JEB HENSARLING, TX , CHAIRMAN

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

MAXINE WATERS, CA, RANKING MEMBER

June 5, 2013

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

Dear Mr. Gratacós:

The Subcommittee on Monetary Policy and Trade will hold a hearing entitled "Assessing Reform at the Export-Import Bank" at 10:00 a.m. Thursday, June 13, 2013, in Room 2128 of the Rayburn House Office Building. I am writing to confirm your invitation to participate at this hearing.

The hearing will focus on the assessing reform efforts at the Export-Import Bank since the 2012 reauthorization, including those that are required by statute, those that are being independently pursued by the Export-Import Bank, and others that have been recommended by other stakeholders. Please use your testimony to discuss these efforts.

Please read the following material carefully. It is intended as a guide to your rights and obligations as a witness under the rules of the Committee on Financial Services.

The Form of your Testimony. Under the Rules of the Committee on Financial Services, each witness who is to testify before the Committee or its subcommittees must file with the Clerk of the Committee a written statement of proposed testimony of any reasonable length. Please also include with the testimony a current resume summarizing education, experience and affiliations pertinent to the subject matter of the hearing. This must be filed at least two business days before your appearance. Please note that changes to the written statement will not be permitted after the hearing begins. Failure to comply with this requirement may result in the exclusion of your written testimony from the record. Your oral testimony should not exceed five minutes and should summarize your written remarks. The Chair reserves the right to exclude from the printed record any supplemental materials submitted with a written statement due to space limitations or printing expense.

Submission of your Testimony. Please submit at least 50 copies of your proposed written statement to the Clerk of the Committee not less than two business days in advance of your appearance. These copies should be delivered to: The Committee on Financial Services, Attn: Committee Clerk, 2129 Rayburn House Office Building, Washington, DC 20515.

Due to heightened security restrictions, many common forms of delivery experience significant delays in delivery to the Committee. This includes packages sent via the U.S. Postal Service, Federal Express, UPS, and other similar carries, which typically arrive 3 to 5 days later than normal. The United States Capitol Police have specifically requested that the Committee refuse deliveries by courier. The best method of delivery of your testimony is to have an employee from your organization deliver your testimony in an unsealed package to the address above. If you are unable to comply with this procedure, please contact the Committee to discuss alternative methods for delivery of your testimony.

The rules of the Committee require, to the extent practicable, that you also submit your written testimony in electronic form. The preferred method of submission of testimony in electronic form is to send it via electronic mail to fsctestimony@mail.house.gov. The electronic copy of your testimony may be in any major file format, including WordPerfect, Microsoft Word, or ASCII text for either Windows or Macintosh. Your electronic mail message should specify in the subject line the date and the Committee or subcommittee before which you are scheduled to testify. You may also submit testimony in electronic form on a disk or CD-ROM at the time of delivery of the copies of your written testimony. Submission of testimony in electronic form facilitates the production of the printed hearing record and posting of your testimony on the Committee's Internet site.

Your Rights as a Witness. Under the Rules of the House, witnesses may be accompanied by their own counsel to advise them concerning their constitutional rights. I reserve the right to place any witness under oath. Finally, a witness may obtain a transcript copy of his/her testimony given in open, public session, or in a closed session only when authorized by the Committee or subcommittee. However, by appearing before the Committee or its subcommittees, you authorize the Committee to make technical, grammatical, and typographical corrections to the transcript in accordance with the rules of the Committee and the House.

The Rules of the Committee on Financial Services, and the applicable rules of the House, are available on the Committee's website at http://financialservices.house.gov. Copies can also be sent to you upon request.

The Committee on Financial Services endeavors to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, or have any questions regarding special accommodations generally, please contact the Committee in advance of the scheduled event (4 business days notice is requested) at (202) 225-7502; TTY: 202-226-1591; or write to the Committee at the address above.

Please note that space in the Committee's hearing room is extremely limited. Therefore, the Committee will only reserve one seat for staff accompanying you during your appearance (a total of two seats). In order to maintain our obligation under the Rules of the House to ensure that Committee hearings are open to the public, we cannot deviate from this policy.

Should you or your staff have any questions or need additional information, please contact Aaron Ranck at (202) 226-3070.

Sincerely,

JOHN CAMPBELL
Chairman
Subcommittee on Monetary Policy
and Trade

JBTC/gwso

cc: The Hon. William Lacy Clay, Ranking Member

Statement of the Honorable Osvaldo Luis Gratacós

Inspector General

Export-Import Bank of the United States

before the

United States House of Representatives

Committee on Financial Services

Subcommittee on Monetary Policy & Trade

June 13, 2013 at 10:00 am

Good morning, Chairman Campbell, Ranking Member Clay, and distinguished members of this honorable Subcommittee.

Thank you for the invitation and opportunity to testify before you about the activities of the Office of Inspector General (OIG) and the programs and operations of Export-Import Bank (Ex-Im Bank) as it relates to Export-Import Bank oversight. Before I continue, I would like to thank the Almighty for this opportunity, my family, and the members of the Ex-Im OIG staff for their hard work.

I. Ex-Im Bank

Ex-Im Bank is the official export credit agency (ECA) of the United States. It supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes create and maintain jobs in the United States. Ex-Im Bank has programs to address short, medium, and long-term needs of exporters; assuming the credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. At the same time, Ex-Im Bank must safeguard

taxpayer resources by determining that there is a reasonable likelihood of repayment with respect to each of its transactions.

Ex-Im Bank is experiencing unprecedented growth – achieving three straight years of record authorization levels. In FY 2012, Ex-Im Bank authorized over $35 billion in export transactions – a new record high. This is in addition to the previous record high of $32 billion in FY 2011. Further, Ex-Im Bank's portfolio has increased by 82% since 2008 ($58.4 billion in FY 2008 vs. $106.6 billion in FY 2012). In the current Charter, Ex-Im Bank has authority to approve up to $140 billion in export transactions.

Naturally, this rapid growth in Ex-Im Bank's total portfolio exposure raises concerns as to Ex-Im's ability to manage this significant portfolio growth. Below in section III, we highlight some of the risks, observations, and challenges Ex-Im Bank faces as it continues this upward trend.

II. Ex-Im OIG

Ex-Im Bank OIG was statutorily created in 2002[1], but the Inspector General did not officially take office until August 2007. The OIG has achieved noticeable success in performing its statutory duties. Specifically, since FY 2008, the OIG has issued thirty-nine (39) audit and special reports containing one hundred and sixty-five (165) findings, recommendations, and suggestions for improving Ex-Im Bank programs and operations. Our investigative efforts have resulted in a number of law enforcement actions, including: sixty-seven (67) indictments and informations; thirty-two (32) convictions, thirty-five (35) guilty pleas entered in court; over three hundred and ninety-eight (398) management referrals for enhanced due diligence actions; and approximately $200 million in court imposed restitution, forfeitures, repayments, and cost savings efforts. All of this has been accomplished with a very modest annual budget of $4 million a year (since FY 2012) and a staff of twenty-one professionals.

[1] Export-Import Bank Reauthorization Act of 2002, P.L. 107-189, Sec 22 (June 14, 2002).

III. Operational Areas – Risks, Observations and Challenges

In order to manage its growing portfolio and to better meet export credit needs of the American exporters, it is our opinion that Ex-Im Bank needs to address some operational weaknesses and challenges it is facing. We believe that addressing these operational weaknesses and challenges would provide Ex-Im Bank with a more efficient and prudent capability to create and maintain jobs in the United States. Some of the most important risks, observations, and challenges Ex-Im Bank needs to address are:

- *Inefficient and Ineffective Information Technology (IT) Platform*. Ex-Im Bank still uses an ineffective, inefficient, and fragmented IT platform and infrastructure composed of several legacy systems and databases. These systems and databases do not effectively and accurately interface with each other – compromising data integrity, creating duplicative information, and creating unreliable files. Further, these systems make data mining burdensome and time consuming. Since 2012, Ex-Im Bank is engaging in an IT infrastructure modernization effort focused on replacing legacy systems and improving quality and access of its data. Under the Total Enterprise Modernization (TEM) initiative, Ex-Im is working on updating its IT infrastructure and streamlining its processes. The OIG will closely monitor this effort as new IT systems are rolled out to the staff in the future.
    - Ex-Im Bank lacks an end-to-end IT system that allows for seamless management of applications/files and flow of information within Ex-Im Bank and would allow different components within Ex-Im Bank to work on the same files at the same time from the same platform.
    - Ex-Im Bank lacks a comprehensive participant database that would allow it to capture and track all the participants (lenders, buyers, exporters, suppliers, brokers, agents, business references and others) involved at different transactions at any given moment in time. This weakness prevents Ex-Im Bank and our office from conducting effective forensic analysis to identify possible patterns in transactions.

- Because the IT platforms do not fully meet business and operational needs, Ex-Im Bank divisions and components have created subsequent data sub-systems to address the specific needs of that office or division. Some of these sub-systems require manual input of data and do not interface with Ex-Im Bank's main IT infrastructure creating additional data repositories.
- The above described IT system fragmentation creates a number of operational consequences for the Ex-Im Bank:
  - Unnecessary delays in approval of transactions;
  - data integrity issues (due to manual input or updates of data); and
  - Multiple data storage locations.

➢ *Develop a More Comprehensive Risk Management Framework to Manage Portfolio Risk and Monitor Market Trends*. Ex-Im Bank should enact a more proactive way to manage the risk of its growing portfolio in line with industry best practices. With the rapid growth of its portfolio – over $35 billion on undisbursed commitments as of end of FY 2012 – and decentralized risk management functions assigned to several parts of the organization, it will be prudent for Ex-Im Bank to develop a more comprehensive, centralized, risk management framework that is parallels commensurate with the growth of its portfolio. Specifically, Ex-Im Bank should:

- Establish a Chief Risk Officer or create a risk management office independent of program management as proposed by OMB Circular A-129, Section III.B.1.a.iii (Risk Management);
- Assign qualified and experienced staff to that office;
- Conduct periodic stress testing on its entire portfolio reflecting different market scenarios;
- Continue to refine its loss reserve allocation model; and

- Actively monitor industry, geographic, and obligor exposure levels or risk thresholds or indicators as proposed by OMB Circular A-129, Section III.B.1.a.ii (Performance and Other Indicators and Risk Thresholds).

- *Human Capital Planning and Resources*. In past Semiannual Reports to Congress, we have identified human capital planning and resources as one of the Management Challenges Ex-Im Bank is facing. While Ex-Im Bank's portfolio has increased by 82% since FY 2008, its staff has increased less than 11% in the same period (from 352 to 390).[2] Ex-Im Bank's portfolio growth strains Ex-Im Bank's resources in its underwriting but also in the asset monitoring function. This is particularly relevant given Ex-Im Bank's undisbursed but approved amounts as of the end of FY 2012 ($35 billion) mostly on project finance and direct loans.

- *Develop Performance Standards and Metrics for Programs and Products*. Ex-Im Bank has not developed annual performance plans or product performance metrics in order to properly quantify the effect and success of its products. Ex-Im Bank should develop these metrics in short and medium term products in order to determine whether:
  - the product is achieving the intended results
  - the product is reaching the intended audience
  - the marketing strategy is effective
  - the product is similar or more competitive than programs offered by other ECAs
  - the product should be altered or eliminated
  - acceptable levels of defaults and claims have been established
  - levels of defaults and claims should be improved
  - changes in original implementation strategies are needed

[2] *Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources*. GAO-13-620 (May 2013), p. 28.

- *Continue Efforts to Expand Small Business Participation*. Ex-Im Bank's charter dictates a twenty (20) percent small business participation goal of all of the authorizations every year. Ex-Im Bank has provided record small business financing in the last two years. However, this financing has not reached the Charter goal of 20%.

- *Continue Efforts to Expand Renewable Energy Products and Create Clean Energy Export Opportunities*. Congress has set a Renewable Energy mandate of ten (10) percent of all the authorizations every year. Ex-Im Bank has not met this goal yet, mainly because the renewable energy exports have not reached significant numbers (compared with the size of Ex-Im Bank's portfolio). Nonetheless, Ex-Im Bank continues to take a proactive approach in developing renewable energy specific products such as Solar Express, as well as reaching out to local companies such as wind and solar manufacturers.

- *Absence of Systematic Approach to Measure Customer Satisfaction*. Ex-Im Bank does not conduct customer satisfaction surveys on a regular basis. Customer surveys provide valuable insight into customer priorities, perceptions of Ex-Im Bank performance, areas for improvement, and other ECA best practices. On April 27, 2011, President Obama issued Executive Order 12862 instructing Federal agencies (including independent agencies) to develop a customer service plan to streamline service delivery and improve customer experience. To this end, we have recommended that Ex-Im Bank utilize customer surveys to validate the priorities of its customers and Ex-Im Bank's performance. As of this testimony, Ex-Im Bank has taken steps to implement this recommendation.

- *Encourage Lender Partners and Participants to Conduct, at a Minimum, Industry Standard Due Diligence and Asset Monitoring Efforts on Medium and Long-Term Government Guarantees and Insurance Transactions*. One of the patterns our office has observed in conducting our investigations is the lack of due diligence and asset monitoring efforts conducted by lenders, specifically the ones who have a history of defaulted transactions. Even though there is an expectation that such efforts are taken, Ex-Im Bank does not require participating lenders to conduct due diligence or asset monitoring on their transactions. In fact, there is no real accountability or penalty for not performing such

operations. The OIG has anecdotal evidence of loan officers in lending institutions expressing their position that the lender would not devote resources on due diligence efforts when there is a government guarantee and such efforts are not required by Ex-Im Bank. Although the OIG is not in a position to state that this is a behavior demonstrated by all lenders, we can certainly state that this "moral hazard" issue has been prevalent in fraud cases involving multiple transactions. Effective implementation of "Know Your Customer" practices by lenders could help in minimizing or preventing the number of fraudulent cases Ex-Im Bank has experienced. Further, with its growth in direct loan and project finance transactions, Ex-Im Bank would have to closely monitor the performance of these credits with existing limited resources available in its asset management function. Teaming up with lenders and institutions – who offer a better understanding of the project, borrower, and knowledge of the markets – would allow Ex-Im Bank to effectively leverage its limited resources.

- *Improve Corporate Governance, Business Processes, and Internal Control Policies and Practices*. One of the consistent observations arising out of audits, evaluations, and investigations conducted by the OIG are the weaknesses in governance and internal controls, as they relate to business operations. Internal policies providing clear guidance to staff and establishing clear roles and authorities are not prevalent at Ex-Im Bank. These areas need to be addressed as part of creating a better corporate governance culture.

IV. Conclusion

Ex-Im Bank has an important role in creating and maintaining jobs by facilitating export financing to American exporters. Several years of record export authorization levels only support that role. While Ex-Im Bank continues to provide export credit and financing as part of its export credit agency functions, it should work to improve its risk management practice while enhancing operational effectiveness and efficiencies.

I have highlighted some of the challengers and weaknesses Ex-Im Bank is facing as it marches toward its new reauthorization process. The OIG will continue to enhance its independent oversight role as well as strengthen its efforts in preventing and detecting fraud, waste, and abuse.

Chairman Campbell, Ranking Member Clay, and members of this honorable Subcommittee, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have.