

DEFAULT RATE REPORT

AS OF
DECEMBER 2019



FISCAL YEAR 2020 (Q1) DEFAULT EXPERIENCE
EXPORT-IMPORT BANK OF THE UNITED STATES

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STATUTORY REQUIREMENT

This report is prepared in accordance with the requirements of 12 U.S.C. § 635g(g)(1).

“(g) Monitoring of default rates on bank financing; reports on default rates; safety and soundness review

“(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.

“(2) ADDITIONAL CALCULATION BY TYPE OF PRODUCT, BY KEY MARKET, AND BY INDUSTRY SECTOR; REPORT TO CONGRESS—In addition, the Bank shall, not less frequently than quarterly-

(A) calculate the rate of default-

(i) with respect to whether the products involved are short-term loans, medium-term loans, long-term loans, insurance, medium-term guarantees, or long-term guarantees;

(ii) with respect to each key market involved; and

(iii) with respect to each industry sector involved; and

(B) submit to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives a report on each such rate and any information the Bank deems relevant.

EXECUTIVE SUMMARY

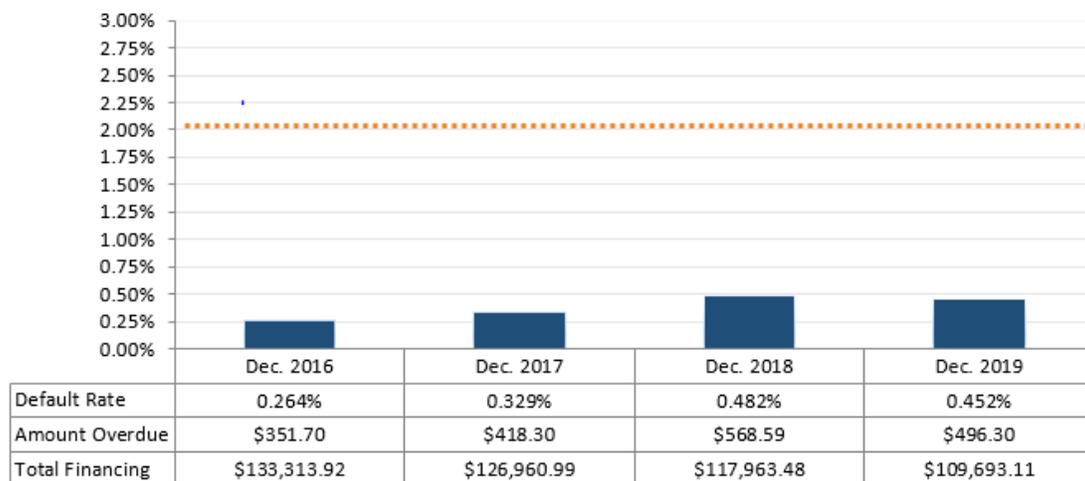
ABOUT EXIM

The Export-Import Bank of the United States (EXIM) supports and promotes American jobs through exports. EXIM provides export financing through its loan, guarantee, and insurance programs in cases where the private sector is unable or unwilling to provide financing. For some American exporters, accessing needed export financing may be difficult for certain creditworthy transactions because of: regulatory constraints; the credit risk of the country acquiring the exports; and/or competition from foreign export promotion efforts. EXIM offers needed support to facilitate these transactions that are creditworthy but face unique challenges.

DEFAULT RATE

Default rate, as defined in this report, reflects actual project defaults at a point in time.¹ EXIM's default rate as of December 31, 2019, is **0.452 percent** as shown in Exhibit 1. This rate was calculated pursuant to the requirements of 12 U.S.C. § 635g(g)(1) and, accordingly, reflects a "total amount of required payments that are overdue" (claims paid on guarantees and insurance transactions plus loans past due) divided by a "total amount of financing involved" (disbursements).² The default rate of 0.452 percent is well below the statutory two percent cap at which EXIM's lending cap would immediately freeze.³ The low default rates are the result of the agency's continuous efforts to improve its strong underwriting processes, employee expertise, and effective portfolio management in the monitoring of exposure and recoveries on those credits that default.

Exhibit 1: Default Rate



Data used to calculate the default rate is sourced from the agency's financial management system of records.

¹ This default differs from the default rates published in the Federal Credit Supplement for the President's Annual Budget. 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 point in time. The Federal Credit Supplement can be found at <http://www.whitehouse.gov/omb/budget/Supplement>.

² The default rate is based on actual disbursements and not authorized financing amounts.

³ 12 U.S.C. § 635e(b)

DEFAULT RATE

DEFINED

The statute requires that EXIM 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.”⁴

$$\text{Overdue Payments} = \frac{\text{Defaults Paid} + \text{Expenses} - \text{Recoveries}}{\text{Total Financing} = \text{Disbursements (Active)}}$$

EXIM calculates its default rate on the total financing of its active credit portfolio. Any disbursed loan, guarantee, or insurance policy that will mature after the date of this report is included as part of the active portfolio. Any claim payments made for guarantees and insurance transactions and any direct loan payments in arrears in EXIM’s active portfolio are considered to be in default.

Active Credit Example: A long-term guarantee authorized in FY 2011 with a 10-year repayment term (the transaction matures in FY 2021)

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

Data used to calculate the default rate is derived from information contained in EXIM’s financial system of record, which records all accounting data for all authorized transactions. EXIM uses this data to calculate the components of the default rate.

RISK MANAGEMENT

Providing support to United States exporters is key to the mission of EXIM as an institution and an effective comprehensive risk management framework is an integral, underlying requisite for the agency to properly utilize its authority, provide transparency, and strengthen taxpayer protections. EXIM continues to conduct prudent oversight and due diligence through a comprehensive risk management framework. This framework starts with effective underwriting to ensure a reasonable assurance of repayment. Risk management continues after a transaction is approved with proactive monitoring efforts to minimize defaults and aggressively pursue recoveries, when appropriate. EXIM also engages in oversight and governance of the agency’s portfolio, which includes setting aside adequate loan loss reserves for all transactions.

⁴ 12 U.S.C. § 635g(g)(1)

COMPONENTS OF THE DEFAULT RATE

Numerator – Overdue Payments

The “total amount of required payments that are overdue,” representing the numerator, is defined as claims paid on guarantees and insurance transactions as well as unpaid past due installments on loans in EXIM’s active portfolio, net of any recovered amounts collected and expenses incurred related to recovery efforts. The breakdown of the components of overdue payments is provided below.

$$\text{Overdue Payments} = \$530.3\text{M} - \$34.7\text{M} + \$0.7\text{M} = \$496.3\text{M}$$

(Defaults Paid) (Recoveries) (Expenses)

Defaults Paid

Defaults paid is calculated differently for direct loans, loan guarantees and insurance transactions. For loan guarantees and insurance transactions, upon default of a payment obligation by the foreign buyer of the U.S. export, EXIM pays a claim to the guarantors or the insured parties. These claim payments represent defaults paid. For loans, all monies 30 days or more past due are considered defaults. As of December 2019, EXIM paid out \$183.3 million in claims and had \$347.0 million loans past due in its active portfolio for a total of \$530.3 million in defaults paid.

Recoveries

Recoveries made after a default are applied to the specific claim paid or to the loan in arrears and thereby reduce the amount overdue. All recovered amounts are discounted to the time of claim payment or when the direct loan went into arrears. As of December 2019, EXIM recovered \$34.7 million. These recoveries, as well as fees collected from borrowers, are used to offset default claims paid. Recovery efforts occur on a continuous basis, and EXIM frequently collects recoveries for several years after the initial default.

Expenses

All expenses incurred related to EXIM’s recovery efforts are added to the amount overdue. As of December 2019, EXIM incurred \$0.7 million of expenses related to the recovery process.

Denominator – Total Financing

The “total amount of financing involved,” the denominator, is defined as the disbursed financing associated with EXIM’s active portfolio.

$$\text{Total Financing} = \$109,693.1\text{M}$$

(Disbursements)

As of December 2019, EXIM provided a total financing of \$109,693.1 million under its loan, guarantee, and insurance programs.

Disbursements

After a credit is approved, the value of the goods and services financed by EXIM is recorded once the goods are delivered to the buyer. Under the guarantee and insurance programs, the private sector provides transaction financing, and the transaction is guaranteed or insured by EXIM. The guaranteed or insured party notifies EXIM when a shipment of goods has occurred or services have been provided, and EXIM records a non-cash “disbursement” to reflect the value of the goods guaranteed or insured by EXIM. Under the direct loan program, the goods and services are financed directly by EXIM. Funds are disbursed to pay for the goods or services delivered to the buyer, and a loan receivable, with appropriate loss reserves, is reflected in EXIM’s financial system of record. An appropriate loss reserve, based on the expected loss of the transaction,⁵ is also recorded on EXIM’s books. Depending on the type of goods and services financed, the delivery (or disbursement) can occur over a period of several years.

Default Rate Calculation

As of December 2019, the total amount of the required payments that are overdue (\$496.3 million) divided by the total amount of the financing involved (\$109,693.1 million) equated to a default rate of 0.452 percent for EXIM.

$$\begin{array}{rcc} \text{EXIM Default} & & \\ \text{Rate} & = & \\ \text{(Dec. 2019)} & = & \frac{\$496.3\text{M}}{\$109,693.1\text{M}} = 0.452\% \\ & & \text{(Overdue Payments)} \\ & & \text{(Total Financing)} \end{array}$$

EXPOSURE

EXIM’s exposure differs from the total financing amount. Exposure includes authorized outstanding and undisbursed principal balance of direct loans, loan guarantees, and insurance. Total financing amount refers to only disbursements.

As of December 2019, EXIM’s exposure stood at \$50.8 billion. EXIM’s total exposure may not exceed \$135.0 billion.⁶ Additionally, the law⁷ requires:

“(3) Freezing of lending cap if default rate is 2 percent or more. If the rate calculated under section 635g(g)(1) of this title is 2 percent or more for a quarter, the Bank may not exceed the amount of loans, guarantees, and insurance outstanding on the last day of that quarter until the rate calculated under section 635g(g)(1) is less than 2 percent.”

As of December 2019, EXIM’s default rate of 0.452 percent is significantly below the two percent threshold. With the current default rate below two percent, EXIM’s total exposure cap remains \$135.0 billion.

⁵ EXIM adheres to the provisions of the *Federal Credit Reform Act of 1990*, as amended (2 U.S.C. §§ 661-661f), when executing its reserving practices.

⁶ 12 U.S.C. § 635e(a)(1)

⁷ 12 U.S.C. § 635e(a)(3)

RESERVES

In addition to reserve requirements under the *Federal Credit Reform Act of 1990*, as amended, EXIM must maintain a certain level of total reserves to protect against future losses.⁸

"6(b) Reserve Requirement. The Bank shall build to and hold in reserve, to protect against future losses, an amount that is not less than 5 percent of the aggregate amount of disbursed and outstanding loans, guarantees, and insurance of the Bank.

As of September 30, 2019, EXIM total reserves equaled \$3.3 billion, which was 7.0 percent of EXIM's outstanding exposure (\$47.3 billion).

⁸ 12 U.S.C. § 635e(b)

DEFAULT RATE – BY SUBCATEGORIES

DEFAULT RATE: BY SUBCATEGORY

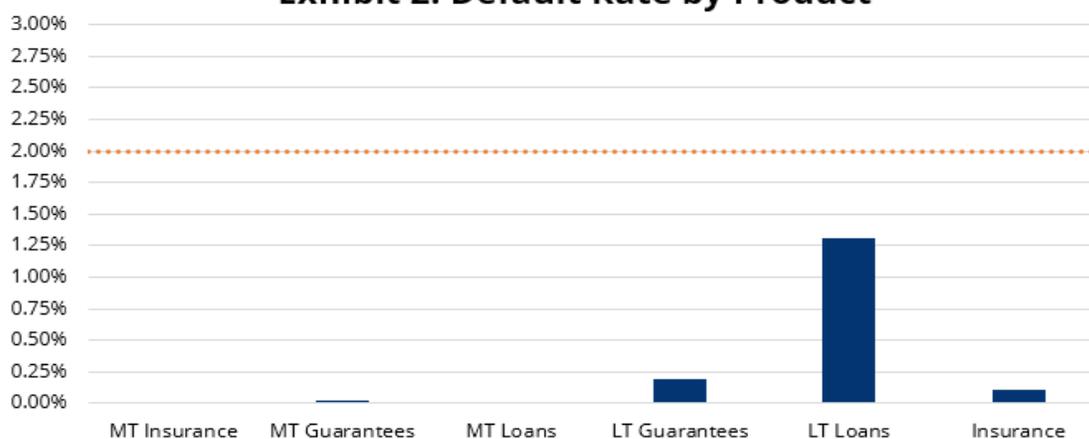
As required by statute, EXIM has calculated default rates based on each subcategory as of December 31, 2019.⁹

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

By Type of Product

EXIM offers loans, guarantees, and insurance products. EXIM reports the default rate for: short-term loans;¹⁰ medium-term loans; long-term loans; insurance; medium-term guarantees; and long-term guarantees.¹¹ In general, short-term transactions are less than one year, medium-term transactions are between one and seven years and under \$25 million, and long-term transactions include all transactions that are over seven years and all transactions one year or longer that exceed \$25 million. As of December 31, 2019, all products had a default rate below 2 percent. Exhibit 2 provides a breakout of the default rate by product.

Exhibit 2: Default Rate by Product



	MT Insurance	MT Guarantees	MT Loans	LT Guarantees	LT Loans	Insurance
Amount Overdue (\$ millions)	\$ -	\$ 0.2	\$ -	\$ 146.8	\$ 347.0	\$ 2.2
Total Financing (\$ millions)	\$ 288.1	\$ 843.6	\$ 8.6	\$ 78,730.1	\$ 26,508.4	\$ 2,008.8
Default Rate (%)	0.000%	0.026%	0.000%	0.186%	1.309%	0.111%

⁹ 12 U.S.C. § 635g(g)(2)

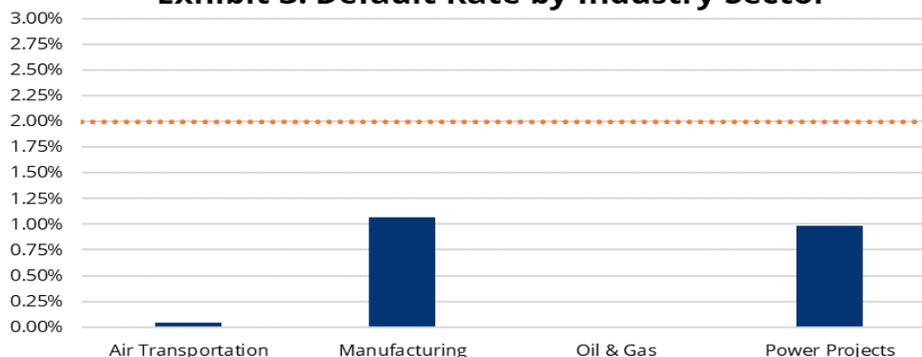
¹⁰ EXIM does not offer short-term loans.

¹¹ Consistent with Section 54002(a) of the *Export-Import Bank Reform and Reauthorization Act of 2015* (P.L. 114-94), the medium-term program’s financing cap was expanded from \$10 million to \$25 million, effective May 2019. The default rate of medium-term financing is calculated on the categorization of the transaction at the time of authorization.

By Industry Sector

The four largest industries in EXIM's active portfolio are Air Transportation, Manufacturing, Oil & Gas, and Power Projects. These sectors account for 87.8 percent of the total amount of EXIM financing, and all sectors have experienced a default rate below 2 percent as shown in Exhibit 3.

Exhibit 3: Default Rate by Industry Sector

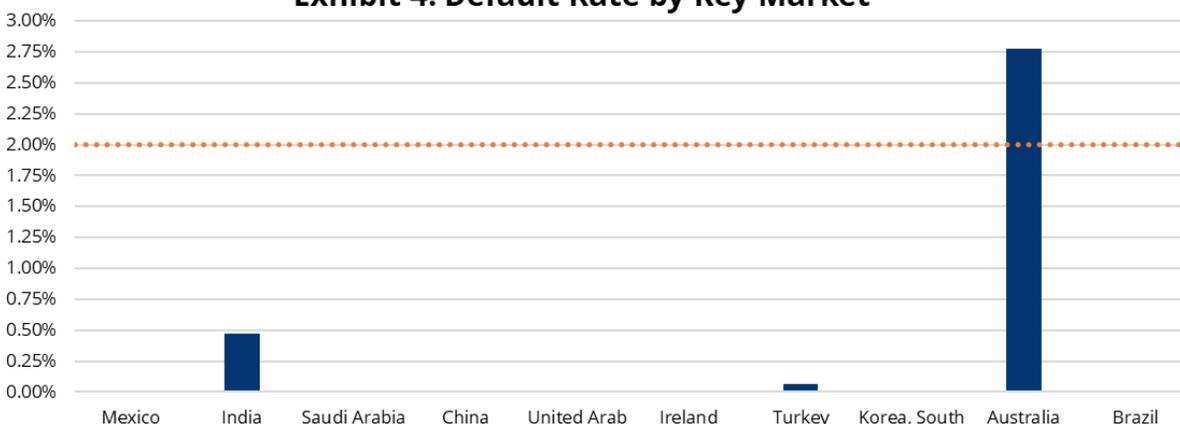


	Air Transportation	Manufacturing	Oil & Gas	Power Projects
Amount Overdue (\$ millions)	\$ 30.0	\$ 138.3	\$ 0.0	\$ 42.6
Total Financing (\$ millions)	\$ 63,726.1	\$ 12,922.9	\$ 15,355.2	\$ 4,338.1
Default Rate (%)	0.047%	1.070%	0.000%	0.982%

By Key Market

As of December 31, 2019, EXIM has exposure in more than 160 countries. As shown in Exhibit 4, the top ten markets, except for Australia, have experienced a default rate well below two percent.¹² The default rate for Australia is primarily driven by one default that occurred in 2015, which is a relatively large share of the total financing. Excluding the single defaulted credit, the default rate for the balance of exposure to Australia is 0.000 percent.

Exhibit 4: Default Rate by Key Market



	Mexico	India	Saudi Arabia	China	United Arab Emirates	Ireland	Turkey	Korea, South	Australia	Brazil
Amount Overdue (\$ millions)	\$ -	\$ 35.5	\$ 0.0	\$ -	\$ -	\$ 0.0	\$ 3.5	\$ 0.2	\$ 136.3	\$ -
Total Financing (\$ millions)	\$ 9,723.9	\$ 7,471.3	\$ 6,845.8	\$ 6,181.7	\$ 6,158.6	\$ 5,366.1	\$ 5,218.8	\$ 5,066.9	\$ 4,917.4	\$ 3,539.1
Default Rate (%)	0.000%	0.475%	0.000%	0.000%	0.000%	0.001%	0.067%	0.004%	2.771%	0.000%

¹² The ten key markets reflect top ten markets by total financing.

DEFAULT RATE: BY MANDATE

EXIM has congressional mandates to support small business, environmentally beneficial, and Sub-Saharan Africa transactions.

EXIM Bank Mandates

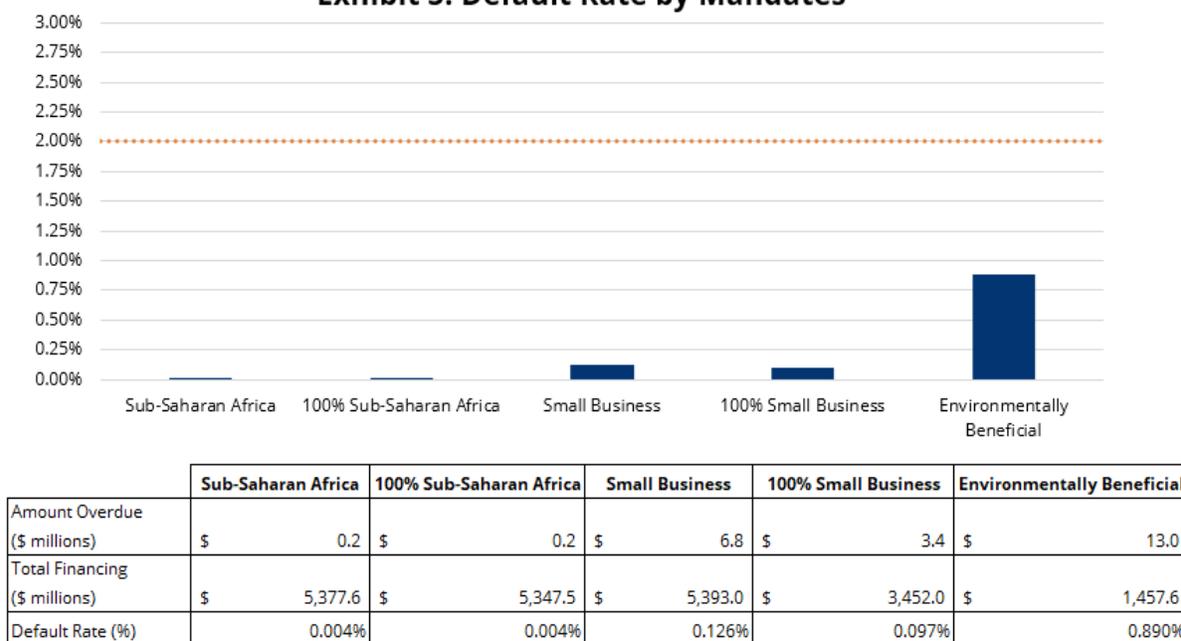
Small Business Mandate (12 U.S.C. § 635(b)(1)(E)(v)): “the Bank shall make available... an amount to finance exports directly by small business concerns (as defined under section 632 of title 15) which shall be not less than 30 percent of such authority for each fiscal year.”

Environmentally Beneficial Mandate (12 U.S.C. § 635i-5(b)(1)): “The Bank shall encourage the use of its programs to support the export of goods and services that have beneficial effects on the environment or mitigate potential adverse environmental effects....”

Sub-Saharan Africa Mandate (12 U.S.C. § 635(b)(9)(A)): “The Board of Directors of the Bank shall ... promote the expansion of the Bank’s financial commitments in sub-Saharan Africa....”

Transactions associated with these mandates account for 11.2 percent of the total amount of EXIM financing. As of December 31, 2019, all mandates have experienced a default rate below two percent as shown in Exhibit 5. The Environmentally Beneficial default rate decreased from 4.511 percent in September 2019 to 0.890 percent in December 2019 because EXIM successfully restructured a transaction in this portfolio.

Exhibit 5: Default Rate by Mandates



Note: “Sub-Saharan Africa” and “Small Business” categories include all transactions that are partially or wholly attributed to these respective categories. The “100% Sub-Saharan Africa” and “100% Small Business” categories only include transactions that are wholly attributed to these categories.

Risk Rating: By Mandate

EXIM risk rates its portfolio using a 1 – 11 budget cost level (BCL) scale. The ratings are based, in general, on a borrower’s (1) ability to make payments, as indicated by relevant economic factors and (2) willingness to pay, as indicated by payment record and political and social factors. Four categories, ratings 1 through 4, are roughly equivalent to “creditworthy” or “investment grade” private bond ratings. Three categories, ratings 9 to 11, are for countries either unable to pay fully, even with extended repayment periods, or currently unwilling to make a good faith effort at repayment. EXIM does not use the BCL scale for its working capital and multi-buyer insurance products, as these products are evaluated using a portfolio analysis approach.

Using the BCL at the time of authorization and based on the authorized amount, EXIM’s active portfolio’s weighted average risk rating is 3.87, corresponding to an investment grade portfolio. The following table provides the weighted average BCLs for the various EXIM mandates.

Category	Budget Cost Level
Sub-Saharan Africa	5.78
100% Sub-Saharan Africa	5.78
Small Business	4.11
100% Small Business	4.54
Environmentally Beneficial	4.02
Active Portfolio	3.87