went to its --  
6                   prior to EXIM Bank's challenge with the  
7                   reauthorization process, typically in a given  
8                   year, our dividends are limited to typically less  
9                   than 5 percent of our annual earnings. So the  
10                  share owners really derive benefits not from the  
11                  earnings that PEFCO generates, and which is not  
12                  passed on to them per se; really, share owners  
13                  benefit from the social value that PEFCO brings  
14                  to the equation in terms of being able to provide  
15                  balance sheet relief and liquidity so that they  
16                  can actually pitch and fund more transactions and  
17                  support the exports of U.S. products and  
18                  services. That's the value they --

19                 DIRECTOR BACHUS: Okay.

20                 MR. NANDKUMAR: -- derive from PEFCO,  
21                 not the earnings, and not the -- they're not a  
22                 publically-created corporation that has been

1 primarily established to enrich our share owners.  
2 That's just not the way it works.

3 DIRECTOR BACHUS: Right. And those  
4 benefits are not limited to the stakeholders is  
5 my understanding, the liquidity benefits.

6 MR. NANDKUMAR: We -- that is correct.  
7 We are agnostic in terms of who we work with both  
8 on the lending side as Gordon mentioned a short  
9 while ago. We will work with anyone and we offer  
10 the same pricing and consistent pricing and terms  
11 to everyone, that is just because an institution  
12 is a share owner doesn't mean they get better  
13 pricing. We offer the exact same pricing to  
14 everybody.

15 On the funding side, all of our fees  
16 are disclosed up front to -- based on the  
17 transaction we're engaging in. And we give the  
18 same fees to everybody whether they're share  
19 owners or not. So we are agnostic with who we  
20 work with both on the lending side and on the  
21 funding side.

22 Furthermore, of our 26 bank share

1 owners, only about half of them are active in the  
2 EXIM Bank space. Before -- and again, we don't  
3 make a preferential -- we don't give preferential  
4 treatment to any of our share owners whether  
5 they're active in EXIM space or not. Anyone who  
6 comes to us gets the same treatment, same pricing  
7 both on the lending side and the funding side.

8 DIRECTOR BACHUS: Okay. Now it's been  
9 reported publicly -- I'm going by that -- that  
10 you've been in a bit of a financial bind right  
11 now. How do you expect to work out of that and  
12 how long do you think it'll take? And am I  
13 correct in saying that you've been somewhat  
14 limited in the liquidity that you can supply to  
15 the commercial market?

16 MR. NANDKUMAR: That is correct,  
17 Director. We have -- we make no secret of that.  
18 The last five years have been challenging for  
19 PEFCO. We would like to very much have -- and  
20 our balance sheet has shrunk over the last five  
21 years given EXIM Bank's lack of ability to  
22 originate transactions greater than \$10 million.

1 Now we estimate it will take us a couple of years  
2 to return to profitability but again, that's not  
3 the primary objective. Our primary objective is  
4 to support the exports of U.S. products and  
5 services.

6 We have critically entrusted and are  
7 working with EXIM Bank on the small business  
8 front supply chain and working capital  
9 transactions. And if we can -- as we are able to  
10 participate on those transactions, it will enable  
11 us to return to profitability sooner rather than  
12 later. Banks have a serious need for PEFCO's  
13 balance sheets. This is not something that PEFCO  
14 came up with. Banks have been coming to us,  
15 lenders have been coming to us, small business  
16 lenders included, they have been coming to us  
17 asking us to get involved in the supply chain and  
18 working capital spaces, and PEFCO very much wants  
19 to be involved in those transactions, which will  
20 enable us to return to profitability sooner  
21 rather than later.

22 DIRECTOR BACHUS: Okay. All right.

1 One final question --

2 MR. NANDKUMAR: And --

3 DIRECTOR BACHUS: I'm sorry, go ahead.

4 MR. NANDKUMAR: No, please go ahead.

5 DIRECTOR BACHUS: Okay. I think it's  
6 been mentioned by -- I know Patrick Gang  
7 mentioned loans to, I guess -- I think he  
8 characterized it as frontier markets. You know,  
9 Congress has mandated that EXIM, in the  
10 reauthorization, that we assist American  
11 exporters that are making long-term export  
12 transactions in sub -- and I'm going to use his  
13 example -- to sub Saharan Africa. We're under,  
14 actually, a mandate to support those exports.  
15 And Patrick mentioned that they do those exports,  
16 and he also mentioned -- and I think he's  
17 absolutely right -- that following the global  
18 financial crisis and the implementation of Basel  
19 III -- and I think Senator Toomey would know this  
20 -- the bank regulations made commercial banks  
21 almost very reluctant to fund long-term  
22 transactions in especially difficult or frontier

1 or risky markets including sub Saharan Africa.  
2 And it's my understanding from talking to the  
3 staff here at EXIM, we're obviously trying to  
4 comply with the congressional mandates to help  
5 our exporters export into Africa. I think we all  
6 -- there have been several published articles,  
7 including one in The Economist magazine, that  
8 China has made that a number one priority. I  
9 think it's commonly known by anyone who reads any  
10 financial source that Africa is our fastest  
11 growing market, I mean, in the world of -- the  
12 population is expected to double the --  
13 economically, it's the fastest-growing area in  
14 the world.

15 And yes, from everything I've heard,  
16 PEFCO is essential if we're going to comply with  
17 this mandate. And I think, Professor, you would  
18 agree that U.S. needs to export into these  
19 markets, and even if we disagree on that, we're  
20 under a mandate to do that. And I would like  
21 some comment from either our Bank staff or our  
22 stakeholders and then maybe Professor De Rugy,

1       you could comment on the importance of those  
2       exports, the sub Saharan Africa, use that as an  
3       example. Anybody?

4               MS. De RUGY: Well, I mean --

5               (Simultaneous speaking.)

6               MR. GREENE: Hi, this is Steve Greene  
7       from ATRAFIN. I just want to make a brief  
8       comment. We are very, very focused on sub  
9       Saharan Africa. I would actually say it's our  
10      primary focus, your small business and sub  
11      Saharan Africa. And we simply cannot do it  
12      without the support of EXIM Bank and PEFCO. It's  
13      -- we're entirely -- that's critical to us so --  
14      and our entire focus is sub Saharan African,  
15      small business. We do other markets, but we have  
16      an office in South Africa. Our CEO is based in  
17      South Africa, and we're trying to build business  
18      in Africa to support small business U.S. exports  
19      to sub Saharan Africa. Thank you.

20              DIRECTOR BACHUS: Okay. And yes, I  
21      think we're -- we, as a member of the Board, you  
22      know, I've had several people that have contacted



1 me and said PEFCO is actually essential if we're  
2 to support these long-term transactions by our  
3 American exporters to sub Saharan Africa, and  
4 we're under a congressional mandate to do so. So  
5 we're sort of between a rock and a hard place.

6 MS. De RUGY: So --

7 DIRECTOR BACHUS: Last question. Go  
8 ahead.

9 MS. De RUGY: This is a question. So  
10 I mean as you know, I think, you know, we should  
11 have a free market system and not supervise  
12 exports. But as I said before, if the stated  
13 goal is to compete with China, we shouldn't be  
14 attempting to be extending loans and by  
15 extension, PEFCO's portfolio shouldn't be mostly  
16 in countries -- higher-income countries where  
17 there's a lot of capital available. And while I  
18 take for -- so I think the goal of having more of  
19 EXIM's activity in Africa actually would be --  
20 would better suit the goal of competing with  
21 China, for instance. Whatever -- no matter how I  
22 feel about that, that said, I am sorry, but I am

1 going to have to be skeptical. I mean I take the  
2 word of everyone for what they say they do, but  
3 the data speaks for itself; 86 percent of PEFCO's  
4 assets are in airplanes. More than 40 percent  
5 are in OECD countries. Four percent of PEFCO is  
6 in small businesses. And these numbers, I mean  
7 they mean something.

8 And finally, to go back to the  
9 monopoly question once and for -- and once and  
10 for all, if a single electric company operating  
11 in a market makes its electricity available to  
12 anyone who wants to buy that electricity -- you  
13 see the analogy with what PEFCO described, it's  
14 making its liquidity availability -- does that  
15 electric company that is alone in that market and  
16 protected by the government, is it not a  
17 monopoly? Yes, it is. So PEFCO is, in fact, a  
18 monopoly.

19 DIRECTOR BACHUS: Okay. Thank you,  
20 Professor. Are you saying, Professor --

21 MR. HOUGH: Director Bachus?

22 DIRECTOR BACHUS: Yes. Identify

1       yourself.

2                   MR. HOUGH:   Yes.   Director Bachus,  
3       this is Gordon Hough from PEFCO, and I'd like to  
4       address two comments, one with respect to the  
5       aviation exposure and the other to geography,  
6       getting to your sub Saharan Africa example.

7                   PEFCO is totally agnostic to  
8       industries and geographies.   Our role, our  
9       function is to support the financial intermediary  
10      that needs liquidity to fund these transactions.  
11      Yes, without question, there is a high  
12      concentration of aviation loans in PEFCO's  
13      portfolio.   There's a very simple explanation for  
14      that.   Number one, there's a very high  
15      concentration of aviation loans in EXIM's  
16      portfolio, so it would only stand to reason that  
17      a large percentage of PEFCO's business would be  
18      in that space.

19                   Secondly, aircraft -- commercial  
20      aircraft costs a lot of money, wide-body Boeing  
21      aircraft costs in excess of \$150 million a throw.  
22      Banks do not -- often do not want to clog up

1       their balance sheets with multiple loans for  
2       wide-body aircraft and thus, they look to PEFCO.  
3       PEFCO becomes an attractive outlet for those  
4       loans. So again, yes, we have quite a bit of  
5       that.

6                       With respect to geography, I think as  
7       EXIM's initiatives to expand business in sub  
8       Saharan Africa, we will see a higher percentage  
9       of those loans coming to PEFCO in due course.  
10      There is something of a lag factor but, you know,  
11      we do not discriminate or look for loans in  
12      particular marketplaces. In fact, from time-to-  
13      time, we've had banks approach us and said, could  
14      you be the lender on this transaction, because we  
15      don't have a country limit or -- Myanmar, for  
16      instance. We can't do this transaction in  
17      Myanmar because our bank won't -- doesn't want  
18      to be affiliated with it, but yet we have a  
19      relationship with the exporter, EXIM Bank is  
20      going to support the transaction. We'd like to  
21      this done. Can PEFCO make their liquidity  
22      available? And we say, gladly. Thank you.

1 MS. De RUGY: So Director --

2 DIRECTOR BACHUS: Thank you. Well,  
3 you know --

4 (Simultaneous speaking.)

5 DIRECTOR BACHUS: Let me comment  
6 first, if I could. Yes. I think we're all --  
7 you know, there are variances whether you're  
8 Republican, a Democrat, whether you're an  
9 exporter, whether you're just a citizen, whether  
10 you're employed and manufacturing and exporting,  
11 I think we're all concerned about the trade  
12 business. I mean it's something that ought to  
13 concern all of us, and we do have a surplus in  
14 aircraft. It's our number one export.  
15 Agriculture is, as far as contributing to the  
16 surplus, it's our number one valued export. And  
17 I know we're criticized for supporting those  
18 transactions, but at the same time,- you know, in  
19 my mind, we ought to be celebrating that we are  
20 the world's greatest exporter of aircraft. I  
21 know it's been used against the Board. When I  
22 was Chairman of Financial Services, I heard the

1 same criticism. But it's frustrating that  
2 sometimes, to me, that our successes are used as  
3 a basis of criticizing the Bank.

4 MS. De RUGY: Director --

5 DIRECTOR BACHUS: Let me ask one more  
6 question. And Professor, you did say now is the  
7 time to revisit the 50-year relationship between  
8 EXIM Bank and PEFCO, and I know, you know, when  
9 you visited the Board a few months ago, you  
10 specifically said that we needed to have a  
11 hearing on this. And let me tell you that I  
12 agree with you 100 percent, and that's what we're  
13 doing today. And I'm trying to give you an  
14 opportunity to express your views and then have  
15 our other panelists to answer those views. And I  
16 hope you are taking my actions as a positive,  
17 because it is now -- you're remarks, and now is  
18 the time to revisit the 50-year relationship  
19 between EXIM Bank and PEFCO, I agree with you.  
20 And that's what we're trying to do here today. I  
21 really mean that sincerely, and I applaud you for  
22 bringing these issues up. I do.

1                   The Professor -- and I have to  
2 apologize, I think aren't we proposing a -- she -  
3 - you know, she says at 25-year extension.  
4 That's not what we're proposing, is it, EXIM  
5 staff?

6                   CHAIRMAN REED: Director Bachus, that  
7 is -- the purpose of this -- that is the purpose  
8 -- Chairman Reed. That is the purpose of this  
9 discussion today and, of course, as we continue  
10 on and get further comments. So we are -- will  
11 formulate our views on this in due course. Thank  
12 you.

13                  DIRECTOR BACHUS: Yes. But I'm  
14 saying, you know, she raised the thing about, you  
15 know, an extension for 25 years is it's too long  
16 of an extension. I tend to think she's right  
17 about that. Are we proposing a 25-year  
18 extension?

19                  CHAIRMAN REED: We've not proposed  
20 anything yet, sir.

21                  DIRECTOR BACHUS: Okay. All right.

22                  CHAIRMAN REED: This is to inform our

1 discussion just kind of as we prepare for looking  
2 at the document that we will craft.

3 DIRECTOR BACHUS: Yes. I know, you  
4 know, some of our transactions, I'm aware that  
5 they do extend for two, three, four years, so I  
6 can understand that. But I don't think we've had  
7 any transactions that are going to last more than  
8 seven years at the most, and I think the  
9 Professor raises a legitimate point that if --  
10 and I didn't know where the 25 years came from,  
11 but it just concerns me.

12 MS. De RUGY: Director Bachus, the 25  
13 years came up because in the history of PEFCO,  
14 there have only been two reauthorizations: once  
15 when it was created -- and it was authorized for  
16 25 years -- and then when it was reauthorized, it  
17 was 25 years. So, 100 percent of the  
18 reauthorizations so far have been 25 years. So  
19 it's not crazy to think that maybe it's going to  
20 be another 25 years.

21 DIRECTOR BACHUS: Okay. Well, I agree  
22 with you. I think 25 years is -- I don't think



1       that that would -- I don't think that's the right  
2       thing to do; okay?

3               MS. De RUGY: And I want to thank you  
4       because I really appreciate -- I absolutely  
5       appreciate the effort and giving me a voice, and  
6       I'm sorry if sometime I come off as a little  
7       aggressive. You have to understand it's like --  
8       it feels it's kind of like me, you know, against  
9       a lot of stakeholders. And so I have to put some  
10      energy, and I have -- as everyone who knows me, I  
11      have a lot of passion about this.

12             DIRECTOR BACHUS: Thank you. Well,  
13      you know, one thing that's great about America is  
14      we have the right to speak out and criticize the  
15      actions of our government, and that's what you're  
16      doing. You're -- this is democracy in action and  
17      Senator Toomey and others have expressed the same  
18      concerns that you have, and -- but we are trying  
19      to address those here today. So thank you.  
20      That's all the questions I have.

21             CHAIRMAN REED: Thank you very much,  
22      Director Bachus, and thank you to everyone. I

1 will now ask Director Pryor if she would like to  
2 have some question time.

3 DIRECTOR BACHUS: But I would like to  
4 -- chairman, I would like that the Professor's  
5 remarks and the letter -- I don't have the letter  
6 from Senator Toomey. I'd like you to distribute  
7 those to all those concerned today.

8 CHAIRMAN REED: Absolutely, Director  
9 Bachus, and we will also be placing this  
10 transcript on our website as well, so absolutely.

11 DIRECTOR BACHUS: Thank you.

12 CHAIRMAN REED: Director Pryor.

13 DIRECTOR PRYOR: Thank you, Chairman  
14 Reed. I'm cognizant that it is already one  
15 minute passed our end time, so could you please  
16 instruct if I can make a few comments and ask a  
17 few questions, and if folks are willing to stay  
18 on the line longer?

19 DIRECTOR PRYOR: I am and I think  
20 Director Bachus will be, so I hope all of our  
21 panelists -- if panelists cannot stay on for  
22 another half an hour until 12:30, please speak up

1 right now.

2 DIRECTOR BACHUS: It's my  
3 understanding, Chairman, this -- this is Director  
4 Bachus -- that we had until 12:00 or 1:00 Eastern  
5 time, which would be almost an hour, but I could  
6 be wrong about that.

7 DIRECTOR PRYOR: No. It's -- so  
8 Spencer, it's noon now, 1:00 your time in Central  
9 Time, but this was a two-hour meeting. We've  
10 just hit the noon mark.

11 DIRECTOR BACHUS: Oh, I thought it was  
12 --

13 CHAIRMAN REED: Can anyone -- if there  
14 is someone who cannot stay, would you please let  
15 us know right now?

16 (No response.)

17 CHAIRMAN REED: Thank you.

18 DIRECTOR PRYOR: Okay. Great. Thank  
19 you, Chairman Reed and, you know, especially for  
20 calling this public meeting today to -- so that  
21 we could discuss and hear from a variety of  
22 stakeholders and the PEFCO representatives

1 themselves. You committed from the beginning of  
2 your tenure as Chair of EXIM to be more  
3 transparent, and that includes this public  
4 hearing among others that confirm that.

5 Just one quick comment that comes to  
6 mind as I'm listening to all of this. You know,  
7 I am all for government that works for the people  
8 and programs that work for the people, for  
9 business, for industry, anything that helps us  
10 gain a competitive edge. But as a taxpayer, I  
11 don't get to pick and choose what or where I'd  
12 like to see my taxpayer used. Frankly, that  
13 entities like the USDFC and EXIM exist and  
14 generate returns for the U.S. taxpayer, sometimes  
15 I feel our intentions may be better -- or our  
16 attentions may be better directed elsewhere and  
17 not fixed on things that, you know, that aren't  
18 or that do not help American -- both the American  
19 public and industry.

20 So, you know, I think we've heard  
21 clearly from banks and entities of all sizes  
22 today regarding medium-term, long-term, and

1 short-term debt that we are helpful as is PEFCO.

2 A few weeks ago, you know, Jim Cruse  
3 and I led a stakeholder discussion with a number  
4 of the folks present today and others as well to  
5 discuss this relationship and the upcoming  
6 renewal of our arrangement. You know, they all  
7 demonstrated strong support for the continued  
8 existence of PEFCO, so during the discussion, I  
9 kept hearing over and over, quote, or unquote,  
10 important tool in their toolbox, flexibility in  
11 funding efficiency facilitate transactions that  
12 help support U.S. exports, especially in times of  
13 crisis. So we're in one of those moments now and  
14 on a scale that we haven't seen before in our  
15 lifetimes with this Coronavirus pandemic, I'm  
16 wondering if one of our participants today, maybe  
17 Steve Greene, if Bank of America is still on the  
18 line, any of the others, maybe somebody could  
19 please talk a little bit about how EXIM and PEFCO  
20 worked together to weather previous financial  
21 crises that they've seen in their tenure with  
22 their organizations. Could someone address that,

1 please?

2 MR. GREENE: Sure. This is --

3 DIRECTOR PRYOR: Steve Greene?

4 MR. GREENE: -- Steve Greene from  
5 ATRAFIN. I'll just -- I'll speak very quickly on  
6 this, but yes, I mean we've been through other  
7 financial crises in the past. And those times,  
8 EXIM Bank becomes more critical than ever,  
9 because all over the world, banks' liquidity  
10 starts to decrease. They don't want to fund  
11 these projects. If companies want to buy U.S.  
12 equipment, especially smaller and medium-size  
13 companies were selling, and smaller and medium-  
14 size companies that are buying, that whole trade  
15 is really dependent on these banks' liquidity.  
16 As it dries up, the EXIM Bank's financing, backed  
17 by PEFCO, is more critical than ever. Without  
18 these tools, we can't fill that gap in the  
19 market, and these trade transactions do not  
20 happen. Thank you.

21 DIRECTOR PRYOR: Okay. Thank you,  
22 Steve.

1 MR. GANG: I'd love to comment as  
2 well. It's Pat from Bank of America.

3 DIRECTOR PRYOR: Yes, please, Pat.  
4 Thank you.

5 MR. GANG: Yes. And certainly working  
6 through a number of crises, you know, PEFCO does  
7 become more relevant as bank liquidity starts to  
8 dry up; right? This happened in '08. It  
9 happened, you know, with one of the Euro crises,  
10 and it's happening now. There has been a massive  
11 need for corporate debt and various debt around  
12 the world, and banks are stressing liquidity as  
13 we manage, you know, the current crisis. And  
14 that's really where PEFCO comes tremendously  
15 important, and really what PEFCO is doing is  
16 pooling through their secured notes program and  
17 others, you know, pockets of liquidity to be able  
18 to offer that to the market from more non-  
19 traditional sources. So, you know, creating that  
20 price deficiency and really sourcing, you know,  
21 outlets for U.S. Government and U.S. EXIM-  
22 sponsored debt is really a huge benefit for the

1 exporters, and we're ensuring that stability  
2 translates to U.S. EXIM-guaranteed financing.

3 And there might be times where, you  
4 know, banks are more aggressive on funding and,  
5 you know, PEFCO rates are higher, and we keep it  
6 on balance sheet. There might be times where  
7 it's certainly stressed from a balance sheet  
8 perspective.

9 So PEFCO's role is instrumental in  
10 terms of the optionality and the ability to  
11 manage the credit cycles. So, you know, their  
12 usage will ebb and flow. You know, they're  
13 always relatively consistent, you know, across a  
14 number of outlets but, you know, certainly now is  
15 a time we need them. And I think it's really  
16 important, you know, to act in a sophisticated  
17 manner to source capital markets investors, you  
18 know, so that we can deliver that for American  
19 exporters and American companies that are trying  
20 to sell overseas.

21 MS. De RUGY: Director Pryor, if I can  
22 add something quick?



1 DIRECTOR PRYOR: Yes, please.

2 MS. De RUGY: I understand -- I mean,  
3 I understand the argument that, you know, when  
4 we're in a crisis, there's a need for liquidity  
5 and that's the role of government-backed loans,  
6 and government institution may actually be  
7 warranted. But the thing is that American  
8 market, the American capital market, America is  
9 not always in crisis and yet PEFCO is always --  
10 it's always there.

11 And it's also worth -- I mean we're --  
12 I think we're in a vacuum here. It is worth  
13 remembering that 90 percent, on average, of the  
14 commercial aircraft, those that are made are made  
15 without any government backing. There's plenty  
16 of capital to go around during the good times,  
17 and yet we're talking as if, you know, planes  
18 would never be sold if it weren't for the  
19 government entity.

20 So I think we have to be -- you know,  
21 put numbers in perspective and be circumspect  
22 about the role that a certain entity plays. And

1 then we need to ask what happens when there is  
2 maximum liquidity in the market like there was  
3 the last four years. And I understand that the  
4 shareholders of PEFCO don't want the crisis to go  
5 to waste.

6 But I certainly hope that the current  
7 crisis, which is horrendous for everyone at a  
8 personal level, at a business level, at an  
9 economic level. I mean the sheer -- that's  
10 unfolding in America is not actually used to  
11 renew something that will not be needed when  
12 we're out of this crisis. And this is why,  
13 actually, I suggest a one-year extension with  
14 reviews on actually the time and the liquidity at  
15 a time when we're doing this review.

16 DIRECTOR PRYOR: Thank you, Veronique.  
17 I hear you; 90 percent yes, but also would imply  
18 that there truly is 10 percent of the market that  
19 really does need us so -- but I will take your  
20 comments under consideration, absolutely.

21 Another question --

22 MR. KAPLAN: This is Harry Kaplan.

1 DIRECTOR PRYOR: Yes.

2 MR. KAPLAN: This is Harry Kaplan.

3 Should -- if I may --

4 DIRECTOR PRYOR: Yes.

5 MR. KAPLAN: -- have an opportunity  
6 just to respond? And we, from ATRAFIN -- I'm the  
7 CEO from ATRAFIN. We're a small business. And  
8 effectively, we rely on PEFCO and -- EXIM Bank  
9 and on PEFCO in times not of crisis. We're a  
10 small business and we need them for our existence  
11 and to expand the offering into Africa;  
12 particularly, that's an area that we dominate and  
13 -- that we're dominating. And without PEFCO, and  
14 not in times of crisis -- in times of crisis, we  
15 certainly yes, and not in times of crisis. And  
16 we don't do aircraft. We do the small-type  
17 transactions.

18 So I would say that EXIM Bank and the  
19 relationship with the EXIM Bank and PEFCO is  
20 absolutely paramount to our existence and for us  
21 to assist the multiple small business exporters  
22 in the USA. I just would like to respond.

1                   DIRECTOR PRYOR: Thank you so much.

2       No. I appreciate that and that was where I was  
3       leading. One of my focus areas here at EXIM,  
4       which most of you may know, it is -- has some of  
5       the most challenging markets in the world, and  
6       that is sub Saharan Africa. Harry, with your  
7       comments, I wonder if you might have just as  
8       example or an anecdote of a particular exporter  
9       or small business that we could discuss publicly?  
10      I think it always adds a little added color  
11      instead of talking into the obtuse numbers to  
12      actually have a specific story. Is there anyone  
13      that comes to mind that, you know, might not have  
14      proceeded but for?

15                  MR. KAPLAN: Absolutely. We're doing  
16      an agricultural project right now in Tanzania,  
17      and it's about \$4.5 million, and without the EXIM  
18      Bank and the PEFCO support, I believe this  
19      project would not have happened. And you're  
20      always competing, particularly in the African  
21      market, against other resources but without the  
22      ability to access finance through ourselves

1       utilizing PEFCO and the EXIM Bank relationship,  
2       that deal wouldn't have happened. And that was  
3       multiple tractors going into an agricultural  
4       area, agricultural farm in Tanzania. So --

5               DIRECTOR PRYOR: Okay.

6               MR. GREENE: This is Steve Greene.

7       Let me just had one more case that may be  
8       interesting, is we financed a 10 million dollar  
9       project in Gabon for a small business company in  
10      the United States that produces rail products.  
11      And this company, it was their very first export  
12      in the world, and they won the business because  
13      of EXIM Bank. It was \$10 million. It was their  
14      very first export.

15              DIRECTOR PRYOR: Okay. Great. That's  
16      wonderful. I love to hear that, so thank you for  
17      sharing. And I just also wanted to note that  
18      yes, I know we're -- right now we're in one of  
19      these unfortunate times of crises but yes, it is  
20      true that when we're not, you know, our business,  
21      we tend to be countercyclical. We all know this.  
22      That's not necessarily a bad thing at all, but I

1 still believe that if I were to ask BAFT, and I'd  
2 like to ask Stacey Factor to comment here, if I  
3 were to ask BAFT if their membership felt that  
4 EXIM, in any way, was crowding out the private  
5 commercial banking sector, wouldn't we be the  
6 first ones to hear about it? Stacey, could you -  
7 - if you're still on the line, could you just  
8 comment about how many members you have and, you  
9 know, because I really take it very seriously  
10 indeed that we are here to supplement, not  
11 supplant the private market. So if you would  
12 care to comment, I'd appreciate your comments.

13 MS. FACTER: Sure. I'd only like to  
14 reiterate what I said earlier, that when I opened  
15 up the discussion with our Structure Trade Export  
16 Finance Committee that represents more than 35  
17 banks, not just U.S. banks but banks around the  
18 globe, there was overwhelming support, and there  
19 was a lot of discussion with those banks in  
20 developing the letter that we did to MEP that, in  
21 fact, there is so much added value that comes  
22 through not just the EXIM relationship but the

1 partnership between EXIM and PEFCO.

2 And I think one thing that we ought to  
3 think about is, well, that hasn't been mentioned  
4 is, you know, many of these transactions have  
5 longer tenures, and the longer tenure  
6 transactions require not just the export-import  
7 bank guarantee but also the funding and the  
8 mechanisms that PEFCO brings forth, then the  
9 ability to place a lot of the transactions into  
10 the institutional marketplace which would not  
11 work otherwise.

12 So to me, and to my constituents, and  
13 having been, by the way, a former banker as well,  
14 so I have been in this role now for seven years,  
15 I have not heard one, frankly, negative comment  
16 that there isn't benefit in especially broader  
17 use of the toolkit and that, you know -- and  
18 PEFCO, frankly, is not just a funding mechanism  
19 but as we said earlier, it's also an organization  
20 that has years and years of experience in  
21 understanding how to structure these very  
22 specific transactions to make it work for the

1 U.S. exporting community.

2 MR. RODRIGUEZ: Director --

3 DIRECTOR PRYOR: Thank you.

4 MS. De RUGY: -- can I add just one  
5 small thing. I mean I'm going to come off as an  
6 economist here, and -- but it's -- you know, it's  
7 unsurprising the beneficiary of a government  
8 program, whether it's a special privilege, a  
9 monopoly, whether it's a subsidy or any of these  
10 things, a loan guarantee, actually will  
11 acknowledge the benefits to them. I totally  
12 recognize.

13 But from an economics perspective, and  
14 when you actually measure on net the impact on an  
15 economy and on an industry, the fact that  
16 beneficiaries are actually reporting and  
17 witnessing that they're receiving a benefit is  
18 not a sign that it's not a net negative to the  
19 overall economy. And the academic literature on  
20 export subsidies certainly makes it very clear  
21 that it's a small but a net negative on the  
22 economy.



1                   And I would argue that it's very  
2                   likely that PEFCO is exactly the same and that  
3                   the crowding out actually is happening in terms  
4                   of lack of innovation precisely because of this  
5                   exclusive relationship.

6                   So it's not to say that the people who  
7                   are reporting -- who are actually reporting  
8                   getting a benefit -- I mean I'm not surprised,  
9                   but it doesn't mean -- we should not lose sight  
10                  of the fact that that is not a sign that it's  
11                  beneficial for America.

12                 DIRECTOR PRYOR: Thank you. I  
13                 appreciate your comments, Veronique.

14                 MR. NANDKUMAR: This is Raj --

15                 DIRECTOR PRYOR: I'm sorry. Okay.  
16                 I'm sorry. I have one more comment and one more  
17                 question --

18                 MR. NANDKUMAR: Director Pryor?

19                 DIRECTOR PRYOR: -- and I know that  
20                 Chairman Reed would like to speak as well, so if  
21                 you could be quick, Raj, please. Raj?

22                 MR. NANDKUMAR: Yes, thank you. One

1 point that has not been discussed here -- yes,  
2 this is Raj from PEFCO -- one point that has not  
3 been discussed here is the long nature of the  
4 transaction cycle. There was a point that was  
5 raised about competitiveness, et cetera, and the  
6 one-year reauthorization. As they sometimes  
7 themselves found out, a lot of the lenders want  
8 to know that -- they want reassurance that EXIM  
9 Bank will be around for the long haul before they  
10 can commit and engage in a transaction, and the  
11 borrowers want that comfort as well. They're not  
12 looking for comfort right now. They're looking  
13 for comfort five years from now, because as  
14 everyone knows, some of these transaction cycles  
15 are very long, governments change, policies  
16 change, priorities change, so when they engage in  
17 a transaction, they want to know that EXIM and  
18 thereby PEFCO will be around 5 years from now, 10  
19 years from now --

20 DIRECTOR PRYOR: Yes.

21 MR. NANDKUMAR: -- 15 years from now,  
22 etcetera, because the deal cycle for many of

1       these transactions is that long. Before --

2               DIRECTOR PRYOR: Agreed. You're  
3       making the point I was --

4               MR. NANDKUMAR: This was the same  
5       thing EXIM Bank went through from 2015 to 2019.  
6       They want reassurance that EXIM Bank will be  
7       around for the long haul; otherwise, the volumes  
8       will just start declining and they'll go with  
9       some other country, because they know China's  
10      going to be around and supporting their champion  
11      companies.

12              DIRECTOR PRYOR: Yes, thank you, Raj.

13              MR. NANDKUMAR: -- a lot of the banks  
14      --

15              DIRECTOR PRYOR: Thank you, Raj.

16              MR. NANDKUMAR: -- need assurance that  
17      PEFCO will be around so. Thank you, Director  
18      Pryor.

19              DIRECTOR PRYOR: Yes. No. Thank you.  
20      I -- you were -- you made the point that I was  
21      just about to make. We're going to move on now.  
22      I have just one more comment and perhaps one more

1 question. I just want to -- to Raj's point and,  
2 you know, to talk about a long-term commitment,  
3 we all know how important it was for us to get a  
4 historic seven-year reauthorization to provide  
5 assurances to the market that we're going to be  
6 around for the long haul. So I would just throw  
7 it out there but again, this is for our internal  
8 discussion as a Board that, you know, a one-year  
9 extension will not do good service to anyone. It  
10 might, in fact, provide the opposite and be a  
11 disservice to the industry. But it is something  
12 that having heard from Veronique, I am happy to  
13 weigh as this Board deliberates.

14 I also just want to quickly remind  
15 everyone of EXIM's mission and the rule of law,  
16 our charter, that we follow to implement that  
17 mission, and that is to support U.S. jobs through  
18 exports. It's no secret that when we were  
19 nominated to become members of the Board there  
20 were about 95 export credit agencies in the  
21 world, and I think the latest count on that  
22 number is, you know, no one's going away. That

1       number has increased by 20.

2               Now I know that we have been directed,  
3       and I hope Chairman Reed comments on this, by  
4       certain members of Congress on the Senate and  
5       perhaps even the House side that, you know, we  
6       should engage with our fellow ECAs to disarm, if  
7       you will, you know, across the board. If we try  
8       to do that unilaterally, that's not going to be  
9       very helpful to U.S. exporters, even if it is  
10      only 10 percent of those exporters.

11              So I just wanted to ask Jim Cruse if  
12      he could clarify just one more quick thing,  
13      please. You talked about the ECAs and you talked  
14      about EXIM being the first to establish, you  
15      know, with multiple government agencies and the  
16      private sector, the PEFCO organization. And  
17      since that time, it seems to have spread to other  
18      ECAs. Could you just please comment just a  
19      little bit on that as you see it? And I know  
20      that it's something you've probably been  
21      tracking. Could you just go back to your early  
22      comment, your opening remarks and expand on that

1 a little bit more, please?

2 MR. CRUSE: Okay, yes. This is Jim  
3 Cruse, Director Pryor. The point being that the  
4 difference between originating a transaction and  
5 funding it and holding it to maturity, up until  
6 the financial crisis 10 years ago, most banks  
7 could do all of those functions. But with the  
8 new regulatory emphasis on keeping their  
9 intermediation to the medium-term, they can't.  
10 And that -- and since most ECAs, particularly in  
11 Europe, are dependent on banks for delivery and  
12 management of their resources, the Europeans have  
13 spent the last 10 years trying to find  
14 equivalents to PEFCO.

15 PEFCO itself has been approached by a  
16 variety of other ECAs to see if they could be  
17 willing to help the other ECAs or help -- We have  
18 a whole effort by multiple banks for some five  
19 years trying to set up a twin PEFCO.

20 And so almost -- now in Europe, you  
21 had the French changing their whole export credit  
22 system from being based on an insurance concept

1 to being based out of a national bank as part of  
2 its attempt to get to a funder.

3 So it is critical now that with the  
4 diversification and splitting of the functions  
5 between origination, funding, and holding, that  
6 the ECA has to have multiple entities; banks to  
7 originate, somebody else to fund and hold. We  
8 have that in the guarantee format with PEFCO and  
9 the banks. If we didn't have it, we would have  
10 to repeat it because on a competitive basis,  
11 that's how the guarantees and insurance work.

12 MS. De RUGY: Director Pryor, I think  
13 you misunderstood my point. If 10 percent of  
14 commercial for aircraft --

15 DIRECTOR PRYOR: Aircraft.

16 MS. De RUGY: -- but it's, let's be  
17 honest, on most years, especially when the  
18 economy is doing really well, EXIM only backs  
19 less than 2 percent of all exports. So it's much  
20 -- it's significantly smaller. Also, Mr. Cruse,  
21 more than 90 percent of the financing of PEFCO's  
22 most dominant sector was not impeded by Basel

1       III. And if PEFCO is only back-filing for what  
2       you claim, that commercial lenders don't do it  
3       because of Basel III, why is PEFCO's portfolio so  
4       full of assets that are not impacted by Basel  
5       III? I mean I'm really curious.

6               MR. CRUSE: All of PEFCO's assets are  
7       affected by Basel III.

8               DIRECTOR PRYOR: All right. Thanks.  
9       Thank you very much, Jim. I just -- I'm not sure  
10      about most of you, but I'm fairly grateful for  
11      PEFCO, because I don't think EXIM doing more  
12      direct lends is the way to go. And I really do  
13      feel that we work well. But having said that,  
14      nobody's perfect. We need to take a long hard  
15      look at this, and I'm sure that's exactly what  
16      we're going to do.

17              So with that, thank you all for  
18      answering my questions, and I'm going to turn it  
19      over to Chairman Reed now, who I'm sure has a few  
20      of her own. Thank you.

21              CHAIRMAN REED: Thank you very much.  
22      I will try to be quick. For the EXIM staff,



1 could you please talk about how we evaluate PEFCO  
2 interests and how risky is PEFCO to the taxpayer  
3 generally? So let's talk about how we evaluate  
4 PEFCO interests, is it risky, and how risky is  
5 PEFCO to the taxpayer generally? Can EXIM staff  
6 please respond?

7 PARTICIPANT: Maybe we start with Ken  
8 Tinsley.

9 CHAIRMAN REED: Jim Cruse, can you  
10 please comment?

11 MR. CRUSE: All right. The -- can you  
12 hear me? My system has disappeared on my screen.  
13 Can you hear me?

14 DIRECTOR BACHUS: Yes, Jim. We can  
15 hear you.

16 MR. CRUSE: Okay.

17 CHAIRMAN REED: Yes.

18 MR. CRUSE: All right. Basically, the  
19 risk exposure of EXIM Bank is the extra interest  
20 on the secured notes. That, in any one year,  
21 might be \$100 million. During the structuring of  
22 that risk, there is a set up where PEFCO, we not

1       only have the coverage of the institution of  
2       PEFCO, there's a 50 million dollar pool set  
3       aside, plus there's general over-  
4       collateralization.

5               PEFCO can speak more in detail to it,  
6       but the fact is the risk is less than one half of  
7       one percent of our portfolio. It is covered in  
8       multiple ways with belts and suspenders and  
9       overalls so that the effective risk is minimal.

10              And the real issue isn't the fact that  
11       there is some risk there, it is the fact of  
12       trying to evaluate is what the U.S. gets from us  
13       taking that risk worth it. And I think that's  
14       why we can talk about the degree of risk, and  
15       there is some. We consider it minimal. We  
16       consider it well-protected and almost non-  
17       classifiable in terms of a likelihood of non-  
18       payment. But we can't say that there isn't any,  
19       but that there are considerable benefits.

20              CHAIRMAN REED: Anyone else want to  
21       build on that?

22              MS. De RUGY: I would just -- it's

1       Veronique. I will just add something. There is  
2       something profoundly inconsistent. Even if  
3       there's no risk or very little risk and then it  
4       is that actually there is -- the private sector  
5       would be willing to engage, or it's high risk and  
6       that's why the private sector doesn't want to  
7       engage. I mean you can't have it both ways.

8               MR. CRUSE: But the issue isn't just  
9       risk. The private sector is mitigated, is  
10      concerned with the fact that the regulatory  
11      pressure, which I don't think you fully  
12      understand, constrains them to not taking long-  
13      term asset booking. Therefore, they have to find  
14      someone else to hold ten and fifteen-year paper;  
15      all right? And that's where PEFCO comes in. The  
16      risk that PEFCO is involved in -- the risk to us  
17      and the risk to PEFCO. PEFCO takes a funding  
18      financial risk on the liability side. As I said,  
19      ask anybody at Lehman Brothers if that isn't a  
20      real risk. They do not take credit risks.

21               For us, the extra risk involved in  
22      having PEFCO is a credit risk in the sense that

1 we have additional exposure. And so we can  
2 minimize our credit risk. They have their  
3 funding risk, and they can do it all with good  
4 management and good practice. But there is still  
5 risk, and the fact that they had been losing  
6 money the past few years illustrates the fact of  
7 what can happen when they can't manager their  
8 portfolio and balance their liabilities and  
9 assets.

10 So the shareholders do bare risk in  
11 PEFCO. We have a slight exposure risk, and we  
12 feel it is highly mitigated; two different risks,  
13 two different situations.

14 MR. TINSLEY: Chairman Reed.

15 CHAIRMAN REED: Thank you.

16 MR. TINSLEY: Ken Tinsley. Can you  
17 hear me?

18 CHAIRMAN REED: Yes, sir -- yes.

19 MR. TINSLEY: Sorry. I was having  
20 technical difficulties again. Really, I'd just  
21 like to associate myself with all the comments  
22 that Jim Cruse made with respect to, again,

1 particularly the vulnerabilities associated with,  
2 again, our relationship with PEFCO. But as I  
3 pointed out, and I think Jim Cruse also mentioned  
4 as well, you have to look at opportunities as  
5 well when you look at risk. And the  
6 opportunities, in my view, I think outweigh the  
7 very small risk relative to the vulnerabilities  
8 associated with the 1971 Agreement. And as Jim  
9 Cruse pointed out, we have all kinds of sort of  
10 controls related to that risk that minimize it.  
11 As well as we know, PEFCO is rated triple A by  
12 the rating agencies, which in and of itself,  
13 represents minimal sort of risk of default and  
14 loss.

15 So those are my comments related to,  
16 again, risk in the sense of opportunities as well  
17 as vulnerabilities. Thank you.

18 CHAIRMAN REED: Thank you very much.

19 MS. De RUGY: Can I add? Mr. Cruse,  
20 you're not getting an argument from me that PEFCO  
21 cannot lose. I mean PEFCO's losses are on EXIM  
22 which means on the taxpayer. And I -- and

1 honestly, I perfectly understand how, contrary to  
2 what you think, what PEFCO does and how this  
3 sector works.

4 CHAIRMAN REED: Thank you. On August  
5 4th, Speaker Newt Gingrich had a piece in The  
6 Hill, and he stated, "PEFCO keeps capital in the  
7 private sector and makes the execution of EXIM's  
8 financing programs more efficient. For U.S.  
9 exporters to compete with China for contracts in  
10 places such as Africa and Latin America, EXIM  
11 needs PEFCO to be operational to maximize its  
12 impact and leverage the private sectors." And he  
13 goes on about China.

14 As I mentioned previously, we now have  
15 this new mandate on China, a variety of the  
16 President's Cabinet Secretaries, including  
17 Secretary Pompeo, and National Security Advisor  
18 Robert O'Brien feel very strongly that EXIM is a  
19 tool in our Nation's trade toolbox but also in  
20 our national security toolbox. I know that  
21 Senator Cruz has spoken extensively and been  
22 focused quite a bit on China.

1                   And I have now presented twice to the  
2                   House China Task Force chaired by Congressman  
3                   McCaul of Texas. And that Task Force, for those  
4                   of you that don't know, has four key pillars;  
5                   national security, technology, economics and  
6                   energy, and competition. And it is my feeling,  
7                   just based on our interactions with them, that  
8                   they absolutely underscore this vital role. It's  
9                   a new day in our world for EXIM to be helpful.  
10                  So I would like for anyone on the call to please  
11                  comment on how PEFCO helps us get at these new  
12                  aims that we have. Just could we start with  
13                  PEFCO?

14                  MR. HOUGH: Sure. Again, Gordon Hough  
15                  for PEFCO, and as I've said several times -- I'm  
16                  sorry to repeat myself, but we do not have -- we  
17                  are agnostic with respect to geographies and to  
18                  the extent that I think our current position with  
19                  a concentration of exposure in China is  
20                  predicated upon the historical activity of EXIM  
21                  Bank in China. And clearly, as EXIM Bank takes -  
22                  - implements initiatives away from China and to

1 combat the Chinese threat, if you will, to the  
2 extent that our partners in the commercial  
3 banking sector and non-bank lenders come to us  
4 and seek our liquidity to support the EXIM-  
5 guaranteed transactions that would fall into that  
6 category, we'd only be too happy to fund them. I  
7 would hope if those initiatives are successful  
8 with EXIM Bank, that in three, four, five years,  
9 the composition of our portfolio will look  
10 considerably different. There is a lag period  
11 here people have to be aware of. I don't think  
12 it would be appropriate to be critical of PEFCO's  
13 portfolio in 2020 for loans that were funded in  
14 2013 or '14 that were fully supported by U.S.  
15 EXIM Bank and were deemed to be appropriate at  
16 the time. Thank you.

17 MS. BUSH: Chairman Reed --

18 CHAIRMAN REED: Does anyone --

19 MS. BUSH: Yes. Mary Bush. May I  
20 make a comment?

21 CHAIRMAN REED: Yes.

22 MS. BUSH: So, Chairman Reed, Director



1 Pryor, Director Bachus from my home state of  
2 Alabama, first of all, thank you so much for  
3 arranging for this discussion today. I also  
4 think it is very, very important that both EXIM  
5 and PEFCO be very transparent about what we do  
6 and how we help exporters in the United States  
7 and help business in the United States. That's  
8 extremely important now, yes, because of this  
9 crisis. It was important during the financial  
10 crisis, but it's always important, because we  
11 need to have a level playing field.

12 And the United States, as you know, is  
13 being challenged on many fronts. As countries  
14 have transformed from being developing to  
15 emerging economies, they are presenting more of -  
16 - more competition to United States business. So  
17 competitiveness, I think, is extremely important  
18 and that EXIM plays a vital role in helping our  
19 exporters compete, and PEFCO plays a supporting  
20 vital role.

21 I'm very happy, actually, to hear  
22 about the mandate with regard to sub Saharan

1 Africa, because China has made big inroads there  
2 as they have in Latin America, not only on the  
3 export side but also on infrastructure. So if we  
4 together, EXIM and PEFCO, can help our country,  
5 our business in terms of competing better there  
6 and establishing more of a foothold in sub  
7 Saharan Africa and other places, I think it is in  
8 our interest and the interest of the country and  
9 the interest of business.

10 You know, the way I think about PEFCO  
11 is we're part of the ecosystem of export finance.  
12 As was pointed out by Jim Cruse earlier, we were  
13 formed actually by EXIM, Justice, Federal  
14 Reserve, the U.S. Congress in order to bring  
15 capital and liquidity to these very important  
16 objectives of promoting U.S. exports and helping  
17 the business community. Thank you, Chairman  
18 Reed.

19 CHAIRMAN REED: Thank you, Mary, and  
20 thank you for presenting views as a Board member  
21 of PEFCO, very much appreciated.

22 So I guess is just more of a comment

1 but also any of the lawyers or those with  
2 knowledge on the line to comment, I take  
3 seriously any discussion of monopoly, and so  
4 PEFCO, it is my understanding that DOJ,  
5 Department of Justice Antitrust Division cleared  
6 PEFCO in 1969. Do we have any other comments on  
7 that? I learned this in my briefing. And then  
8 when it comes to --

9 MR. ALDRICH: Chairman Reed --

10 CHAIRMAN REED: Yes -- yes.

11 MR. ALDRICH: -- Chairman Reed.

12 Chairman Reed, Dick Aldrich. I wasn't working on  
13 PEFCO at the time, but that's not far away from  
14 it. The Justice Department did spend a  
15 considerable amount of time to be sure that we  
16 were not -- that, in fact, the structure of PEFCO  
17 did not lead itself to be some kind of a monopoly  
18 or other kind of mechanism to otherwise distort  
19 the market. As was mentioned earlier, for  
20 example, we are prohibited from marketing  
21 ourselves and are not permitted, in that respect,  
22 to compete with the banks. We need the banks to

1       come to us and as I say, we can't exercise our  
2       own initiative, which was viewed by the Justice  
3       Department as a very important factor in our  
4       creation.

5               The other point I mentioned earlier,  
6       we don't discuss pricing or other confidential  
7       information on loans with our board members,  
8       which include our stakeholders. And that's  
9       another critical point that Justice focused on,  
10      and it's been -- although the antitrust law, in  
11      many respects, has changed, those requirements  
12      continue to live with us.

13             CHAIRMAN REED: Thank you. I also --  
14      I know we've mentioned the Federal Reserve but  
15      also, I understand Treasury, DOJ, and Antitrust  
16      Division, and the IRS also were involved in  
17      establishing PEFCO.

18             Also, Congress, regarding its  
19      evaluation of PEFCO, I just want to be sure that  
20      everyone knows that Congress evaluated PEFCO via  
21      GAO on several occasions between 1973 and 1983  
22      and then expanded PEFCO's scope by authorizing

1 the sale of SBA loans in the Small Business Act  
2 of 2000. And that gets to my next point.

3 So we've talked about banks. We've  
4 heard -- thank you, again, for the presentation  
5 from American Trade Finance. But also, you may  
6 have noticed that I recently signed a memorandum  
7 with Rodney Hood, Chairman of the National Credit  
8 Union Administration. I'm solely dedicated to  
9 helping every company in our country be  
10 successful. We don't discriminate. We are  
11 required by law to judge every transaction as a  
12 Board, based on the reasonable assurance of  
13 repayment. Again, we are not in the profit-  
14 making business at all. Our mission is focused  
15 on supporting U.S. jobs yet when we're fully  
16 functional, we do give millions of dollars to the  
17 U.S. Treasury through the fees and interest that  
18 we charge.

19 But I just want to know how PEFCO  
20 would feel -- I feel that credit unions are that  
21 gateway to a lot of small businesses in our  
22 country. And when you are a mom and pop shop

1 thinking about entering this very competitive  
2 global marketplace, a credit union might be some  
3 place that you visit to figure this out. And so  
4 we, Rodney Hood and I, entered into our very  
5 first MOU to help educate in this way through the  
6 credit unions as well. How would PEFCO feel about  
7 having credit unions be added to any potential  
8 future agreements between EXIM and PEFCO?

9 MR. NANDKUMAR: Chairman Reed, this is  
10 Raj Nandkumar. Short answer, we would absolutely  
11 love it. We are -- as mentioned earlier, we are  
12 trying to increase our presence and, therefore,  
13 your presence in supporting small business  
14 exports and particularly for supply chain and  
15 working capital transactions. And having -- and  
16 on a personal note, having worked with credit  
17 unions in the past, they can be a considerable  
18 source of small business lending activity, and we  
19 would absolutely love that and would very much  
20 support that.

21 CHAIRMAN REED: Thank you so very,  
22 very much. And I know -- so I asked our leg.

1       affairs team to do a briefing with staff on the  
2       Hill and so Senator Lee had a question through  
3       his staff, and I'd like to ask that. PEFCO was  
4       largely on the sidelines for the 4-1/2 years when  
5       EXIM did not have a board quorum. Knowing that  
6       it is difficult to restart operations from a near  
7       full stop, do you have any concerns with PEFCO  
8       being competitive even with the renewal of EXIM's  
9       agreement with PEFCO? And then is PEFCO up to  
10      the task and ready to fulfil their role?

11               So I'd like to ask those and in  
12      grouping with that why 25 years versus 10 years  
13      or another timeframe? We've heard, you know,  
14      it's hard perhaps at one but if PEFCO could take  
15      on these questions generally. Thank you.

16               MR. NANDKUMAR: This is Raj Nandkumar  
17      from PEFCO again. There are a few recent -- one  
18      of the points I alluded to earlier, given the  
19      long transaction cycles, a lot of the borrowers  
20      need reassurance and comfort that EXIM Bank and  
21      PEFCO will be around to fund transactions not  
22      next year but 5 years, 10 years from now. There

1 are syndicated project loans, for example, which  
2 are greater than 15 years, and the borrowers want  
3 to know that PEFCO can support itself and  
4 continue to support their transactions 15-20  
5 years from now.

6 In addition, the rates agencies both  
7 rate PEFCO -- their model of rating PEFCO is a  
8 support space rating, that is how strong is the  
9 support provided by EXIM Bank, what they would  
10 see if it's renewed for a much shorter period,  
11 then the supports will be perceived as being  
12 lesser than it has been in the past, and that  
13 could affect as well.

14 But the primary reason is we --  
15 because of the lending cycle and the nature of  
16 the transaction, we need to demonstrate that we  
17 can be around to support transactions over the  
18 long haul and fund ourselves over the long haul.

19 MR. DUNNE: Chairman Reed, this is Tim  
20 Dunne. And to answer the first part of your  
21 question, yes, while EXIM was diminished in its  
22 capacity to support new transactions larger than



1 10 million, we did continue to support the  
2 medium-term guaranteed business during that  
3 entire period, and we did do a modest amount of  
4 purchases of loans from banks and non-banks on  
5 the secondary market. We did retain our  
6 operational capability, and we, of course, would  
7 look to ramp up as we get into opening up in the  
8 next chapter, as we continue our partnership with  
9 you. And in that role, although we probably have  
10 a couple tweaks to do to expand certain  
11 capabilities, we are ready to fund loans going  
12 forward for you.

13 MS. De RUGY: Chairman Reed, if I can  
14 just weigh -- I think we're missing --

15 CHAIRMAN REED: Sure.

16 MS. De RUGY: -- when we're talking  
17 about this, the length of the reauthorization, I  
18 think we're mixing two things; one's the ability  
19 of PEFCO to do business, and then the other one  
20 is to honor its portfolio. And those two things  
21 do not have to be together. I mean Treasury  
22 could take over PEFCO's portfolio if it's not

1 reauthorized and has to fold. The other thing  
2 that it can do is that PEFCO could actually be  
3 only operating as honoring its portfolio but not  
4 issue any new loans. And we've seen how it works  
5 with EXIM. And so I think we have to be careful  
6 not to confuse to say that, because a loan that  
7 is issued now is actually -- is a long-term loan  
8 and needs PEFCO itself should be authorized to do  
9 other loans, extend others and make other deals  
10 for a long period of time.

11 The other thing that I wanted to weigh  
12 in before I go is the -- you've mentioned -- if I  
13 understood you correctly, I mean it's been -- the  
14 last review, really, by the Justice Department  
15 was 1969. And do we really think that the  
16 commercial market hasn't evolved in any way since  
17 1969? I mean it -- and also, the GAO -- GAO  
18 ended its oversight, what, in the 80s. We're  
19 talking decades there, and I think, you know, I'm  
20 not -- I mean I think it's not unreasonable to  
21 say that it's time to bring a lot of light to  
22 PEFCO in many different forms, because not having

1       been reviewed for decades, it's just plainly  
2       unacceptable. Thank you.

3               MR. FRIEDMAN: Chairman Reed, this is  
4       Ben Friedman from Harvard. Can I address your  
5       question about the length of term of the  
6       Agreement?

7               CHAIRMAN REED: Sure -- sure.

8               MR. FRIEDMAN: Yes. My name is  
9       Benjamin Friedman. I'm a Professor of Economics  
10      at Harvard University and a longtime Director of  
11      PEFCO. I think we are all aware that the EXIM  
12      Bank has not been well-served and, therefore, the  
13      U.S. export community has not been well-served  
14      and, therefore, U.S. workers have not been well-  
15      served by the shortness of the leash on which  
16      Congress has kept EXIM Bank. As everybody on  
17      this call knows, EXIM was essentially out of  
18      business for most transactions for four years,  
19      and even though the Bank is now up and running  
20      again, it will still be some time before the  
21      pipeline is fully in place. So we will have had  
22      perhaps a 5, perhaps a 6-year period in which the

1 United States will have done, fortunately  
2 temporarily, what Director Pryor referred to as  
3 unilateral disarmament.

4 And I think we are all aware that it's  
5 not just the Chinese but the Europeans and others  
6 are high-fiving themselves all over the world and  
7 expressing astonishment that the United States,  
8 while professing an interest in competitiveness,  
9 would shoot itself in the foot. That's really  
10 what we've done by incapacitating the EXIM Bank  
11 for this lengthy period of time.

12 Now we're talking about how long to  
13 renew the agreement that will allow this adjunct,  
14 this facilitator of EXIM to function. And the  
15 key thing to keep in mind is that as we get close  
16 to the horizon of any agreement, it starts to  
17 come under scrutiny and doubt in the market. And  
18 so fortunately, as you mentioned before, Madam  
19 Chairman, Congress, in its wisdom, decided to  
20 extend the EXIM Bank this time for seven years.  
21 Well, that's terrific but I can assure that you  
22 that by the time we get to maybe the fifth or so

1 year of that agreement, EXIM's future will again  
2 be questioned and EXIM's ability to function will  
3 be impaired.

4 So I think we should not take too  
5 narrow a view of what it takes to keep something  
6 going, especially when the issues are not just  
7 technical, do we change this feature or do we  
8 change that feature, but these kinds of  
9 existential issues that we've been discussing  
10 this morning. Anytime we think that that's going  
11 to come up again within the next few years, then  
12 the ability of the market to rely on the  
13 mechanism is impaired. And just as we've seen  
14 currently and in the past few years, that's bad  
15 for EXIM. It's bad for U.S. exporters, and it's  
16 bad for U.S. workers. Thank you.

17 CHAIRMAN REED: Thank you very much.  
18 Just one final question, and thank you, sir, for  
19 your fiduciary duty on the board of PEFCO. My  
20 final question is -- so Jim Cruse, this one's  
21 probably for you, but again, we are charged in  
22 law to do things such as compete with other

1 export credit agencies and now neutralize China  
2 using our financing options. So we're here today  
3 to discuss PEFCO. Can you again quickly  
4 summarize how the rest of the 114 other known  
5 ECAs, what tools they have that we don't have or  
6 are similar to, and if PEFCO goes away, what does  
7 it mean for this explicit mandate we have to  
8 compete in the world?

9 MR. CRUSE: Okay. This is Jim Cruse  
10 again. I've had to switch to my phone because my  
11 computer went bye-bye. So I will speak directly  
12 to the point. As I've said before, that in the  
13 past 10 years, every ECA in the world has either  
14 developed a strong direct lending program which  
15 did compete with banks and has a philosophical  
16 issue here; or they have developed a funding  
17 mechanism for their guarantees and insurance.

18 Without PEFCO, we would have to try to  
19 replace it in some way, shape, or form if we  
20 wanted to be competitive. So we're not talking  
21 about whether we have the functions that PEFCO  
22 provides. The issue today is whether PEFCO

1 provides them, or we have to find somebody else  
2 to provide them, or we have to do them ourselves.  
3 Competitiveness demands that they're provided one  
4 way or another.

5 CHAIRMAN REED: Thank you. So with  
6 that, do my fellow Board members have any closing  
7 comments? Otherwise, we've been on this call now  
8 for almost three hours. Do -- Spencer Bachus or  
9 Judith Pryor, any closing comments?

10 DIRECTOR BACHUS: This is Director  
11 Bachus. I commend all the participants, and I've  
12 learned a lot here this morning, and I complement  
13 you, Chairman, on holding this public hearing.  
14 And I think we've had a very robust debate and  
15 we're better for it.

16 CHAIRMAN REED: Thank you.

17 DIRECTOR BACHUS: Thank you.

18 CHAIRMAN REED: Director Pryor?

19 DIRECTOR PRYOR: Chairman Reed, Thank  
20 you again for convening this, and I would just  
21 second what my colleague, Director Bachus has  
22 stated. It's -- you know, we can never hear

1 enough. I'm sure we could spend another three  
2 hours talking this in circles as we've spent much  
3 time reviewing these issues as they've come  
4 before us in the past and as they will moving  
5 forward. So I thought that was a wonderfully  
6 robust conversation, and I appreciate you opening  
7 this up to the public in support of your  
8 commitments to transparency. So thank you, again.

9 CHAIRMAN REED: Thank you -- thank you  
10 to the two of you and to all the participants  
11 today, and the staff, and please stay safe and  
12 have a nice lunch. And we will continue to work  
13 through this process, and we really appreciate  
14 everyone's time. Again, those in the public are  
15 welcome and invited to submit comments through  
16 the Federal Register. And thank you to our EXIM  
17 advisory subcommittee. I very much appreciate  
18 your focus on this and with that, everyone have a  
19 good day. Thank you so much. Bye-bye.

20 DIRECTOR PRYOR: Stay safe.

21 (Whereupon, the above-entitled matter  
22 went off the record at 12:55 p.m.)



A			
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In the matter of: Board Meeting

Before: Import-Export Bank of the United States

Date: 08-13-20

Place: teleconference

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