

DEFAULT RATE REPORT

AS OF
JUNE 30, 2012



FISCAL YEAR 2012 DEFAULT EXPERIENCE
EXPORT-IMPORT BANK OF THE UNITED STATES

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Executive Summary

MISSION

The mission of the Export-Import Bank (“Ex-Im Bank” or “Bank”) is to enable U.S. companies – large and small – to turn export opportunities into sales that maintain and create U.S. jobs and contribute to a stronger national economy. The Bank achieves this mission by providing export financing through its loan, guarantee, and insurance programs in cases where the private sector is unable or unwilling to provide financing. Ex-Im Bank also steps in when financing support is necessary to level the playing field for U.S. exporters that are in competition with foreign companies supported by financing from their official foreign export credit agencies (ECA).

REAUTHORIZATION

On May 30, 2012, the President signed Public Law 122-122, an Act to Reauthorize the Export-Import Bank of the United States. Section 6 of the Reauthorization Act requires:

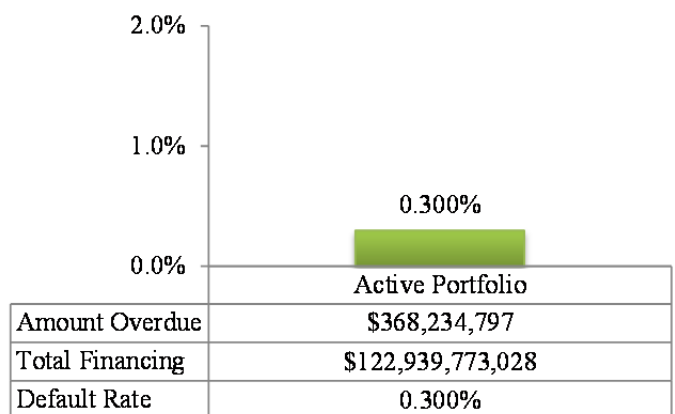
“(1) MONITORING OF DEFAULT RATES.—Not less frequently than quarterly, the Bank shall calculate the rate at which the entities to which the Bank has provided short-, medium-, or long-term financing are in default on a payment obligation under the financing, by dividing the total amount of the required payments that are overdue by the total amount of the financing involved.”

As mandated, Ex-Im Bank will report on its default rate, as defined in the section above, on a quarterly basis corresponding to the quarters of the fiscal year. This report is as of June 30, 2012 and is based on annually audited financial data.¹

DEFAULT RATE

The default rate² of the Export-Import Bank through June 30, 2012 is 0.300 percent as shown in Exhibit 1. This rate reflects a “total amount of required payments that are overdue” (claims paid on guarantees and insurance transactions plus loans past due) equal to \$368.2 million divided by a “total amount of financing involved” (disbursements)³ equal to \$122.9 billion. This financing amount is different from Ex-Im Bank’s current exposure because it includes repayments and excludes authorized amounts that have yet to disburse. Of the \$122.9 billion, \$43.5 billion has been repaid, leaving a balance of \$79.4 billion to be repaid.

Exhibit 1: Default Rate



¹ The data used to produce this report is generated from the same source accounting systems that produce the Banks’ annual audited financial statements. Although the auditors do not express an opinion on the effectiveness of the Bank’s systems, the data used to support the financial statements is tested for accuracy on a sample basis. The Bank has received an unqualified opinion since 1989 regarding the presentation of the Bank’s financial statements.

² This default rate is different than the default rates published in the annual Budget Appendix due to differing definitions. The reported rate in the Budget Appendix reflects projected defaults over the life of the loan while the default rate in this report reflects actual defaults at a particular point in time.

³ The default rate is based on disbursements (not authorized amounts) as a default cannot occur on a transaction that has been authorized but not yet disbursed.

Default Rate

CONGRESSIONAL INTENT

In discussions with the House Financial Service Committee (HFSC) related to the authorization requirement on the monitoring of the default rate, the committee members cited Chairman Hochberg’s testimony as the type of information required by this authorization language. In his testimony on May 24, 2011 before the HFSC, the Chairman stated “as a result of our diligent review and management of credit, the Bank has a loan loss rate⁴ [default rate] of roughly 1.5 percent – well below most commercial banks.” That testimony is based on the Bank’s historical experience on overall financed disbursements compared to net claims which included both recoveries as well as expenses. This report is consistent with the Chairman’s testimony as it related to the default rate.

DEFINED

Section 6 of the Reauthorization Act mandates Ex-Im Bank to calculate the “*default on a payment obligation... by dividing the total amount of the required payments that are overdue by the total amount of the financing involved.*” The “total amount of required payments that are overdue”,

$$\text{Overdue Payments} = \text{Defaults Paid} + \text{Expenses} - \text{Recoveries}$$

$$\text{Total Financing} = \text{Disbursements (Active)}$$

representing the numerator, is defined as claims paid on guarantees and insurance transactions as well as unpaid past due installments on loans in the Bank’s active portfolio. For guarantees and insurance transactions, upon default of a payment obligation⁵, Ex-Im Bank pays a claim to the guarantors or the insured parties. As this report is based on the Bank’s portfolio through June 30, 2012, all expenses incurred related to the Bank’s recovery efforts are added to the amount overdue. Recoveries to that point reduce the amount overdue in connection to the specific claim paid or the loan in arrears. All recovered amounts are discounted to the time of claim payment or when the direct loan went into arrears. The “total amount of financing involved,” the denominator, is defined as the disbursed⁶ financing under the Bank’s programs to support U.S. exports. Ex-Im Bank provides financing to foreign buyers of U.S. goods and services. After a credit is approved, the value of the goods and services financed by Ex-Im Bank is recorded once they are delivered (or disbursed) to the buyer. Depending on the type of goods and services financed, the delivery (or disbursement) can occur over a period of years.

ACTIVE PORTFOLIO

Ex-Im Bank’s credits have a defined repayment schedule that generally ranges from one year to fifteen years or more. Most credits have quarterly or semi-annual repayment terms; however, repayment terms can vary among Ex-Im Bank’s programs and products. A disbursed loan, guarantee or insurance policy that has a repayment schedule where the date of this report is before the final repayment date of the schedule is part of the active portfolio. Any installment due

Active Credit Example: A long term guarantee authorized in FY 2005 with a 10 year repayment term (the deal matures in FY 2015)

Inactive Credit Example: A long term guarantee in FY 1994 with a 10 year repayment term (the deal matured in FY 2004).

⁴ The loan loss rate does not include the fees that the Bank charges for the transaction that it finances.

⁵ Upon receipt of request for a claim payment by the lending institution, Ex-Im Bank performs claim procession functions.

⁶ Disbursements include loans, guarantees and insurance.

within that repayment schedule up to the date of this report that has not been paid is considered to be in default.

On the Bank’s active portfolio, a total of \$122.9 billion of goods and services⁷ have been delivered to foreign buyers of American made products. These products are supported by Ex-Im Bank’s loan, guarantees and insurance programs. On these disbursements, \$43.5 billion has been repaid through June 30, 2012, leaving a balance of \$79.4 billion to be repaid. Of this amount, the Bank has gross defaults of \$443.4 million, incurred expenses related to those payments of \$6.2 million, and recovered \$81.4 million for net defaults of \$368.2 million. This results in a default rate through the time period ending June 30, 2012, equal to 0.300 percent.

DEFAULT RATE: BY SUB CATEGORY

Section 6 of the Reauthorization Act requires:

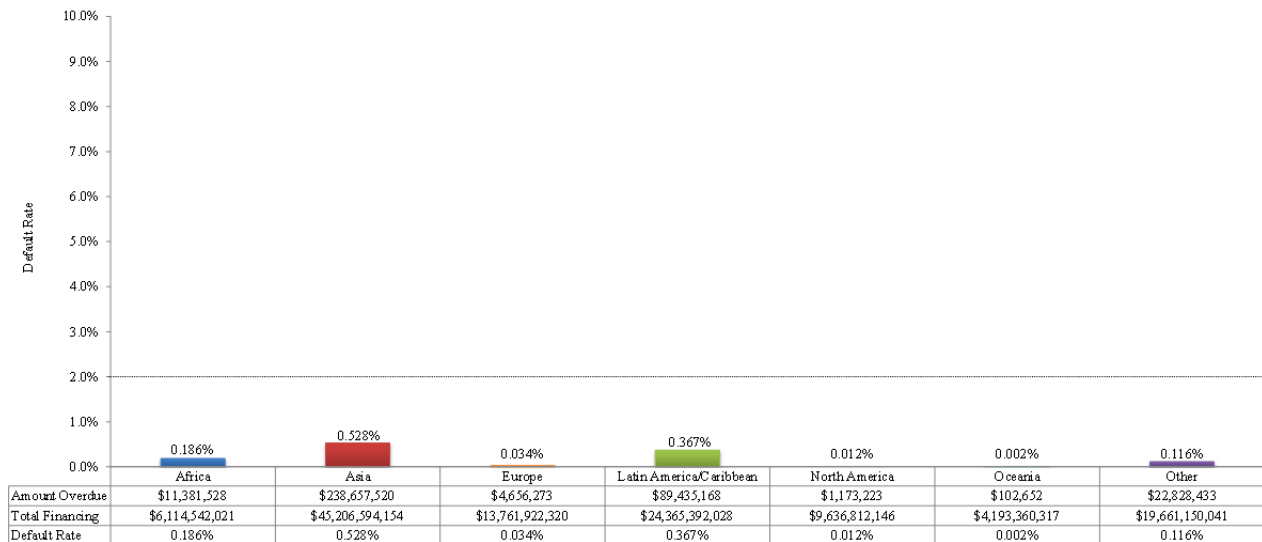
“(2) ADDITIONAL CALCULATION BY TYPE OF PRODUCT, BY KEY MARKET, AND BY INDUSTRY SECTOR; REPORT TO CONGRESS.—“

As mandated by the Reauthorization Act and defined above, Ex-Im Bank has calculated default rates based on each sub category as of June 30, 2012.

BY REGION

Ex-Im Bank breaks out its transactions into six regions: Africa, Asia, Europe, Latin America/Caribbean, North America, Oceania, and other. As shown in Exhibit 2, Ex-Im Bank’s default rate is well below 2 percent within each of these regions.

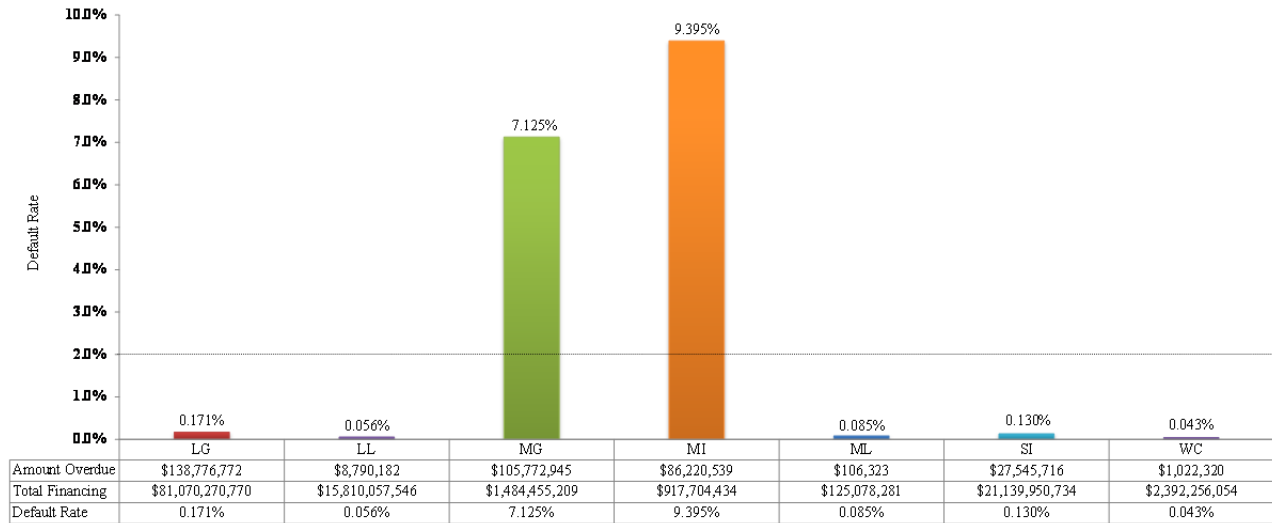
Exhibit 2: By Region



⁷ This includes local costs, capitalized interest during construction, and foreign content derived from co-financing and short-term commitments.

BY PRODUCT LINE

Exhibit 3: By Product Line

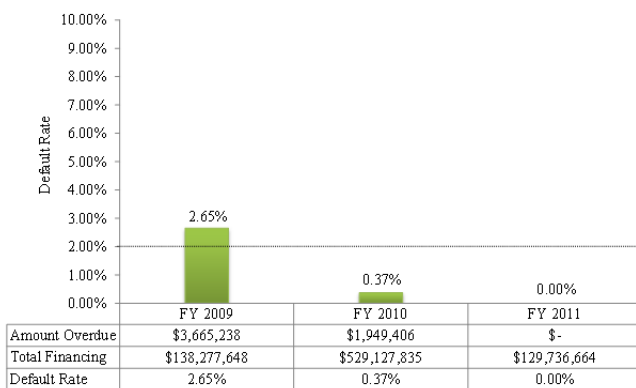


Ex-Im Bank's loans, guarantees and insurance, are broken out by separate products: Long Term Guarantees (LG), Long Term Loans (LL), Medium Term Guarantees (MG), Medium Term Insurance (MI), Medium Term Loans (ML), Short Term Insurance (SI) and Working Capital Guarantees (WC). In general, Short Term Insurance and Working Capital Guarantees transactions are less than 1 year, Medium Term Loan and Guarantee transactions are between 1 and 7 years and under \$10 million and finally, Long Term Loan and Guarantee transactions are over 7 years or over \$10 million.

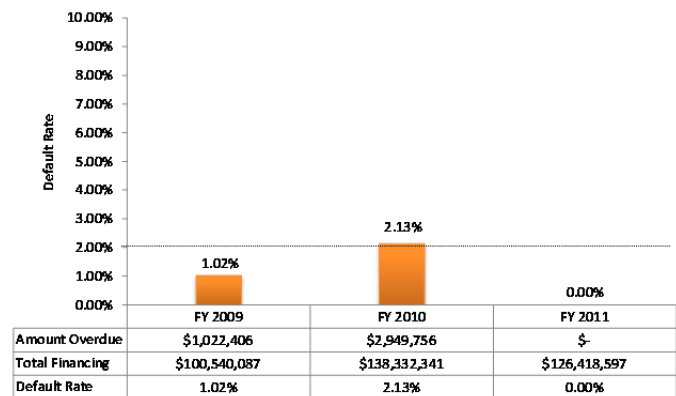
As shown in Exhibit 3, all products except the Medium Term Guarantee and Medium Term Insurance have a default rate below 2 percent. As a result the Bank has taken steps to improve the medium term portfolio. First, the Bank has moved to using underwriting standards similar to those of the long term portfolio, which includes but is not limited to requiring collateral. The Bank has also established a monitoring group for this portfolio to proactively restructure distressed deals and prevent defaults or enhance recoveries. Finally, the Inspector General has significantly increased actions against fraudulent cases. It should also be noted that Medium Term Guarantees and Insurance represent 1.96 percent of the total amount of Ex-Im Bank financing. The performance of the medium term products can be attributed to high defaults 3 to 7 years ago.

After implementing these changes, Ex-Im Bank has begun to see its medium term portfolio's default rate improve dramatically. For medium term products, defaults normally occur by the third year. This means FY 2009 authorizations act as a good proxy for future trends in the medium term products. As shown in Exhibit 4, for all transactions approved since FY 2009, the medium term portfolio, including both active and matured transactions, default rates have, on average, dropped below 2 percent.

Exhibit 4: Medium Term Guarantees



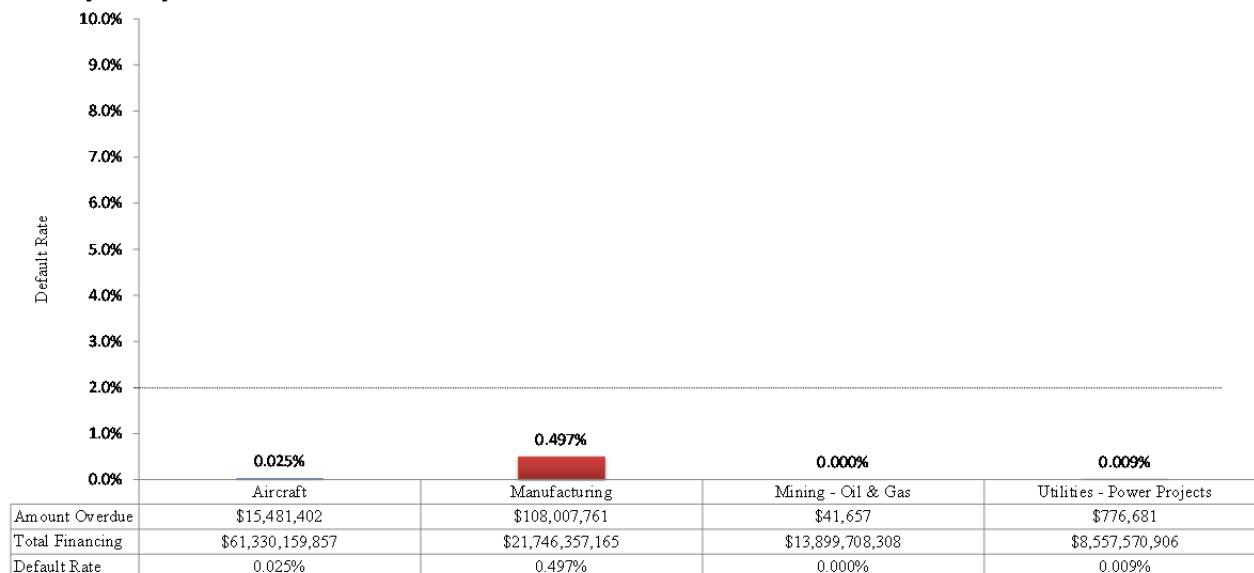
Medium Term Insurance



BY INDUSTRY

Ex-Im Bank's four largest industries are: Aircraft, Manufacturing, Mining (Oil & Gas), and Utilities (Power Projects). Although these sectors account for 77 percent of the total amount of Ex-Im Bank financing, they have experienced a default rate well below 2 percent as shown in Exhibit 5.

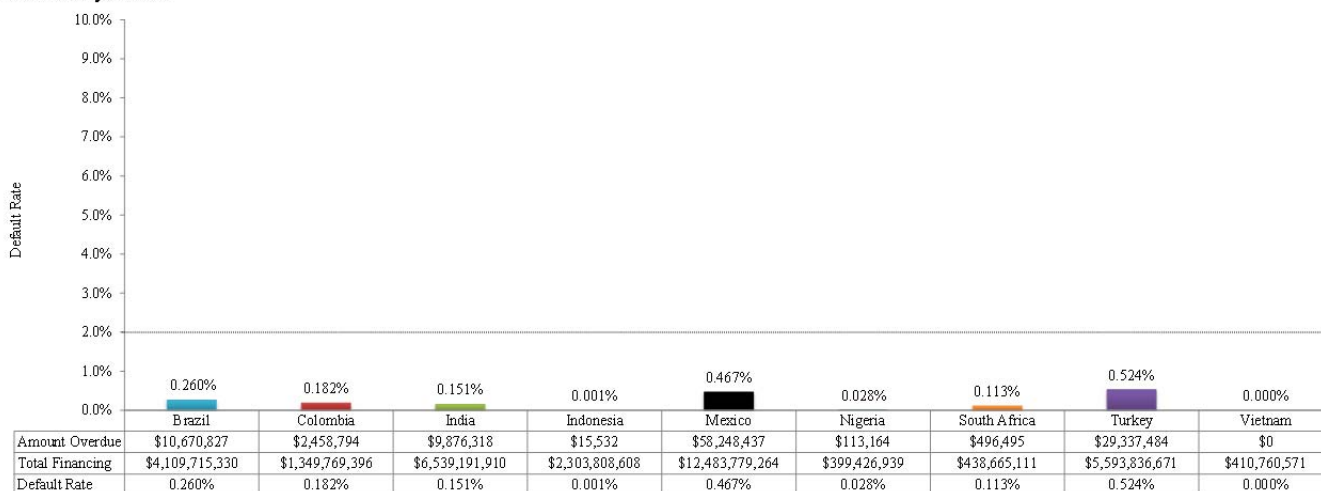
Exhibit 5: By Industry



BY KEY MARKETS

Ex-Im Bank is open for business in 175 countries as of June 30, 2012 and has exposure in 174 countries. In FY 2010, Ex-Im Bank launched a strategic review to determine the countries where Ex-Im Bank financing could be particularly effective for American companies. Given limited business development resources, the Bank focused outreach efforts to parts of the world with the greatest potential to support U.S. exports. The Bank identified nine high potential countries: Mexico, Brazil, Colombia, Turkey, India, Indonesia, Vietnam, Nigeria and South Africa. As shown in Exhibit 6, all nine key markets have experienced a default rate well below 2 percent.

Exhibit 6: Key Markets



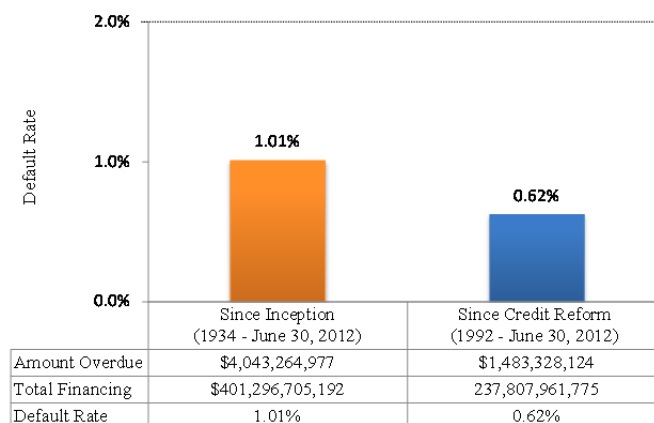
Historical Default Rates

HISTORICAL DEFAULT RATE

Ex-Im Bank was established in 1934. Since then, the Bank has disbursed \$401.3 billion in guarantees, insurance and direct loans. On all of Ex-Im Bank's disbursements, the Bank has defaults⁸ of \$12.1 billion and recoveries of \$8.1 billion, resulting in a historical default rate of 1.01 percent.

Looking at more recent experience, on credits authorized since 1992, the start of Federal Credit Reform Act (FCRA), the Bank has defaults of \$5.6 billion and recoveries of \$4.1 billion, resulting in a default rate of 0.62 percent. Ex-Im Bank's historical default rates since 1934 and since 1992 are highlighted in Exhibit 7.

Exhibit 7: Historical Default Rate



COMPONENTS OF HISTORICAL DEFAULT RATE: CALCULATION

	Since Inception (1934 - June 30, 2012)	Since Credit Reform (1992 - June 30, 2012)
Total amount of required payments that are overdue	\$4,043,264,977	\$1,483,328,124
Defaults Paid	12,147,259,497	5,616,008,066
Less Recoveries	8,103,994,520	4,132,679,942
Total amount of financing involved	\$401,296,705,192	\$237,807,961,775
Disbursements	401,296,705,192	237,807,961,775
Default Rate	1.01%	0.62%

CROSSWALK TO ACTIVE PORTFOLIO AND CURRENT EXPOSURE

The total amount of goods and services disbursed and financed by the Bank's active portfolio (credits that mature after June 30) is \$122.9 billion. A portion of this portfolio has been repaid, and together with the exposure of the inactive portfolio (credits that are unpaid but have already matured) plus the authorized amount yet to be disbursed, the Bank's total exposure equals \$98.6 billion. This exposure includes all authorized disbursements that have not yet repaid and all authorizations that have not yet disbursed through June 30, 2012.

⁸ This includes claims paid on guarantees and insurance transactions as well as direct loans in arrears and write-offs. It also includes non-discounted recovery amounts but does not include any recovery expenses as that data was not available for this time frame.

Appendix

COMPONENTS OF DEFAULT RATE: *DISBURSEMENTS*

Under the direct loan program the goods and services are financed directly by Ex-Im Bank. Funds are disbursed to the supplier to pay for the goods or services delivered to the buyer and a loan receivable with appropriate loss reserves are reflected on the Bank's books.

Under the guarantee and insurance programs, the private sector provides the financing and the transaction is guaranteed or insured by Ex-Im. The guaranteed or insured party notifies Ex-Im when a shipment of goods has occurred and Ex-Im records a non-cash "disbursement" to reflect the value of the goods guaranteed by Ex-Im. An appropriate loss reserve is also recorded on the Bank's books.

As of June 30, 2012, on the Bank's active portfolio, a total of \$122.9 billion of goods and services have been delivered to foreign buyers and supported by Ex-Im under the loan, guarantee and insurance programs.

COMPONENTS OF DEFAULT RATE: *GROSS DEFAULTS*

Ex-Im Bank pays claims honoring the terms of either the guarantee or the insured transaction. On Ex-Im Bank's active portfolio, the Bank has paid out \$434.5 million in defaults. For loans, all monies past due are considered defaults. As of June 30, 2012, for the active portfolio, \$8.9 million is past due. This totals \$443.4 million in claims paid and overdue loans.

The gross default rate is derived from the amounts paid on guarantees and insurance transactions as well as past due loan installments divided by the amount disbursed. This rate does not include the money recovered or related recovery expenses. On the \$122.9 billion of disbursements, the Bank has gross defaults of \$443.4 million, resulting in a default rate of 0.300 percent.

COMPONENTS OF DEFAULT RATE: *RECOVERIES AND EXPENSES*

Ex-Im Bank has an active recovery group that seeks to recuperate on losses related to claim payments and non-performing loans. On Ex-Im Bank's active portfolio, the Bank has recovered \$81.4 million and incurred \$6.2 million of expenses related to the recovery process.⁹ These recoveries, as well as fees collected from borrowers, are used to offset claims paid. The Bank expects to recover additional amounts on these transactions in future years.

COMPONENTS OF DEFAULT RATE: *CALCULATION*

Total amount of required payments that are overdue	\$368,234,797
Defaults Paid	443,378,365
Expenses	6,233,794
Less Recoveries	81,377,361
Total amount of financing involved	\$122,939,773,028
Disbursements	122,939,773,028
Default Rate	0.300%

⁹ For the purpose of calculation of the default rate, the amounts recovered are discounted to the time of claim payment.

Definitions

Active Portfolio – Maturity date is after the date of this report (transaction currently active)

Defaults – Payment from Ex-Im Bank to guaranteed or insured party plus unpaid past due loan installments

Default Rate – Defaults less recoveries plus expenses over total amount financed on active portfolio

Disbursements – Goods and services delivered to foreign buyers and supported by Ex-Im Bank under the loan, guarantee and insurance programs

Loan Arrears - Direct loan repayment currently overdue

Recoveries – Money recovered on guarantees and insurance that have defaulted and a claim has been paid out. For direct loans in arrears, this includes funds recovered after missed payments