

Export-Import Bank of the United States

Board of Directors

Open Meeting

Tuesday,

December 22, 2020

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

Present:

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

Staff Present:

Kenneth Tinsley, Senior Vice President and
Chief Risk Officer

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Proceedings

(10:01 a.m.)

Credit Risk Appetite - Linkage to the Budget Cost Level

Chairman Reed: Good morning, everyone. Happy Holidays, Merry Christmas. This is Chairman Kimberly Reed. I call the meeting to order. I'd like to welcome everyone in attendance this morning, including members of the NAC, who I understand are on the line. May I have a motion to consider Item Number 1 on the agenda?

Director Bachus: This is Director Bachus. I make a motion to consider Item Number 1, credit risk appetite, the linkage to the budget cost level. Decision requires approval.

Chairman Reed: Is there a second?

Director Pryor: Yes, good morning, Chairman Reed, Director Bachus. This is Director Pryor. I second the motion.

Chairman Reed: Thank you. Thank you to EXIM's Office of Risk Management Senior Vice President and our wonderful Chief Risk Officer, Mr. Ken Tinsley. Mr. Tinsley, please introduce yourself for the record and present Item Number 1.

Mr. Tinsley: Thank you for that wonderful introduction, Chairman Reed, Director Bachus, and Director Pryor. This is Ken Tinsley, the Chief Risk Officer and Senior Vice President of the Office of Risk Management, presenting Agenda Item Number 1, which is a recommendation to consider revising the current linkage of our cover policy, or credit risk appetite, to the budget cost level ratings implemented by the Office of Management and Budget.

Before summarizing my proposal, I would first like to thank a number of my senior management

colleagues and their staff for their support in producing this proposed initiative, including Senior Vice President of External Engagement Luke Lindberg, Chief Banking Officer Stephen Renna, our general counsel, David Slade, our CFO, Mary Buhler, and senior VPs Jim Cruse, David Sena, Jim Burrows, and lastly, all of my staff, with a special thanks to the country economist and the chief economist, Aryam Vazquez.

It truly took the contributions and support of all that I have mentioned, including, most importantly, their respective staff, for this paper to be produced. With that, let me summarize this item, which evaluates the efficacy of the Bank's credit risk appetite, or current policy for high-risk markets and transactions for which current cover policy restricts our opening for all business and our normal programs, specifically for which cover policy is to close for long-term business or to close for all business, short, medium, and long-term, respectively.

The current cover policy linkage that results in our closing for long-term business has been in existence for over 25 years. Also, the linkage resulting in EXIM closing in all programs, with the exception of the Short-Term African Risk policy, or STAR policy, as we call it, has been in place for over 30 years -- I'm sorry, 20 years.

The STAR policy provides short-term only cover for up to one year repayment terms only in eligible high-risk sub-Saharan Africa markets.

Even as our portfolio is being impacted by COVID-19, EXIM continues to maintain a relatively low default rate, which is currently 0.819 percent, or less than 1 percent, and thus well below the 2 percent default cap. Moreover, the weighted average risk rating of our portfolio is in concordance with a level slightly below an investment grade rating. Credit for the resilient quality of our portfolio has to go to our tremendously talented staff responsible for managing the credit portfolio, as well

as those responsible for the original underwriting.

While historically maintaining a low default rate speaks to our effectiveness in executing our fiduciary responsibility to the taxpayer, I believe it also indicates there is an opportunity to responsibly take more risk in meeting EXIM's mission, particularly at this great moment of need, given the effects of the pandemic on U.S. employment.

As part of my efforts to examine the feasibility of this high-risk proposal, I reviewed the performance of high-risk transactions EXIM authorized dating back to 1994, as well as the budget cost level rating transition of high-risk rated markets within our Interagency Country Risk Assessment System, and the default and rating transition studies conducted by Standard & Poor's for high-risk rated sovereign and corporate borrowers, respectively.

In summary, I believe the findings of this review reflect there is a segment of high-risk rated markets and borrowers that is not insignificant, that demonstrate a willingness and capacity to repay their obligations, and whose risk rating is likely to remain stable or improve or longer term horizon.

Thus, I believe the review reflects there are high-risk rated markets and borrowers that represent reasonable assurance of repayment over a longer-term horizon. With the right selection criteria, I believe we will be able to identify those higher risk rated markets, sovereign risk and non-sovereign private risk, to open long-term.

I also examined the extent to which our current cover policy or credit risk appetite may have affected our competitiveness, particularly in regards to China, as well as other foreign export credit agencies.

Many of our competitor export credit agencies in China, in particular, are open, as well as active, in a number of high-risk markets, in which our current cover policy results in our being closed for long-

term business, putting our U.S. exporters at a competitive disadvantage. As of September 1st of this year, there are 20 high-risk sovereign markets and 24 non-sovereign private markets that current policy results in us being closed for long-term business.

I believe EXIM can be more competitive by opening for long-term support in high-risk rated markets and to do so without exposing EXIM to undue risk by being selective in the markets in which to open, and by incorporating certain underwriting strategies to mitigate risk, including the various risk targets I have recommended in this proposal.

It is important to note the maximum country borrower and transaction targets are among the risk mitigation tools contained in my recommendation, as well as key performance metrics reporting on periodic Board reviews of the initiatives.

If approved, eligible markets for both initiatives will be identified in, and be part of, the Enterprise Risk Committee's recommended updates to the Country Limitation Schedule presented periodically to the Board for consideration and approval.

To conclude, approval is recommended to selectively open long term in high-risk rated markets and transactions and to expand or open the short-term only Africa risk policy to all markets, subject to the parameters and conditions outlined in the proposal.

Thank you, and I am happy to answer any questions you may have.

Chairman Reed: Thank you very much, Mr. Tinsley. We understand that we've received comments from Treasury and State, who do not oppose this policy, and we have received no further comments from the NAC.

I will say that EXIM looks forward to working closely

with both Treasury and OMB to manage risk under this program and will ask for their consultation, both during the policy's implementation and when executing future cover policy changes. Do my fellow Board members have any comments? Director Bachus?

Director Bachus, maybe you're on mute.

Let's go over to Director Pryor, and then we'll come back to Director Bachus. Director Pryor?

Director Pryor: Okay, thank you, Chairman Reed. And, Ken, thanks for the presentation and for my briefing last week. We had a great discussion, and I appreciate all the efforts of your team. I'm glad you thanked them all. They're very deserving of praise and it's been a pleasure working with your team over this past year and a half.

The memo, of course, as usual, was very thorough and gave me the proper background and context to support this policy change, along with our discussion. As you know, on the STAR program, I'm a big fan.

I'm also a big fan of the acronym, but I understand we have to change the acronym to accommodate new markets, and that's a good thing. We've got a great track record going in sub-Saharan Africa with this short-term program, and it's nice to see it expand globally.

I think you used a key phrase here in your opening remarks. We have to responsibly take more risk and certainly be able to look at new markets in particular circumstances. So thanks, again, for your work in pulling this together and the comprehensive data-backed explanation. I'm pleased to support this policy change today.

Chairman Reed: Thank you very much. Director Bachus.

Director Bachus: I'm back on. I was on before, but

the screen was the -- where it -- to take the mute button off had disappeared, and I couldn't find it. Can you all hear me?

Chairman Reed: Yes, sir.

Director Bachus: Can you all hear me?

Chairman Reed: Yes, sir.

Director Bachus: Hello?

(Simultaneous speaking.)

Director Bachus: I have no questions.

Chairman Reed: Thank you very much.

Okay, wonderful. Mr. Tinsley, this is Chairman Reed. Mr. Tinsley, can you talk to me about whether the proposal before the Board protects the taxpayer?

Mr. Tinsley: Thank you for that question, Chairman Reed. I have designed the proposal in such a way that I believe it affords the Bank to take more risk and do so in a very responsible manner. As I summarized in my presentation, I have structured this with all kinds of risk targets to provide discipline, in terms of the amount of exposure that we take on a transaction basis, on a borrower basis, on a country basis, so that we can diversify our exposure in these markets.

Let me back up and say that we have -- and we'll be talking about this later in specificity, but we have certain criteria that we will apply to high-risk markets, such that we will be selective, in terms of the markets in which we believe reasonable assurance repayment continues to be present in certain high-risk markets.

So, it will start there, but then in terms of, again, the transactions that we do, we have targets, as I mentioned before, to limit concentration of risk in various ways.

And as well, I've included risk targets programmatically speaking for us to monitor how well the portfolio is doing, including, I should say, default rate associated with the proposal, the long-term proposal, in particular, as well as periodic reporting to the Board. So there are all kinds of risk mitigation tools, reporting and otherwise, I have included in the proposal that I believe protects the taxpayer.

Chairman Reed: Thank you very much. As you know, even as a nominee and after being confirmed, I've worked closely with Senator Pat Toomey of Pennsylvania. I pledged six key reforms that we would be working on throughout my tenure at EXIM to transform our agency.

And so thank you for underscoring that what you're proposing does protect the taxpayer. I also really care about what our charter mandate is and that we uphold the law. So, sir, could you also speak to that?

Our charter, in Section 2(A)(2)(a), provides a requirement that we be fully competitive and that we really -- I know our EXIM Advisory Committee and Sub-Saharan Africa Advisory Committee, as well as our new subcommittee on competition with China, also -- they are charged with looking at us to ensure that we are being as competitive as possible, while protecting the taxpayer. And they're actually required, the Advisory Committee, to give a report to Congress on how we're doing this, and that also includes with respect to what the rest of the world is doing, as far as the 114 other export credit agencies that we know about. Could you speak to any of these things, as well, Mr. Tinsley?

Mr. Tinsley: Again, thank you for that question, Chairman Reed. Certainly, in terms of my consideration of this high-risk proposal, I looked at not only risk to the taxpayer and taking more risk, but also in terms of looking at our competitiveness.

As I pointed out in the proposal and querying some

of our competitors, as well as looking at some of the activity in markets that currently -- where we are closed, it's not surprising that unlike ourselves, they are active.

They are open and active, broadly speaking, our competitors, major competitors, including, in particular, China, in these markets. So that angle, that part of our charter, I certainly looked at because I do want us to be competitive. But again, there's a balance there between being competitive and not putting the taxpayer at great risk. And I think this proposal strikes the right balance. I think we're going to be a lot more competitive when it comes to China, in particular, and able to execute and produce results, potentially with respect to the transformational exports program.

I think even broadly, I think we're going to be able to compete more so with some of our other export credit agency competitors, as well. So I think, again, I think it strikes the right balance between executing our fiduciary responsibility and being competitive.

Chairman Reed: Thank you. And you can look at various other places in our charter, such as 2(B)(1)(b), the Bank's mandate to support the United States' exports at rates on terms and conditions which are fully competitive with exports of other countries.

And so, again, it also states we need to be focused on the Bank's primary function of expanding United States exports through fully competitive financing. Again, our Board has the opportunity to vote on each of these things in a way that is -- that is why we are confirmed by the Senate. And we have a very important role. I know that each of us, Director Pryor, Director Bachus, and myself, take every deal that we look at with the highest of interest in protecting the taxpayer. And I feel like at some point, I want to take a photo, for those who don't understand how the business of the Bank works

internally, of a photo of the stack of paperwork that must be completed by our wonderful staff at EXIM for every transaction.

Deals just don't come in and we approve them the moment something happens with an application. Those applications by external stakeholders sometimes take months, if not years, to put together.

And the due diligence in all that we do before even a potential deal is brought to our Board, again, months, if not years, of work because we are about protecting the taxpayer. If people would only understand and appreciate how much paperwork is involved with each of these transactions.

So, Mr. Tinsley, my thanks to you and your team for bringing forth this new policy. You have a very important role as our Chief Risk Officer. I know that you uphold your statutory duty, as well. With that, I now call this item for a vote. Director Bachus?

Director Bachus: This is Director Bachus. I vote aye.

Chairman Reed: Director Pryor?

Director Pryor: This is Director Pryor. I vote aye and concur with everything you just said, Chairman Reed.

Chairman Reed: Thank you. Item Number 1 is approved. We will now take a ten-minute break.

We will reconvene at 10:30. Please be sure to use the second registration link to connect to the closed portion of the meeting. Thank you very much.

(Whereupon, the above-entitled matter went off the record at 10:19 a.m.)