

# EXPORT-IMPORT BANK

## CONGRESSIONAL BUDGET JUSTIFICATION FISCAL YEAR 2016



**“Our exports support millions of American jobs. It’s critical in the short-term, but it’s also critical for our long term prosperity. Ninety-five percent of the world’s customers and the world’s fastest growing markets are outside of our borders. We need to compete for them because other nations are competing for them.” – President Barack Obama**

# Table of Contents

**FY 2016 BUDGET REQUEST SUMMARY.....3**

**EX-IM BANK FACTS .....4**

**EX-IM BANK RECENT PERFORMANCE .....8**

**FY 2016 EX-IM BANK ADMINISTRATIVE BUDGET REQUEST .....9**

**FY 2016 FORECASTING .....15**

**RISK MANAGEMENT .....20**

**LEVELING THE PLAYING FIELD FOR U.S. EXPORTERS .....26**

**EX-IM BANK MANDATES.....29**

**APPROPRIATION LANGUAGE .....34**

The Ex-Im Bank is an independent executive agency and a wholly-owned U.S. government corporation. Ex-Im Bank is the official export credit agency of the United States.

Ex-Im Bank's mission is to enable U.S. companies – large and small – to turn export opportunities into real 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 governments.

On May 30, 2012, President Obama signed into law The Export-Import Bank Reauthorization Act of 2012. This act extended the Bank's authority through FY 2014 and over time increased its portfolio cap to \$140 billion. On September 19, 2014, Congress passed the Continuing Appropriations Resolution of 2015, extending the operating authority of the Export-Import Bank through June 30, 2015. The Bank's charter requires reasonable assurance of repayment for the transactions the Bank authorizes, and the Bank closely monitors credit and other risks in its portfolio. In pursuit of its mission of supporting U.S. exports, Ex-Im Bank offers four financial products: direct loans, loan guarantees, working capital guarantees, and export-credit insurance. All Ex-Im Bank obligations carry the full faith and credit of the U.S. government.

Ex-Im Bank operates as a self-sustaining agency, funding all its operations and programs through fees charged to its customers. This status brought Ex-Im Bank in full compliance with WTO agreements on prohibited export subsidies. Ex-Im Bank has been able to remain self-sustaining because, like any bank, Ex-Im Bank charges fees and interest on its loan guarantee, insurance, and direct loan programs to fund its operations. As a self-sustaining agency, Ex-Im Bank has proven to be a responsible steward of the taxpayers' resources.

# FY 2016 Budget Request Summary

**\$27.9b**

**estimated  
authorizations**

**\$5.6b**

**in direct support  
for small  
business exporters**

**209,000**

**American jobs  
supported**

**\$881m**

**in negative subsidy**

The Export-Import Bank of the United States (Ex-Im Bank, the Bank) is requesting \$117.7 million for administrative expenses in FY 2016. FY 2016 is the third consecutive year in which the Bank is requesting \$0 in program budget expenses (subsidy).

The FY 2016 Budget Request reflects the Bank's mission of supporting American jobs through U.S. exports. The FY 2016 Budget Request will also provide the Bank with the resources necessary to meet forecasted demand for U.S. exports in FY 2016.

Below are key estimates for FY 2016:

- The FY 2016 authorization projection is \$27.9 billion, with an estimated export value of \$35.2 billion
- The FY 2016 Budget Request will support \$5.6 billion in small business authorizations with an estimated export value of \$11.2 billion
- It is estimated the Bank will support approximately 209,000 jobs

Over the last six years the Bank has either created or sustained more than 1.3 million jobs. While supporting U.S. jobs is the mission of Ex-Im Bank, the Bank has also sent a net amount of \$6.9 billion to the U.S. Treasury since 1992.

With the FY 2016 Budget Request, the Bank estimates sending \$881.0 million of negative subsidy to the U.S. Treasury.

All of this is done at *no expense to the U.S. taxpayer* as the Bank has been a self-sustaining agency since FY 2008.

The FY 2016 Budget Request plans on investing resources to:

- Enhance small business development and outreach
- Update the Bank's IT infrastructure
- Support the Power Africa Initiative

# Export-Import Bank Facts

Ex-Im Bank is an independent executive agency and a wholly-owned U.S. government corporation. Ex-Im Bank is the official export-credit agency (ECA) of the United States.

## Mission

Ex-Im Bank's mission is to support American jobs by facilitating the export of U.S. goods and services. During the previous six years, Ex-Im Bank created or sustained more than 1.3 million American jobs. Ex-Im Bank has succeeded in its job-supporting mission for over 80 years and continues to assist American companies compete in the global marketplace.

The Bank does not compete with private-sector lenders but rather is complementary in that it provides export-financing which fills market gaps. The Bank assumes both credit and country risks that the private sector is either unable or unwilling to accept.

Ex-Im Bank supports American exporters and American jobs, but it does so in a global context. Ex-Im Bank's products level the playing field for U.S. exporters by matching the financing that other governments provide to their exporters. The Bank's charter requires that the transactions it authorizes demonstrate reasonable assurance of repayment.

## Summary of Bank Financial Activity

Below is a summary of the Bank's financial activities in FY 2014, as well as the projections for FY 2015 and FY 2016. For the third consecutive year, the Bank is requesting \$0 in subsidy funding.

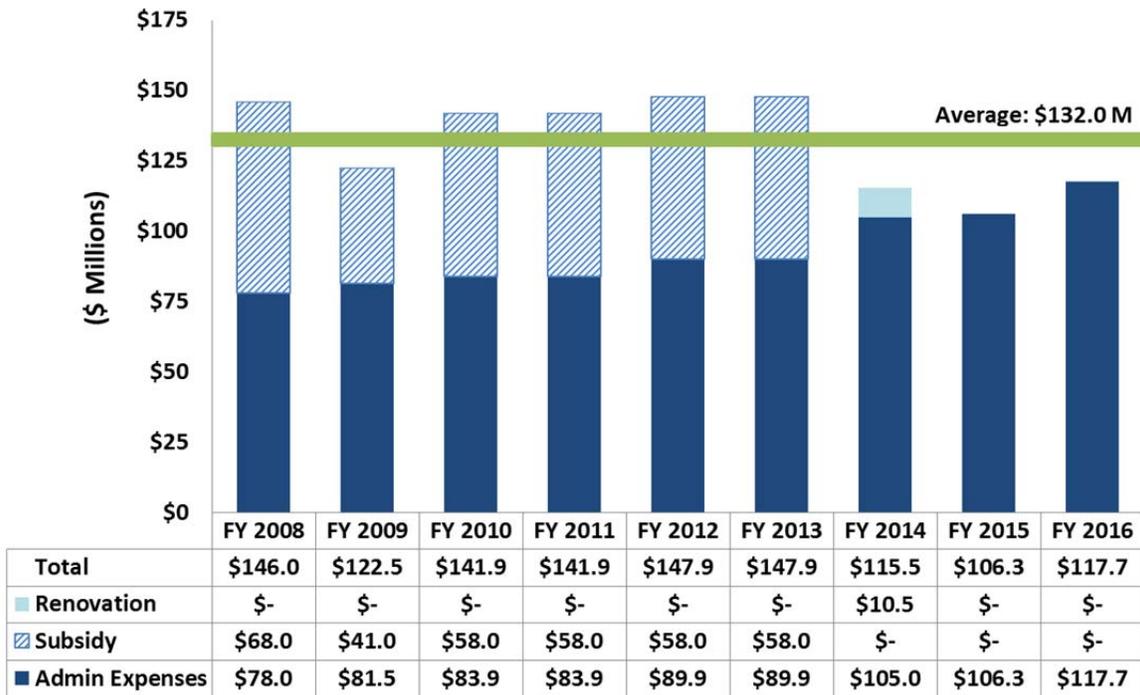
	FY 2014 Actuals	FY 2015 Estimate	FY 2016 Request
<b>Revenue</b>			
<b>Offsetting Collections</b>	(\$800.2)	(\$1,154.6)	(\$1,008.7)
<b>Expenses</b>			
<b>Administrative Expense</b>	\$105.0	\$106.3	\$117.7
<b>Subsidy Expenses</b>	-0-	-0-	-0-
<b>Carryover<sup>1</sup></b>	\$10.0	\$10.0	\$10.0
<b>Renovation Expenses</b>	\$10.5	-0-	-0-
<b>Negative Subsidy</b>	<b>(\$674.7)</b>	<b>(\$1,038.3)</b>	<b>(\$881.0)</b>
<b>Inspector General</b>	\$5.1	\$5.8	\$6.0
<b>Net Appropriation</b>	<b>(\$669.6)</b>	<b>(\$1,032.5)</b>	<b>(\$875.0)</b>

<sup>1</sup> Carryover is designed as a capital reserve in case of a disruption in offsetting collections due to external factors, such as a delay in disbursement.

## Decreasing Expenses

The FY 2016 Budget Request (excluding carryover) has decreased by 20.4 percent since FY 2013. The primary driver of this success is Ex-Im Bank’s ability to request \$0 program budget (subsidy) for three consecutive fiscal years. The Bank began the process of moving to zero subsidy in 2009, and after years of careful planning and improving risk management, it came to fruition starting in FY 2014.

### Ex-Im Bank Expenses



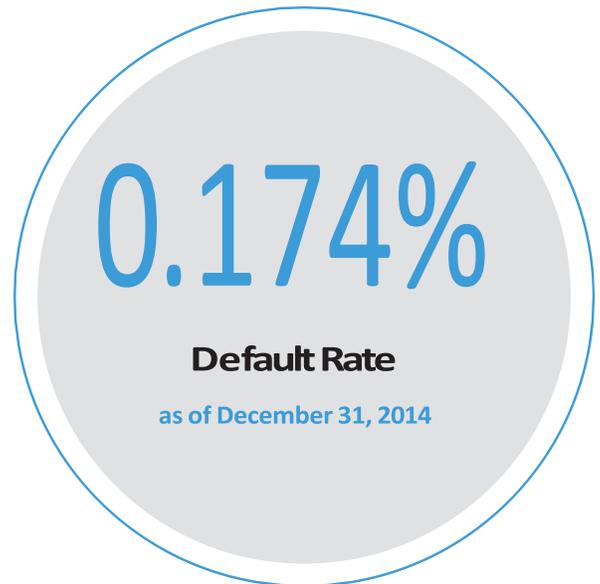
With reducing subsidy to zero, any additional reductions from Ex-Im Bank’s expenses must come from the administrative expense line. It is important to highlight that because the Bank has certain fixed costs within the administrative expense line, such as rent and security contracts, the primary area for budget cuts would be from compensation and benefits (personnel). Such a reduction to personnel needs would place Ex-Im Bank’s portfolio at risk; thus placing additional avoidable risk on U.S. taxpayers.

## Protecting the U.S. Taxpayer

Ex-Im Bank is a prudent steward of U.S. taxpayer funds. The Bank provides export credit that is backed by the full faith and credit of the U.S. government. Ex-Im Bank’s risk management framework is built on a foundation of effective underwriting in order to satisfy the Bank’s Congressional mandate that every authorization comes with “a reasonable assurance of repayment.” Once a new credit is authorized, the Bank focuses on proactive monitoring of the credit, through both thorough due diligence and documentation. This proactive management framework prevents potential defaults and allows the Bank to recover on actual defaults. The Bank has a comprehensive risk-management framework which was noted in a recent Government Accountability Office (GAO) audit (GAO-13-446).

As part of Ex-Im Bank's comprehensive risk-management framework, approximately 77 percent of the entire portfolio is backed by a form of asset or collateral security. The percentage increases to 80 percent when including sovereign exposure. The Bank's risk management approach continues with documentation to ensure the Bank's lender rights are protected legally. The approach is completed with pro-active monitoring efforts to predict and prevent defaults; and, in cases of actual defaults, aggressively seek recoveries.

Ex-Im Bank's comprehensive risk management framework protects U.S. taxpayers, as demonstrated by the Bank's low default rate (0.174 percent as of December 31<sup>st</sup> 2014). This low default rate is due to a comprehensive risk management framework with a strong emphasis on continuous improvement. The Bank's risk management framework has led to a relatively low number of defaults, coupled with high recovery rates on those credits that have entered into default. Since the Federal Credit Reform Act went into effect in 1992, the Bank has succeeded in recovering approximately 50 cents for every dollar defaulted in the portfolio.



### Supporting U.S. Jobs

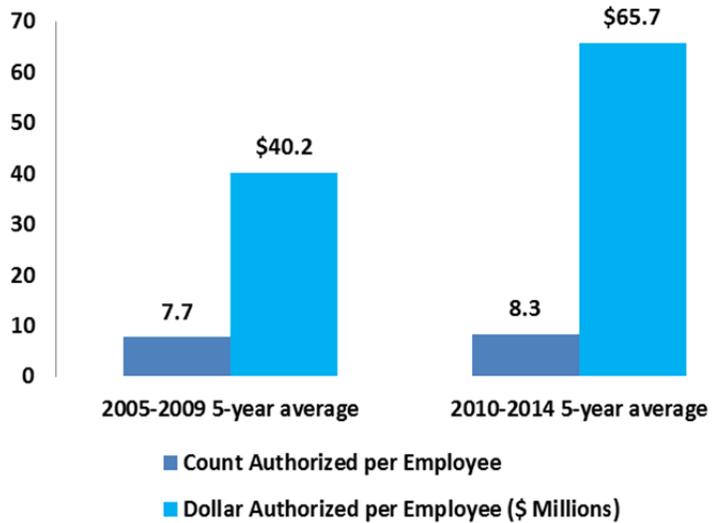
As noted earlier, Ex-Im Bank's mission is to support American jobs through U.S. exports by providing competitive export financing as well as ensuring a level playing field for American exporters. In the past six years (FY 2009 to FY 2014), Ex-Im Bank has assisted in financing more than \$188 billion of U.S. exports and supported more than 1.3 million American jobs. Most recently in FY 2014, the Bank supported 164,000 export-related U.S. jobs. It is important to highlight that Ex-Im Bank's job calculation methodology was audited and validated by GAO (GAO-13-446).

### Self-Sustaining

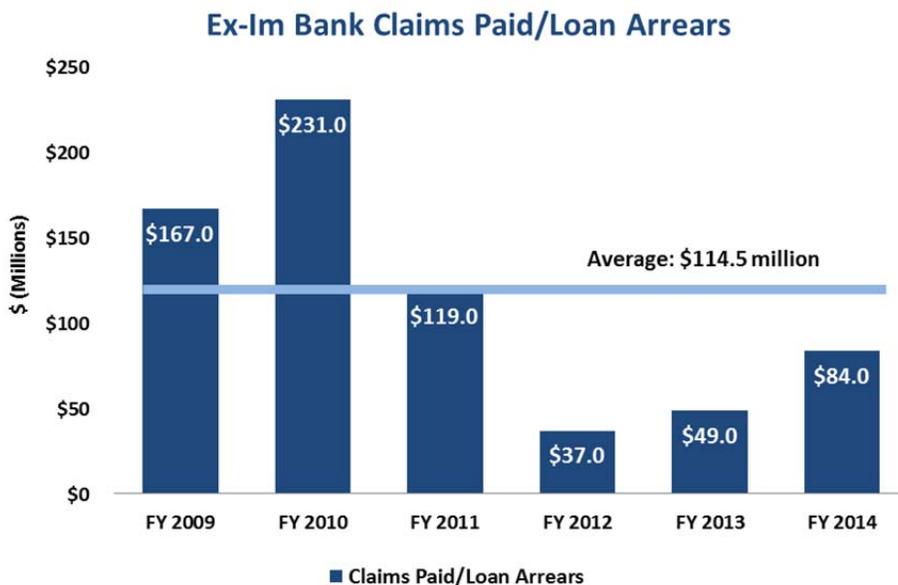
The FY 2016 Budget Request continues the Bank's self-sustaining status, which was initiated, and has remained in effect, since FY 2008. This status brought Ex-Im Bank in full compliance with WTO agreements on prohibited export subsidies. Generally under self-sustaining status, at the beginning of the fiscal year, the U.S. Treasury will grant Ex-Im Bank a warrant for \$117.7 million to cover its FY 2016 administrative expenses. As Ex-Im Bank collects negative subsidy receipts in FY 2016, the Bank will use these offsetting collections to repay the Treasury warrant. Once the warrant is repaid, the Bank will retain up to \$10.0 million (carryover) in Ex-Im Bank's Program Account. The additional receipts collected, forecasted to be \$881.0 million, will be transferred to Ex-Im Bank's negative subsidy receipt account and will be sent to Treasury at the end of FY 2016. Since 1992, the Bank has sent to the U.S. Treasury \$6.9 billion more than it received in appropriations for program and administrative costs. Fees collected from the Bank's customers have historically been sufficient to cover claims paid by the Government, resulting in an estimated net savings for taxpayers. Through these fees, the Bank is able to set aside reserves to cover forecasted defaults.

## Employee Efficiency

Although a small agency of less than 460 FTEs, Ex-Im Bank employees are highly efficient. Reviewing the two previous five years averages, both the authorization count and amount have increased per employee. Ex-Im Bank credits these increases to its continued focus on streamlining its bank-wide operations as well as the commitment and dedication of its staff. The Bank's personnel have been recognized for such performance over the past decade through the receipt of over 45 awards granted by various finance journals.



## Historical Claims



Claims are paid predominately from fees collected from the Bank's customers. Through these fees the Bank is able to set aside reserves to cover expected or forecasted defaults. For the guarantees and insurance programs, claims are paid from the reserve set aside in the financing accounts. From FY 2008 to FY 2013, the Bank's authorizations increased by approximately 90 percent while the payments on claims

decreased 82 percent. In FY 2014, Ex-Im Bank paid gross claims of \$40.3 million with \$43.7 million of loans in arrears. These figures represent 0.04 percent of the total exposure of the Bank. Ex-Im Bank has an active recovery group to recapture losses as well. Since 1992, overall recovery is fifty cents of each dollar paid in claims. More recent experience shows that in six of the past ten fiscal years, Ex-Im Bank recovered more money than it paid out in claims.

# Recent Ex-Im Bank Performance

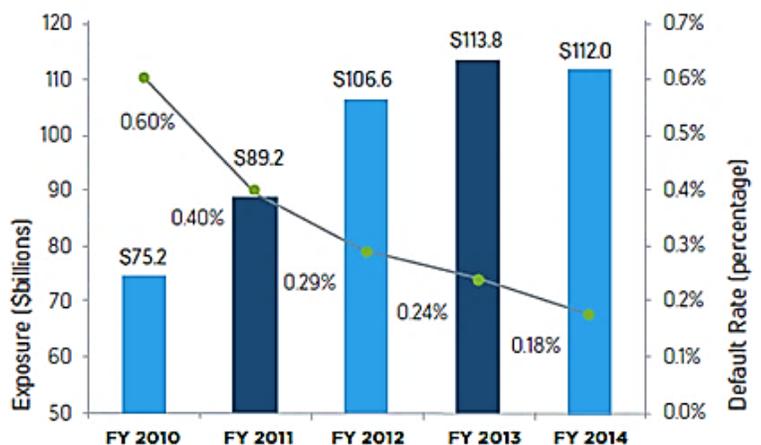
## FY 2014 Performance

In 2014, the United States exported a total of \$2.3 trillion in goods and services—47.5 percent above 2009 levels; the best year ever for American exports. More and more, exports are fueling America’s economic resurgence—and Ex-Im Bank’s support is playing a pivotal role in that trend, particularly when it comes to empowering U.S. small businesses to reach global markets. Through the Bank’s financing in FY 2014, Ex-Im Bank approved over 3,700 authorizations with a total estimated export value of nearly \$27.5 billion. This support equipped U.S. businesses to create or sustain approximately 164,000 export-related U.S. jobs. Also, Ex-Im Bank sent \$674.7 million in excess of its expenses to the U.S. Treasury.

Ex-Im Bank continues to find opportunities to support U.S. small businesses without crowding out the private sector. In FY 2014, 545 U.S. small businesses were first-time users of Ex-Im Bank products. Nearly half of the small business authorizations – over 1,600 out of more than 3,300 – involved authorized amounts under \$500,000. **Nearly 90 percent of authorizations served U.S. small businesses. Small business authorizations in FY 2014 totaled approximately \$5.1 billion, representing 24.7 percent of total authorizations and 39.0 percent of the direct exports Ex-Im Bank supported.** The Bank is also dedicated to supporting the growth of minority-owned and women-owned businesses. In FY 2014, almost one in five Ex-Im Bank authorizations supported minority – and/or women-owned businesses.

As the portfolio has grown since the 2008 financial crisis, the Bank’s portfolio has been supported through a robust risk management system, which has resulted in an extremely low default rate, 0.174 percent as of December 31<sup>st</sup> 2014. To that end, almost 80 percent of the Bank’s exposure in FY 2014 was backed by collateral or a sovereign guarantee. Ex-Im Bank continues its prudent oversight and due diligence standards to protect taxpayers through its comprehensive risk management framework. This framework starts with effective underwriting and includes detailed documentation and pro-active monitoring efforts to minimize defaults. In FY 2014, Ex-Im Bank paid \$83.9 million in gross claims and defaulted direct loans compared to a five-year average of \$103.7 million, while the portfolio increased from \$75.2 billion to \$112.0 billion (a 49 percent increase) during the same five year period. The Bank also continues to support both vital industries and emerging economies. Last year, the Bank supported manufacturing exports of nearly \$16.6 billion. Emerging markets comprised 68 percent of total authorizations in FY 2014, up from 62 percent in FY 2013. In the emerging markets arena, the Bank authorized a record breaking authorization amount of more than \$2 billion for U.S exports in sub-Saharan Africa.

**FY 2010-FY 2014 Exposure and Default Rate**



# FY 2016 Administrative Budget

## FY 2016 Budget Request Details

The FY 2016 Budget Request includes \$117.7 million in administrative expenses. The Bank forecasts supporting both \$27.9 billion in authorizations, and 209,000 U.S. jobs while earning \$1,008.7 million in offsetting collections. This Budget Request will allow the bank to engage in its mission of supporting U.S. jobs through export sales, and continue to manage the Bank's portfolio. Below are the individual line items that comprise the FY 2016 Budget Request. Consistent with prior year appropriations, the Bank also requests \$10 million in carryover expenses.

## Administrative Expense Summary

The majority of the line items in the FY 2016 Budget Request are the same as the FY 2015 Enacted level. The two primary drivers for the increase in the FY 2016 Budget Request are increases in both compensation/benefits, as well as an increase in software and equipment. Both of these increases in the Budget Request will allow the Bank to reduce its operational risk, and improve internal processes.

	FY 2015 Enacted	FY 2016 Request
Personnel Compensation	49,869,366	52,677,645
Personnel Benefits	20,030,634	22,622,355
Travel and Transportation of Persons	1,611,797	1,611,797
Transportation of Things	50,000	50,000
Rental Payments for Space	8,400,000	8,400,000
Communication & Utilities	5,349,328	5,349,328
Printing and Reproduction	350,000	350,000
Other Services	14,308,875	14,308,875
Supplies and Materials	915,121	1,465,121
Representation Fund	30,000	30,000
Software and Equipment	5,334,879	10,834,879
<b>Grand Total Expenses</b>	<b>\$106,250,000</b>	<b>\$ 117,700,000</b>
Office of Inspector General	5,750,000	6,000,000

## Program Budget Request

Since FY 2009, Ex-Im Bank has devoted extensive time and resources in exploring ways to reduce its subsidy expenses. The process improvements have successfully allowed the Bank to request \$0 in subsidy funding for FY 2014, FY 2015 and now again in FY 2016. For example, Ex-Im Bank is enhancing its capability in incorporating risk based pricing into its product line. The Bank increased fees on the medium term guarantee product. Then, using the medium term guarantee pricing structure, Ex-Im Bank implemented revised pricing for its short term bank held insurance policies. Such credit pricing improvements are allowing the Bank to request zero subsidy again in FY 2016, allowing the Bank to continue to be efficient with taxpayer funds.

Additionally, Ex-Im Bank has implemented improvements in the underwriting process for multiple financial products. For example, in an attempt to make the process similar to the long term underwriting process, medium term deals are now asset-backed which, although more labor intensive, is resulting in both lower claims and fee rates. Ex-Im Bank is devoted to continuous improvement, and is always exploring new avenues to improve risk management through either underwriting or monitoring. In doing so, the Bank has not needed to request subsidy for three consecutive years, an excellent example of government efficiency and innovation.

### Ex-Im Bank Historical Subsidy Expenses



## Strategic Investments

The FY 2016 Budget Request includes investing in small business outreach and development, bolstering the Bank's IT systems, improving data quality, and dedicating more resources to both the Power Africa Initiative and staff for engineering and environmental due diligence. It is important to highlight that two of the three

strategic investment goals directly coincide with the Bank’s mandates (small business and Sub-Saharan Africa support).

The FY 2016 Budget Request is asking for an additional \$11.4 million over the FY 2015 Enacted level to be allocated as follows:.

Strategic Priority	Investment	FTE
<b>Small Business Development</b>	<b>\$4.4 million</b>	<b>21 FTE</b>
Business Development Specialists	\$2.2 million	11 FTE
Admin Support	\$0.4 million	2 FTE
Underwriting and Monitoring	\$1.8 million	8 FTE
<b>IT Infrastructure</b>	<b>\$6.0 million</b>	<b>0 FTE</b>
IT Systems Upgrade		
<b>Power Africa Initiative</b>	<b>\$1.0 million</b>	<b>4 FTE</b>
<b>Total</b>	<b>\$11.4 million</b>	<b>25 FTE</b>

### Small Business



The Bank is requesting an additional \$4.4 million in the FY 2016 Budget Request to support small business development and outreach with the hiring of 21 additional FTEs (11 business development specialists, 8 underwriting and monitoring officers, and 2 associate administrative support staff). These resources will allow the Bank to enhance its outreach focus.

Further supporting American small businesses is a key focal point in the Bank’s investment strategy in FY 2016. With 95 percent of world’s population living outside of the United States, there is enormous potential growth opportunity for American small businesses. However, many small businesses do not have the resources necessary to explore exporting opportunities. Ex-Im Bank

works with the Small Business Administration (SBA) and the Department of Commerce to assist small businesses looking to expand their operations outside of the United States. The FY 2016 Budget Request will dedicate extensive resources to support small firms in the United States, primarily through much needed outreach and development. For example, there are approximately 27 million businesses in the United States. Of these, approximately 280,000 export, and of these firms approximately 60 percent export to only one country, either Canada or Mexico. There is an explanation for this small percentage: the largest markets for products and services have always been in the United States, and until recently there has been little compulsion to take the steps necessary to generate revenues from other expanding markets around the globe. The Bank is dedicated in assisting small businesses find export opportunities.

Ex-Im Bank would need to authorize approximately \$5.6 billion in small business transactions in order to meet the 20 percent mandate. Additional resources combined with an investment strategy will enable the Bank to meet its goal. Using historical averages of small business content from previous fiscal years, the core small business authorization amount is approximately \$5.4 billion. The Bank's FY 2016 Budget Request will support 11 new small business development specialists. Such specialists focus on small business development and outreach.

An essential part of Ex-Im Bank's mandate is to assist the Department of Commerce, SBA, and the other agencies in encouraging small businesses that have the capacity to export, to begin doing so. The other essential part of Ex-Im Bank's mandate is to reach and better serve the 280,000 businesses already engaged in exporting. A priority of the FY 2016 Budget Request is to engage with these small businesses, and help American firms export. Ex-Im Bank has allocated extensive resources to its Small Business Division in recent years, and continues to do so going forward. This effort resulted in over 2,500 new small business customers being added over the last five years.

In order to continue growing the Bank's small business clientele base, the Bank will open new doors for small businesses through its Global Access Forums. In 2011, Ex-Im Bank launched Global Access for Small Business, an initiative dedicated to dramatically increasing the number of small businesses exporting goods and services to markets around the world. Since its launch, Ex-Im Bank has hosted over 75 Global Access Forums in cities and towns across the country. The forums bring Ex-Im Bank leaders and current small business customers together to engage local small businesses on how Ex-Im products can empower them to reach new markets, boost sales, and add jobs.

The primary challenge Ex-Im Bank faces in assisting small businesses is in origination: how to find the small businesses that export and those that have the quality and volume of products and services to export. The FY 2016 Budget Request will allow the Bank to implement its new strategy of hiring new business development specialists to assist in reaching small businesses looking to export their goods.

Ex-Im Bank is providing export financing to an increasing number of U.S. small businesses, particularly those smaller companies with fewer than 100 employees, and both minority – and/or women-owned businesses. Since FY 2009, Ex-Im Bank has significantly increased its financing to support the growth of minority-owned and woman-owned businesses, approving more financing over the past six years than in the previous 16 years combined.

## IT Infrastructure

The Bank is requesting an additional \$6.0 million in the FY 2016 Budget Request to support IT infrastructure initiatives. Beginning in FY 2014, Ex-Im Bank embarked on a multi-year, enterprise-wide, technology transformation program to replace many antiquated systems. In developing this plan, the Bank has taken into consideration the various recommendations of the Inspector General and the Government Accountability Office (GAO). The plan includes the replacement of the Bank's core Financial and Administration system, moving more activity online, providing quicker feedback to customers, and supporting enhanced risk management processes.

Previously, many of the Bank's legacy systems dated back to the early 1990s. The Office of the Inspector General (IG) Audit Report "Information Technology Support for Export-Import Bank's Mission (OIG-AR-12-04)" found that:

"Overall, Ex-Im Bank IT systems and databases do not always capture and manage all necessary data for business needs and antiquated IT applications cause workflow inefficiencies. In addition, because not all applications for Ex-Im Bank products are electronically accepted and processed in a centralized database, and because Ex-Im Bank's IT systems are not integrated, certain key data has to be manually entered into different Ex-Im Bank systems and transaction records hard copied to complete workflow processing task(s). In sum, the present IT application infrastructure makes it difficult for Ex-Im Bank to provide timely service, effectively manage and track its programs, measure progress, and increase productivity."

In response to the above-mentioned IG report and with the support of the Administration and Congress, Ex-Im Bank is dedicating extensive resources to improve the Bank's outdated systems.

At the beginning of FY 2015, the Bank launched an Oracle based Financial System that replaced a significant part of Ex-Im Bank's older systems. This new financial system will assist in managing enterprise risk and reducing compliance costs. Such system improvements will improve the Bank's ability to both manage and mitigate operational risk. This is a very important step in improving the Bank's financial management capabilities. However, these are additional systems that need to be upgraded in FY 2016. The \$6.0 million allocation in the FY 2016 Budget Request will allow the Bank to engage in the following programs:

**Software Life Cycle Support:** Software support is by far the biggest life cycle cost driver and the most significant source of system risk for all major software-intensive acquisitions. In FY 2016, the Bank plans to make additional significant progress in upgrading legacy systems to modern, supportable software architecture that also better addresses Bank requirements. Developing supportable software and maintaining appropriately trained staffing is one of the most important criteria for a successful technology implementation.

**Total Enterprise Modernization:** The Bank is reviewing its internal operational processes and technology capabilities, as well as customer interfaces and satisfaction. The efforts to improve these areas are mostly governed and managed by the Total Enterprise Modernization (TEM) project. The objective is to develop an enterprise culture of high performance and customer focus and to re-engineer business operations to create capacity to meet customer needs and expectations. The TEM project will be focusing on redesigning business processes and upgrading information technology systems. Further, the intent is to also improve collaboration, data management, and reporting.

**Online Customer Experience Improvements:** The objective of this initiative is to improve the online experience for Bank customers. This new customer interface will be better structured to take the customer one step at a time and will include mouse over "help" information to facilitate the gathering of information. It will also allow them to send questions for clarifications, for example a "chat" room if staff is available to respond online during business hours.

## Sub Saharan Africa (SSA) and the Power Africa Initiative

0.092%

**Default Rate in SSA**

as of December 31, 2014

The Bank is requesting an additional \$1.0 million in the FY 2016 Budget Request to include 4 FTEs and additional support to bolster the Power Africa Initiative and continue investments in SSA. Africa is home to seven out of the 10 fastest-growing economies in the world.

President Obama launched the Power Africa Initiative on June 30, 2013 to expand electric power generation in sub-Saharan Africa, where more than 600 million people lack regular access to electricity. Through the Power Africa Initiative, the president has set a goal of adding more than 30,000 megawatts (MW) of new, cleaner electricity-generating capacity, and increasing access to electricity for at least 60 million households and businesses. Ex-Im Bank has pledged up to \$5 billion in support

of this initiative and has approved financing for projects that will contribute to Power Africa's goals.

Power Africa will build on Africa's enormous power potential, including new discoveries of vast reserves of oil and gas, and the potential to develop clean geothermal, hydro, wind and solar energy. It will help countries develop newly-discovered resources responsibly, build out power generation and transmission, and expand the reach of mini-grid and off-grid solutions.

Ex-Im Bank played a key role in this first-of-its kind event, held in August 2014 in Washington, D.C., where President Obama welcomed leaders from across the African continent to strengthen ties with the United States and promote U.S.-African trade and investment. Ex-Im Bank hosted events for young African leaders and African heads of state and CEOs to discuss trade opportunities. Moreover, the Bank has partnered on export-focused events with the U.S. Foreign Service, Foreign Commercial Service, U.S. Trade and Development Agency, U.S. Agency for International Development, the Millennium Challenge Corp., and other U.S. government entities to encourage economic engagement pursuant to the Africa Growth and Opportunity Act.

In the past five years, Ex-Im Bank has approved more than \$6.3 billion in financing for U.S. exports to sub-Saharan Africa, including a record-topping \$2.0 billion in authorizations in FY 2014. Also in FY 2014, 10 percent of Ex-Im Bank's authorizations by dollar volume supported U.S. exports to sub-Saharan Africa.

Ex-Im Bank-supported U.S. exports to sub-Saharan Africa also accounted for approximately 8 percent of an estimated more than \$25 billion of total U.S. manufacturing exports to the region in FY 2014 as well.

Ex-Im Bank has established an advisory committee to advise the Board of Directors on the development and implementation of policies and programs designed to support SSA. With the additional resources in the FY 2016 Budget Request, the Bank is looking to further support U.S. exports to this region.

# Fiscal Year 2016 Forecasting

## Demand Driven

America's private sector capital markets are the highest-functioning, most efficient in the world. Such markets do a tremendous job of financing U.S. exports. However, commercial banks do not always have the capacity or willingness to equip American businesses that want to sell their goods and services overseas. Even in strong economic periods, small businesses generally have difficulty securing working capital loans or insurance packages to support exports.

Ex-Im Bank's role in the market is to assist in filling any market gaps. The Bank does not compete with the private sector (in fact, approximately 98 percent of the Bank's transactions include a partnering private financial entity). Instead, the Bank provides a vital backstop to ensure that the American export economy remains vibrant in a world of fluctuating markets. The Bank is demand driven, and adjusts to current market conditions. As seen from the 2008 financial crisis when market liquidity was weak, the Bank served as a lender of last resort to assist financial markets.

## Authorization Forecasting

Ex-Im Bank's FY 2016 Budget Request reflects a careful analysis of the potential demand for the Bank's direct loan, guarantee, and insurance authority and the administrative resources necessary to meet market demand and successfully fulfill its mission. The Economist Intelligence Unit (EIU) estimates exports for goods to increase by 10.9 percent from FY 2013 to FY 2016. In line with this projection, Ex-Im Bank forecasts authorizations to increase to \$27.9 billion by FY 2016, with exposure increasing to \$125.1 billion.

Ex-Im Bank derives its authorization forecasts from a pipeline of transactions that are expected to occur during that fiscal year along with business unit level forecasts conducted by each division. Furthermore, the Bank has created quantitative regression models to forecast expected authorizations as another check to validate the pipeline methodology. Forecasts are updated on an ad hoc basis based upon new transactions entering the pipeline.

The previous five fiscal years have been record breaking for Ex-Im Bank in terms of both jobs supported and authorization amounts. However, while authorizations are projected to be substantial in both FY 2015 and FY 2016, the growth in authorizations from the previous five year peak is not expected to continue. FY 2015 and FY 2016 authorization projections are \$26.5 billion and \$27.9 billion respectively. Below are authorization projection details by each underwriting division.

### Ex-Im Bank Authorizations

Division	FY 2014	FY 2015 ( E )	FY 2016 ( E )
Transportation	\$ 8,999	\$ 10,520	\$ 11,305
Structured Finance	\$ 3,366	\$ 7,803	\$ 7,253
Trade Finance	\$ 448	\$ 450	\$ 600
Working Capital	\$ 2,410	\$ 2,219	\$ 2,270
Multi-Buyer	\$ 4,835	\$ 5,096	\$ 5,855
Single Buyer	\$ 409	\$ 400	\$ 600
<b>Total</b>	<b>\$ 20,467</b>	<b>\$ 26,488</b>	<b>\$ 27,883</b>

## Exposure Forecasting

Ex-Im Bank's exposure is derived from two primary sources: new authorizations and repayments of approved authorizations. The Bank develops exposure forecasts by estimating new exposure due to the approval of new authorizations along with the reduction of exposure due to the expected repayments of transactions. The difference between the authorizations and repayments give the change in exposure during the fiscal year.

The Bank recently improved, consistent with GAO recommendations (GAO-13-620), the calculation of expected repayments and authorizations by incorporating actual Ex-Im Bank data. For repayments, the Bank takes current transactions and uses their actual repayment terms. By summing up individual transactions repayments by year, the Bank creates a total expected repayment amount for any given fiscal year. For future transactions, the Bank takes typical repayment terms and applies them to forecasted amounts.

Ex-Im Bank developed three different models to supplement the pipeline methodology. These models use the Bank's historical experience as well as other data sources to forecast future authorization levels. For new authorizations, the model in large part uses Ex-Im Bank's historical proportion of total U.S. exports. The Bank uses the Economist Intelligence Unit's (EIU) forecast of future U.S. exports to derive a future expected authorization level in addition to looking at the historical growth of Ex-Im authorizations.

Historically, Ex-Im Bank has operated with significant exposure cap headroom. Congress increased the exposure cap in 2002 from \$75.0 billion to \$100.0 billion. This was not done because Ex-Im Bank anticipated that it would be at \$100.0 billion by the end of its authorized extension (in fact, the Bank had not asked for an increase in the cap), but was done to send a signal to the rest of the world that the U.S. was serious about ensuring U.S. businesses would be able to compete internationally. The importance of sufficient headroom is illustrated by the fact that during the current reauthorization process of the Bank, foreign firms are highlighting the uncertainty regarding Ex-Im Bank's reauthorization, noting that financing may not be available from the American ECA. The Ex-Im Bank Re-Authorization Act of 2012 set conditional exposure caps of \$120.0 billion for FY 2012, \$130.0 billion for FY 2013, and \$140.0 billion for FY 2014. With the budget request under current market conditions, Ex-Im Bank is projected to hit \$118.3 billion in exposure by the end of FY 2015 and \$125.1 billion by the end of FY 2016. Exposure projection details are below.

### Export-Import Bank of the United States Exposure Cap Analysis (\$billions)

	FY 2013	FY 2014	FY 2015 (frcst)	FY 2016 (frcst)
<b>Exposure (BOY)</b>	\$ 106.6	\$ 113.8	\$ 112.0	\$ 118.30
<b>Repayments/Prepayments/Cancellations</b>	\$ (20.2)	\$ (22.3)	\$ (20.2)	\$ (21.20)
<b>New Authorizations</b>	\$ 27.3	\$ 20.5	\$ 26.5	\$ 27.90
<b>Exposure EOY</b>	\$ 113.8	\$ 112.0	\$ 118.3	\$ 125.10

As mentioned earlier, Ex-Im Bank gives American exporters the tools necessary to compete fairly against foreign firms. The Bank can expect authorizations to increase from FY 2014, for four specific reasons:

1. Meeting Foreign ECA Competition (more on page 26)
2. Providing Financing for Small Business Exporters
3. Providing Financing for Developing/Emerging Markets
4. Basel III and the Regulatory Environment

## Supporting U.S. Small Businesses

Small businesses are the engine of the American economy, responsible for creating two out of every three new jobs and more than half of all Americans either work for or own a small business. Ex-Im Bank is committed to supporting job growth by equipping small businesses with the financing they need to reach new customers and win sales overseas. In FY 2014, nearly 90 percent of the total number of Ex-Im Bank authorizations directly benefited small businesses. In fact, this figure does not include small businesses benefiting indirectly as suppliers to Ex-Im Bank's larger customers.

The limited role private banks play in small business financing is due to high costs and low return on investment. These low profit margins make small business lending difficult, especially during an economic downturn as they are the most vulnerable to macroeconomic shifts.

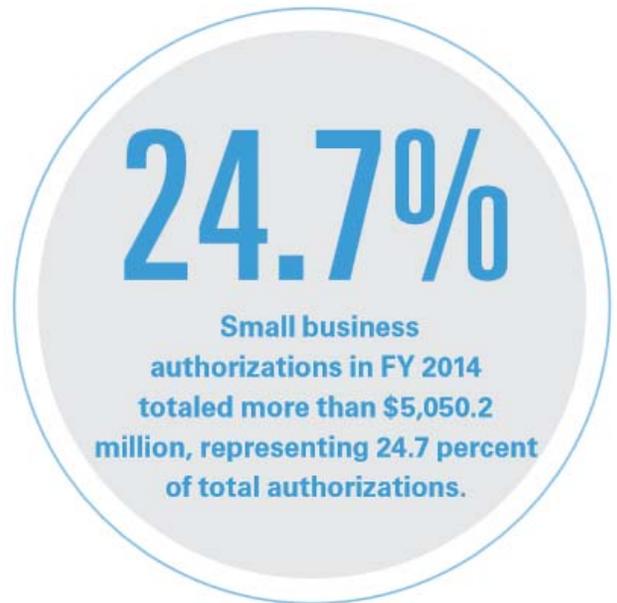
In FY 2014, Ex-Im Bank had a number of impressive accomplishments for small businesses:

- Authorized more than \$5.0 billion in financing and insurance for American small business exporters
- Nearly 90 percent of the number of Ex-Im Bank's authorizations support small businesses
- 545 U.S. small businesses were first-time users of Ex-Im Bank products

Ex-Im Bank continues to allocate resources to network with small businesses looking to begin exporting, or looking to export into new markets. Ex-Im Bank has added over 2,500 new small business customers since 2009. Engaging with small businesses, through outreach, and investing more in business development specialists, is a key strategy for FY 2016.

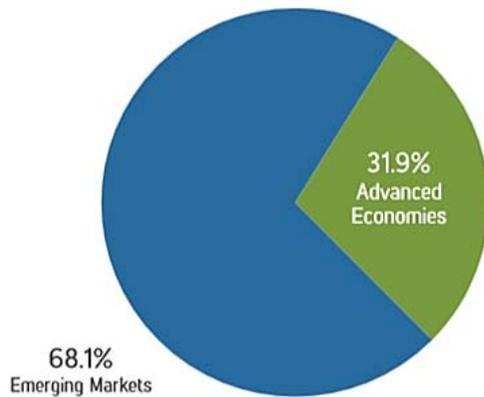
## Emerging Markets

Worldwide demand is increasing in emerging markets for all kinds of infrastructure development, including civil aviation, roads and bridges, power plants, telecommunications, and other vital capital goods and services. Ex-Im Bank empowers American firms to seize these tremendous opportunities, meeting global demand, and adding quality jobs in the United States.

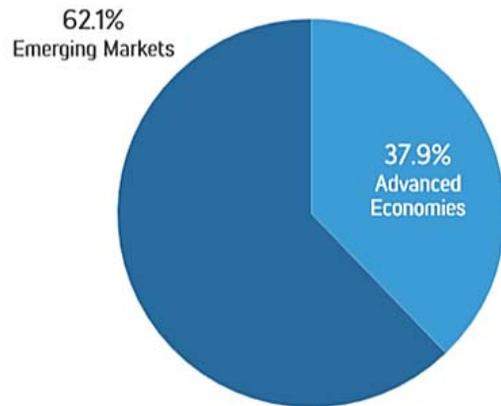


Working on behalf of U.S. exporters, Ex-Im Bank has financed more global infrastructure projects in the past four years than in the previous 17 years combined, helping to keep the United States competitive against foreign rivals in some of the world’s fastest-growing markets. In FY 2014, \$13.9 billion (more than 68 percent) of Ex-Im Bank’s authorizations supported U.S. exports to emerging markets.

PERCENTAGE OF TOTAL AUTHORIZATIONS



PERCENTAGE OF TOTAL SMALL BUSINESS AUTHORIZATIONS



## Regulatory Environment

There are several current and future regulations on private banks that will have an impact on the private sector’s ability and willingness to lend. While it is difficult to anticipate how these new ratio requirements will ultimately interact, banks will have to make choices to meet these ratios; that is, they will need to develop, maintain or close some activities. Additionally, banks have seen a dramatic increase in the cost of their loans, coming first from the banks’ higher costs of funds—especially for long-term resources—and second from the need for larger earnings to fund an increased equity base.

Data from Dealogic reflects ECA financings played gradually an increasing role both in dollar amounts and in percentage terms while global financings made available decreased. The \$80 billion level of export finance activity for specialized activities (aircraft, shipping and project finance) in 2011 likely accounted for 20 percent of commercial bank-provided loans for these businesses. Banks globally remained largely dependent on ECA cover for the provision of certain export credit. In 2012, ECA cover was roughly 23 percent of commercial bank-provided loans for aircraft, shipping and project finance compared to 7 percent in 2007. Below are some of the regulations that the Bank expects will impact demand for ECA financing.

The first regulatory measure responding to the 2008 crisis came with Basel III. The guidelines were finalized in December 2010 and will be implemented gradually through 2019. The key elements relevant to medium- and long-term (MLT) export finance are:

- The Equity Ratio: Banks will have to increase their Equity Ratio, which compares Equity with Risk Weighted Assets (RWA), from 8 percent to 10.5 percent.

- The Net Stable Funding Ratio (NSFR): Banks will be required to compare the long-term financial resources of a bank (over one year) with its long term commitments (also over one year).
- The Leverage Ratio will compare the Tier 1 Equity with total assets (including off-balance sheet commitments). The target ratio is 3 percent.

In addition to Basel III, commercial banks will have to manage regulatory rules and capital markets expectations.

- The Loans to Deposits Ratio (LTDR): LTDR is defined as the unsecured loans made by a bank divided by deposits made by clients of the bank. Banks that have a ratio above 100 percent have to go to the capital markets to cover their funding gap.
- Preventing mismatch in geographic locations of funding: National regulators are increasingly trying to limit the volume of funds raised in a country (e.g. the U.S.) and flowing to another one (e.g. any country in Europe) within the same bank. In addition, central banks will only consider the utilization of an export credit as collateral if the loan is booked in domestic country and covered by the domestic ECA.

# Risk Management

Ex-Im Bank continues its prudent oversight and due diligence standards to protect U.S. taxpayers through its comprehensive risk management framework. This framework starts with effective underwriting to ensure a reasonable assurance of repayments. More than 80 percent of the Bank’s portfolio is backed by some form of collateral or a sovereign guarantee. The comprehensive risk management program includes detailed documentation to ensure the Bank’s rights are protected legally and that the transaction is not in violation of U.S. government policy. Risk management continues after a transaction is approved with pro-active monitoring efforts to minimize defaults, and aggressively seek recoveries when appropriate. The Bank believes that a comprehensive risk management framework with strong emphasis on continuous improvement minimizes claims and defaults. Ex-Im Bank also engages in proper oversight and governance of the Bank’s portfolio, including the setting aside of adequate loan loss reserves.

In FY 2014, to further strengthen the Bank’s risk management program, the Bank established the Enterprise Risk Committee (ERC) comprised of Senior Vice Presidents of the Bank, and chaired by the Bank’s Executive Vice President and Chief Risk Officer. The mandate of the ERC is to maintain oversight of the comprehensive and systematic risk management regime within the Bank. The regime extends beyond repayment risk in the portfolio to include operational risk – such as systems and staffing risk – as well as the full range of legal, market, and strategic risks faced by the Bank. The mandate of the Enterprise Risk Committee is to maintain oversight of the comprehensive and systematic risk management regime within the Bank. This regime extends beyond repayment risk in the portfolio to include operational risk—such as systems and staffing risk—as well as the full range of legal, market, and strategic risks faced by the Bank.. The ERC will foster the development of enterprise risk awareness, promote open discussion regarding risk, integrate risk managing into the Bank’s goals, and create a culture such that Bank employees at all levels both manage and understand risks. The ERC meets at least once per month, and incorporates oversight of several subordinate committees focused on specific areas of risk.



## Underwriting

The Bank’s Charter requires “reasonable assurance of repayment” for the transactions it authorizes. Underpinning the underwriting of individual transactions is the credit grading system in which loan classifications reflect the risk of default and credit losses. Ex-Im Bank determines its credit ratings beginning with an assessment of country risks which is done through the inter-agency process known as Inter-agency Country Risk Assessment System (“ICRAS”). This rating system is used for all U.S. government agencies and programs providing cross-border loans, guarantees, or insurance. The ICRAS process establishes two risk ratings for each country: a sovereign rating and a non-sovereign rating. These ratings, ranging from 1 to 11 with 11 being the riskiest, are used in determining loss reserves for each transaction and for determining Ex-Im Bank’s cover policy.

Ex-Im Bank's ability to consider supporting a transaction strictly from a credit perspective is initially determined by the country rating. Given the Bank's reasonable assurance of repayment mandate, Ex-Im Bank is open under all of its normal programs for markets rated up to 7, and for short and medium-term transactions only for markets rated up to 8. The Bank is not open in markets rated 9 -11 unless the risks can be externalized to the Bank's satisfaction. The Bank's credit assessment process varies primarily based on the term and amount of exposure.

Credits over \$10.0 million in value are approved by the Bank's Board of Directors. Credits of \$30.0 million or more are reviewed through the National Advisory Committee process where the other agencies (OMB, Commerce, Treasury, State, and USTR) are given the opportunity to provide comments to the Bank's Board of Directors. Credits of \$100.0 million in value or more are referred to Congress for a 35-day comment period and, must also be notified through the Federal Register for a 25-day comment period.

### Monitoring

Following the underwriting phase of a transaction, Ex-Im Bank continuously monitors the portfolio of credits after they have been approved, documented, and disbursed. The monitoring groups function independently of the credit underwriting divisions. The Bank ensures that loans are monitored by individuals who are not part of, nor influenced by anyone associated with the underwriting process. The Bank's monitoring procedures include writing annual or semi-annual credit-rating reviews of obligors' debt service repayment capacity, taking into account all factors that directly impact ability and willingness to pay. These ongoing reviews strengthen staff's familiarity and working relationships with obligors and allow the Bank to identify vulnerabilities in the credits. Consequently, the ability to develop and implement remediation action is strengthened, which ultimately has a positive impact on the quality of the portfolio. The monitoring groups continually identify a list of major "Obligors of Concern" and a "Watch List" to draw attention to borrowers that warrant the special attention of the Bank's senior management. Additionally and most importantly, the information gained from portfolio monitoring serves as critical feedback, which staff provides to the underwriting areas within the Bank, to be applied in the policy, analysis, and ultimate documentary structure of new financing requests.

### Default Experience and Comprehensive Risk Management

Ex-Im Bank delivers to Congress quarterly reports on its portfolio default rate. The active default rate reflects the total amount of overdue required payments (claims paid on guarantees and insurance transactions plus loans that are past due) divided by the total amount of disbursed financing involved. The Bank's active default rate as of December 31<sup>st</sup> 2014 was 0.174 percent. The historically low default rates Ex-Im Bank has accrued of late are due to a comprehensive risk management framework with a strong emphasis on continuous improvement. This has led to a relatively low number of defaults, coupled with high recovery rates on those credits that have entered default. Since the Federal Credit Reform Act went into effect in 1992, the Bank has succeeded in recovering approximately 50 cents for every dollar defaulted in the portfolio.

## Continuous Improvement

Ex-Im Bank has implemented numerous risk management improvements recently, improvements that protect U.S. taxpayers. Equally important is the bank's commitment to continuous improvements of how the Bank measures, controls, and mitigates risks. The Bank has made numerous improvements during the previous few years including:

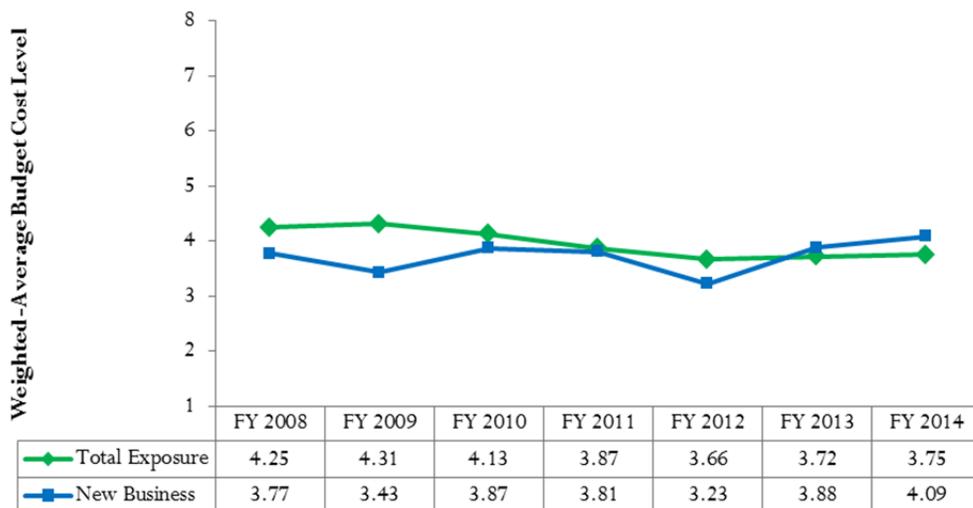
- Hiring a Chief Risk Officer
- Creating the Enterprise Risk Committee (ERC)
- Creating a Special Assets unit to address emerging credit issues
- Expanding the pro-active monitoring efforts
- Enhancing credit loss factors with qualitative factors
- Mitigating operational risk

The Bank continues to implement advice and suggestions from previous findings from the Bank's internal analysis, outside expert advice, and audit recommendations (GAO and IG). To assess the extent to which Ex-Im Bank has a comprehensive risk-management framework, various external parties review Ex-Im Bank's practices for managing risks at the transaction and portfolio levels. Since May 2012, Ex-Im Bank has been audited by GAO and the IG 32 times. Also, Ex-Im Bank undergoes internal audits, as well as an annual financial audit from Deloitte. In FY 2014, the Bank spent \$1.2 million (excluding the Office of the Inspector General) on audit and compliance to promote efficiency and effectiveness in the administration and management of the Bank's programs.

Ex-Im Bank has made it a priority to minimize operational risks, and continues to allocate sufficient resources to add both additional staff and improve the IT infrastructure to meet industry standards. Currently, the Bank is in the process of finalizing hiring additional staff to comply with industry best practices regarding workload management for both monitoring and underwriting.

## Risk Exposure

The Bank's portfolio, from a risk rating perspective, is less risky compared to the portfolio ratings between FY 2008 and FY 2011. The portfolio has decreased from weighted risk level of 4.25 in FY 2008 to 3.75 as of September 2014. The historical trend can be seen in the chart below:



## Mitigating Operational Risk

Due to increasingly rapid growth from FY 2008 to FY 2012, combined with flat administrative expenses, the Bank was exposed to growing operational risk. During this time period, authorization levels increased nearly 150 percent, while administrative expenses increased by only 15 percent. As the number and complexity of authorized deals increased, the Bank required additional staff to manage new transactions. As a result of the increased demands on personnel and the subsequent potential for increasing operational risk, the GAO (GAO-13-620) recommended that Ex-Im develop benchmarks against which to monitor its workload levels.

According to the Risk Management Association (RMA), operational risk is defined as:

“The risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events, but is better viewed as the risk arising from the execution of an institution’s business functions. Operational risk exists in every organization, regardless of size or complexity from the largest institutions to regional and community banks.”

In order to mitigate such operational risk, the Bank is engaged in a multi-year process of implementing improvements to both staffing and IT systems. Beginning in FY 2014, Ex-Im Bank made significant improvements in mitigating operational risks. In that year, Congress appropriated additional administrative funds, an increase of \$15.1 million above the FY 2013 Enacted level. The additional funds have greatly mitigated the Bank’s operational risk. The challenge for the Bank in both FY 2015 and FY 2016 is to integrate these new resources into the Bank’s comprehensive risk management efforts.

Ex-Im Bank hired two separate consulting firms, producing three separate reports, to assist in analyzing industry norms for proper staffing, as well as creating a custom workload benchmark tool. These analyses are the first step towards establishing a consistent and systematic approach to the Bank’s workload management. The Bank continually analyzes staffing needs for underwriting, monitoring, and support staff. The first report found that “AMD and TPMD (the Bank’s two monitoring groups) are understaffed to the peer group. The average workload per asset manager at Ex-Im Bank is significantly greater than that observed in its peer group.” However, due to recent staffing increases in FY 2014, and FY 2015, the Bank will be in compliance with industry best practices for monitoring officers by FY 2016. As noted below, the first report reviewed credits as either “complex deals” or “non-complex deals”.

Monitoring Workload per FTE		
	Complex Deals	Non-Complex Deals
Industry Standards	7 - 10	20 - 30
Ex-Im (FY 2016)	10	27

Efficiently monitoring credits is just one aspect of the Bank’s duties. The Bank must first underwrite the credit, as well as ensure the Bank has the proper support staff to assist in operational duties. The second consulting firm produced the second and third reports which focused on these aspects.

The second consulting firm created a new Excel based Workload Decision Support Tool, to support the development of recommended workload benchmarks. This custom tool allows the Bank to input a number of different variables, such as average weekly hours worked, average authorizations per full-time employee,

forecasted percent change in the number of transactions, and others. The tool is designed to give management proper support to quantify, analyze, and document proper staffing requests and rationale. The consulting firm conducted interviews with various peer institutions in order to determine comparable workload levels. The peer institutions included other ECAs, large commercial banks, international investment agencies, and multi-lateral development banks.

The second report focused on underwriting divisions at the Bank; specifically, Trade Finance, Structured and Project Finance, and Transportation. These divisions focus on the creation of direct loan or loan guarantee credits. Based upon the review of the current workload, the firm developed a set of recommendations for the Bank's underwriting groups (Export-Finance). The firm recommended that Ex-Im Bank consider an increase to its Export Finance workforce of an additional six to 13 FTEs. Ex-Im Bank has hired, or is in the process of hiring the recommended staff, which will assist in mitigating Bank operational risk. Ensuring the Bank has the proper resources to underwrite credits will assist the Bank in maintaining its low default rate, thus protecting U.S. taxpayers.

The third report focused on the workload of the Transaction Law, Administrative Law and Board Support, Environmental and Engineering (EE), and Country Risk and Economic Analysis (CREA) Divisions. Three of the groups provide transaction origination support, and two provide further support through monitoring activities. The report is being finalized and reviewed by Bank senior management; however, the preliminary findings show the need for additional staff. Specifically, the Bank needs to hire approximately 11 new employees. The Bank is in the process of hiring the recommended staff requirements in FY 2015, except for two additional EE staff members. The Bank is looking to hire the two additional staff for EE in FY 2016.

Due to the third report being reviewed by senior management, the Bank is in the process of implementing recommendations from both the first and second report. Specifically, the first report highlighted the need for the Bank to address:

- Staffing levels (primary objective)
- Monitoring resources
- Feedback loop
- Risk-rating systems
- Data management

After further internal review, the Bank has begun addressing each of these areas in order to mitigate operational risk. As noted on the previous page, the Bank has hired additional staff and allocated additional resources to the monitoring groups. With additional staff, the monitoring specialists are able to further engage in other areas of the Bank. For example, in an effort to enhance the feedback loop, the Bank has expanded the deal teams to include monitoring specialists. The monitoring specialists bring extensive experience of analyzing existing projects, which can be applied to improve underwriting of new authorizations.

The Bank is also reviewing other areas where operational risk can be mitigated as recommended by the first report. In order to improve the Bank's risk rating systems, the Bank has contracted with a leading model developer to analyze the Bank's current models. This project is expected to be completed by the end of FY 2016.

The Bank is also currently reviewing its practices of segmenting the portfolio to comply with industry best practices for monitoring; meaning monitoring divisions may be reorganized to improve efficiency. This is expected to be completed by the end of FY 2015.

Staffing the proper amount of personnel is just one variable to consider for operational risk improvement, in addition to improving IT systems. As discussed earlier, the FY 2016 Budget Request specifically addresses the need for the Bank to improve its antiquated IT systems. Beginning in FY 2014, the Bank began an enterprise modernization effort. The first success was the Bank launched an Oracle based financial management system on October 1<sup>st</sup> 2014. The Bank will continue to implement pieces of the modernization effort in FY 2015 and FY 2016. Improving the Bank's IT systems is a multi-year process, one which will further protect the U.S. taxpayer.

The second report recommended the Bank hire additional staff for underwriting, which the Bank has completed in order to comply with industry norms. Another area of improvement which was recommended is that the Bank utilize innovative strategies for employee retention. The Bank is currently reviewing methods and opportunities to turn the Bank into a Tier One place to work. In its most recent strategic plan, the Bank focused on how it can create an environment that fosters high performance and innovation. In an effort to both obtain and retain talent, the Bank must proactively revise certain processes, while at the same time, it must effectively communicate with staff on all changes taking place. Ex-Im Bank is dedicated to improving employee satisfaction, and implementing workforce initiatives such as further training opportunities for employees. Ex-Im Bank considers its most important resource to be the dedicated and innovative staff it employs.

# Leveling the Playing Field for U.S. Exporters

## Foreign Export Credit Agency (ECA) Competition

For more than 80 years, Ex-Im Bank has leveled the playing field for U.S. exporters competing against foreign firms where there is financing offered by foreign governments. Ex-Im Bank supports both American exporters and jobs, but it does so in a global context. As other major Export Credit

Agencies (ECAs) have moved to aggressively increase export credit for their respective nations' businesses, U.S. exporters are facing a global environment marked by unprecedented levels of foreign ECA financing. The United States competes against 60 other ECAs for export sales. As other countries continue to increase ECA financing, and in particular where countries operate outside of established international financing rules, the need for Ex-Im Bank is greater than ever. Ex-Im Bank provides a vital service to the U.S. economy by not allowing U.S. companies to lose potential export sales due to a lack of competitive financing. The GAO in report GAO-13-303 highlights this role. The GAO found Ex-Im Bank's recent growth is associated with "reduced private-sector financing following the financial crisis" and Ex-Im Bank's ability "to fill the gap in private-sector lending." The FY 2016 Budget Request will allow American exporters to remain competitive in the arena of international trade finance.

If purely free market elements such as quality and price were the only factors for international buyers deciding how to source their products, American exporters would thrive. However, too often government-backed financing can become an overriding factor that tilts the playing field in favor of foreign companies backed by their respective ECAs. The Bank wants to give American firms the opportunity to compete fairly against foreign companies.

Efforts to foster a level playing field – and to encourage global competition based on quality and price of goods and services rather than on an international financing arms race – have been spurred on by the Organization for Economic Cooperation and Development (OECD), of which the United States is a founding member. Originated in 1948, the OECD provides a framework within which ECAs agree to abide by certain uniform standards in an effort to promote fair practices. For example, the OECD sets limits on loan terms and interest rates, establishes minimum market-based fees, and puts into place transparency requirements.

In 2013, trade-related financing provided by nations that are not members of the OECD (such as Russia and China) outstripped OECD-governed lending from all member nations combined. This phenomenon is poised to become the status quo in light of non-OECD nations' growing affinity for offering flexible financing terms to their domestic exporters. Even among OECD member states, competition is increasing; South Korean ECAs, to take one example, equipped Korean companies with substantially more in financing support in 2013 than the United States' ECA did for U.S. companies – despite Korea having an economy less than one tenth the size of America's. South Korean ECAs expended \$24 billion in medium and long term products in 2013, compared to \$14 billion by Ex-Im Bank.

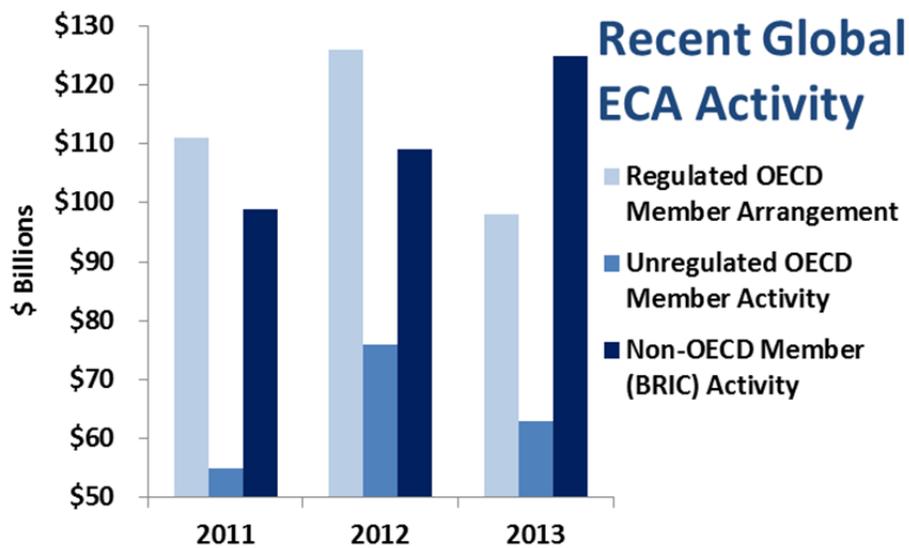
### Staying Competitive

\*60 foreign Export Credit Agencies

\*\$3.7 trillion decline in cross-border lending by Eurozone banks since 2007

-Source: McKinsey Global Institute

As shown below, total trade-related financing reached \$286 billion in 2013. During the last three years, total ECA activity has totaled close to \$1 trillion. In 2013, OECD-governed export credit support accounted for only 34 percent of total official trade-related support (down from more than 40 percent in each of the last two years), meaning that about two-thirds of official support provided in 2013 was exempt from the OECD rules (\$186 billion). Of particular note, three Asian countries – Japan, Korea, and China – accounted for well over half of the \$286 billion total official trade-related support (\$168 billion). In stark contrast, Ex-Im Bank authorized only \$27.3 billion in FY 2013, or approximately 15 percent of those three countries. China, in particular, has also begun to transition away from exporting mainly consumer goods and is moving into the realm of ‘upstream’ exports, such as aircraft, power, and technology. Efforts are currently underway through the International Working Group to include more countries, including China, within an international framework.



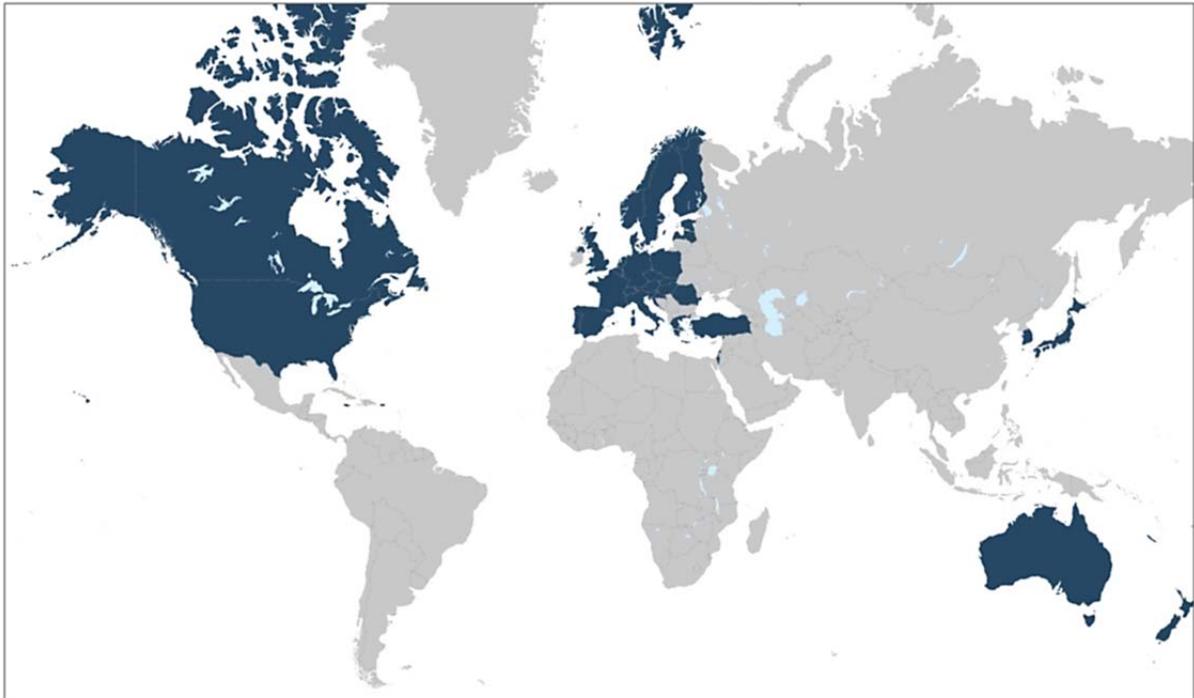
For decades, global export competition was governed by responsible international rules (OECD Agreement) put in place to ensure a level playing field where companies could compete on free market elements such as price and quality rather than on aggressive, market distorting government financing. However, the world has changed. Nearly 100 percent of official trade support operated under OECD rules fifteen years ago, today only one-third does. Thus, two-thirds of official export-credit support provided in 2013 went unregulated by any international standards. Unregulated OECD financing has increased by over 869 percent since 2006, a phenomenon that poses a serious threat to U.S. export competitiveness. Non-OECD financing has also increased by over 316 percent during the same time span. Of the 195 sovereign states (according to the United Nations) only 34 are members of the OECD.

This trend disadvantages American businesses, threatens U.S. job growth, and distorts global markets. Ex-Im Bank exists to support U.S. companies by leveling the playing field—by equipping American exporters with financing that is both competitive and reflective of global best practices. Ex-Im Bank assists in leveling the global playing field and returns it as much as possible to one driven by free market principles based upon quality and price. The competitive edge that Ex-Im Bank provides to U.S. businesses empowers them to more readily compete on the merits of their goods and services. Globally, countries are turning to exports as

a means to grow their economies and spur job creation—their elevated ECA activity is a reflection of that commitment. At the same time, even as the economy has recovered, commercial banks are still somewhat reluctant to wholly finance certain areas of the export finance arena, especially in emerging markets.

These gaps in the private sector, combined with rising global competition, have made Ex-Im Bank more vital than ever. As competition continues to increase in markets around the world, Ex-Im Bank will continue to support American exporters, so that global sales and U.S. jobs are not lost due to competitive foreign ECA financing.

Below are the current members of the OECD.



OECD Countries:

Australia	Germany	Portugal
Austria	Greece	Romania
Belgium	Hungary	Slovenia
Canada	Israel*	Slovak Republic
Croatia	Italy	South Korea
Czech Republic	Latvia	Spain
Denmark	Luxembourg	Sweden
Estonia	Netherlands	Switzerland
Finland	New Zealand	Turkey*
France	Norway	United Kingdom
Japan	Poland	United States

\* OECD countries not participating in the OECD General Arrangement: Israel and Turkey

# Ex-Im Bank Mandates

## Mandates

Ex-Im Bank has three mandates that must be considered in the FY 2016 Budget Request. Below is the specific appropriation language for the Bank's mandates:

1. **Small Business:** "That not less than 20 percent of the aggregate loan, guarantee, and insurance authority available to the Bank under this Act should be used to finance exports directly by small business concerns (as defined under section 3 of the Small Business Act)"
2. **Sub-Saharan Africa:** "The Board of Directors of the Bank shall, in consultation with the Secretary of Commerce and the Trade Promotion Coordinating Committee, take prompt measures, consistent with the credit standards otherwise required by law, to promote the expansion of the Bank's financial commitments in sub-Saharan Africa under the loan, guarantee, and insurance programs of the Bank."
3. **Renewable Energy:** "That not less than 10 percent of the aggregate loan, guarantee, and insurance authority available to the Bank under this Act should be used for renewable energy technologies or energy efficient technologies."

## Small Business

The Bank is confident that with the additional resources requested in the FY 2016 Budget Request, that the Bank will meet its small business mandate. Ex-Im Bank would need to authorize approximately \$5.6 billion in small business support in order to meet the 20 percent mandate in FY 2016. In FY 2016, the Bank is requesting to hire 11 new business development specialists to increase outreach and development, as well as eight underwriting and monitoring officers and two support staff. The Bank currently has 62 employees either within the Small Business Division or directly supporting small business. These employees were essential for the Bank to meet its mandate in FY 2014. However, the 11 additional staff in the Budget Request will assist the Bank in increasing its small business development efforts going forward.

As discussed in the Strategic Investments section, the Bank's core yearly small business estimate in FY 2016 is \$5.4 billion. This estimate is derived from the authorization forecasts in FY 2016, combined with five years of historical data regarding small business content. The Bank reviewed its "core" small business units; including, working capital, long/medium-term authorizations, all insurance products, and the current small business development specialists. After reviewing the authorization projections, and using the five year historical average of small business authorizations, the Bank found it would need an additional \$200 million in small business authorizations in FY 2016 to meet its Congressional mandate.

Reviewing recent data, it is estimated that each new business development specialist could obtain approximately \$21.0 million in new small business authorizations; meaning, the Bank would need to hire 11 new business development specialists to fully meet its mandate. The additional resources requested in FY 2016 for small business are based on analysis using both forecasting and historical data. The additional staff will allow the Bank to meet its Congressional mandate in FY 2016, as well as in future years.

Ex-Im Bank's Office of Small Business provides a Bank wide focus on small business support with overall responsibility for expanding and overseeing small business outreach. This group is responsible for helping provide small businesses with financial assistance to increase export sales. Ex-Im Bank's programs play an important role in providing export-finance support to small businesses that have the ability to expand and create American jobs. In 1978, Ex-Im Bank introduced its first short-term export-credit insurance policy tailored for small business. In 1985, Congress enacted a 10 percent mandate on small business authorizations, which was increased in 2002 to 20 percent. Ex-Im Bank continues to innovate, design, and implement programs and policies to meet the needs of U.S. small business exporters.

Ex-Im Bank's direct small business support accounts for the overwhelming majority of the Bank's authorizations. In FY 2014, the Bank approved more than 3,300 small business authorizations—nearly 90 percent of the total number of Ex-Im Bank authorizations. Additionally, when Ex-Im Bank authorizes a long-term loan or loan guarantee to support U.S. exports from a large U.S. exporter, Ex-Im Bank is also indirectly creating opportunity for American small business suppliers to increase their sales. Ex-Im Bank estimates that, at a minimum, the \$12.7 billion authorized for long-term transactions in FY 2014 supported American small business exports worth at least \$650 million. These small businesses were identified to Ex-Im Bank as suppliers of the principal exporters in these long-term authorizations.

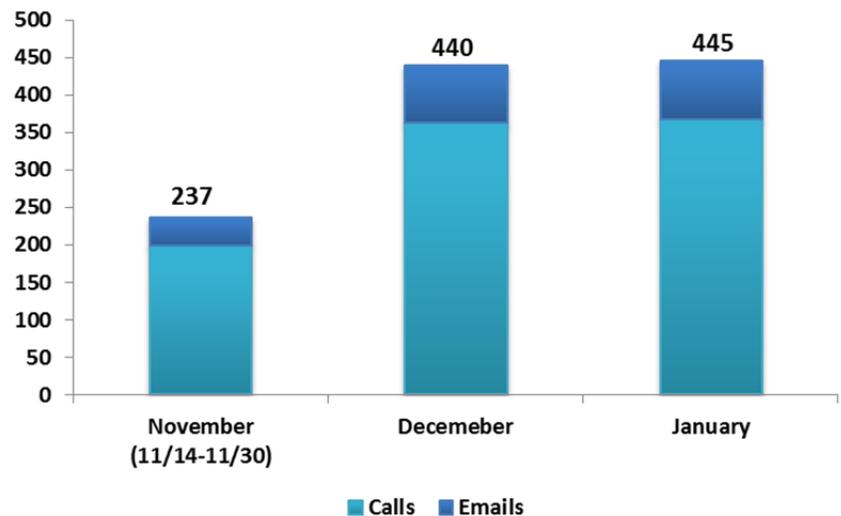
In order to increase the small business authorization level, it requires both time and resources. Trade finance is new to the great majority of small businesses and the institutions that serve them. Significant investments and resources are used to develop the number and amount of small business exporters. As noted earlier, it is estimated that there are approximately 27 million businesses in the United States, of these, approximately 280,000 export, and of these firms approximately 60 percent export to only one country, either Canada or Mexico. As globalization will only increase, Ex-Im Bank financing can help American companies reach new markets.

The other essential part of Ex-Im Bank's mandate is to reach and better serve the small businesses underserved by trade finance markets. Ex-Im Bank estimates that approximately 25,000 to 50,000 firms currently exporting could use its products and services to their advantage right now. However, many are unaware of Ex-Im Bank's capabilities in facilitating entry to foreign markets. For Ex-Im Bank, as well as its sister agencies, reaching such companies is a challenge. The challenge is a function of three factors: (a) exporting typically represents a small portion of the business's activity, and gets less attention; (b) the business's banks or lenders are uncomfortable financing export-related assets; and (c) the banks or lenders, as well as the exporters, are unfamiliar with trade finance or the distinct advantages it brings to the competition for customers worldwide. Too often small businesses see export sales as too risky, difficult or outside their expertise.

Ex-Im Bank is continuously looking for ways to enhance and expand its outreach to small businesses. For example, a new product which is helping small businesses is the Express Insurance policy. This policy, which won the prestigious Innovations in Finance Award from Harvard University, specifically targets new small business customers with policies of under \$1 million. This is a market segment in which there is no private sector interest; brokers as well as insurers gross very little on this kind of policy, with the operating costs associated with origination and processing alone, often exceeding revenue. This is an optimal size for small

businesses however, and with a two page application, simpler set of policy options, two free credit investigations on foreign clients and a target five day turnaround, Ex-Im Bank’s new Export Insurance appears to be the right product. Ex-Im Bank reaches the small business sector through Ex-Im Bank’s 12 regional export finance centers. The three regional headquarters are located in Miami, Chicago, and Irvine, California. There is also a sales team which is responsible for broker, bank, and City/State partner relationships, and for training and outreach. These resources help American firms export, and generate new business opportunities.

Most recently, the Bank has created a contact center primarily to serve its small business customers. The contact center is designed to support Ex-Im Bank’s goal to improve the ease of doing business for customers. It is a centralized, general point of inbound inquiries for both new and existing customers, lenders, and brokers seeking to obtain timely information and new connections to Ex-Im Bank subject matter experts.



### Sub-Saharan Africa

The Bank is currently meeting its SSA mandate of promoting the use of the Bank’s financial products to increase U.S. exports in the region. The Bank is confident that with the additional resources requested in the FY 2016 Budget Request, it will enable the Bank to enhance its presence in the region. Ex-Im Bank offers a range of financing solutions for U.S. exporters and African buyers to expand trade between the United States and sub-Saharan African countries. These programs offer American exporters increased access to working capital, protection against commercial and political risk, and the ability to offer financing on competitive terms. Ex-Im Bank provides U.S. exporters with the financing tools they need to successfully compete for business in Africa. Moreover, the FY 2016 Budget Request will allow the Bank to allocate more personnel to the Power Africa Initiative. Power Africa will bring to bear a wide range of U.S. government tools to support investment in Africa’s energy sector. The Bank will play a vital role in this initiative.

The Bank currently has two full time employees working solely on business development for SSA. However, there are other groups who assist in supporting SSA, specifically through underwriting and monitoring. Currently the Bank reviews credits on a project level rather than a regional level, so that additional staff work on SSA projects.

Ex-Im Bank plays a critical role in enabling American exporters to tap the tremendous sales opportunities in sub-Saharan Africa—home to seven out of 10 of the fastest-growing economies in the world. Since 2009, Ex-Im Bank has supported over \$6.6 billion in transactions throughout sub-Saharan Africa.

In FY 2014, Ex-Im Bank supported transactions in 20+ different sub-Saharan countries. The total number of sub-Saharan Africa authorizations increased 2.1 percent to 192 in FY 2014 from 188 in FY 2013. The dollar amount of authorizations increased 240.1 percent to \$2.0 billion (10.0 percent of total authorizations) in FY 2014 from \$604.2 million (2.2 percent of total authorizations) in FY 2013. Also, Ex-Im Bank-supported U.S. exports to sub-Saharan Africa accounted for approximately 8 percent of an estimated \$25 billion of total U.S. manufacturing exports to the region in FY 2014.

Ex-Im Bank's products and initiatives help U.S. exporters in all regions of Africa, including high-risk and emerging markets. Ex-Im Bank has taken a number of steps to increase its outreach to SSA. For example:

- Ex-Im Bank has established an advisory committee to advise the Board of Directors on the development and implementation of policies and programs designed to support those programs.
- Ex-Im Bank also maintains strong ties with a number of banks in the sub-Saharan region.
- Recently, the Bank signed a memorandum of understanding (MOU) with Preferential Trade Area (PTA) Bank, a trade and development financial institution in Africa and, during the U.S.-African Leaders Summit, Ex-Im Bank signed a \$1 billion MOU for the financing of U.S. exports to Angola.

As mentioned on page 14, the Bank is dedicating extensive resources to the Power Africa. Ex-Im Bank has pledged up to \$5 billion in support of this initiative and has approved financing for projects that will contribute to Power Africa's goals.

### Renewable Energy/Environmentally Beneficial

While Ex-Im Bank is committed to meeting its Congressional mandates, the current market for renewable energy exports is not sufficient enough for the Bank to authorize 10 percent of its yearly transactions to renewable energy. A report by the Department of Commerce found the U.S. produces approximately \$2.0 billion in renewable energy exports per year. Ex-Im Bank staff has also confirmed these reports by speaking to stakeholders in the renewable energy field, and expect exports to remain stagnant in the immediate future.

Below is the GAO language from GAO-13-620 (pages 35-36) report which indicates that demand for renewable energy may prevent meeting a target of 10 percent of its overall authorizations:

"Ex-Im officials stated that additional administrative resources would not enable it to meet its renewable energy target, as its inability to meet the target results from a lack of demand for renewable energy export financing. Seven bank employees are directly involved in meeting Ex-Im's renewable energy target, six in the Office of Renewable Energy and one in the Structured Finance Group. However, Ex-Im officials noted that a 2010 Department of Commerce report estimated the value of all U.S. renewable energy exports at \$2 billion in 2009. **Thus, if the bank had financed every**



**U.S. renewable energy export that year, it still could not have met its renewable energy target.”**  
(Emphasis added)

Ex-Im Bank’s financing helps mitigate risk for U.S. companies that offer environmentally beneficial goods and services and also offers competitive financing terms to international buyers for the purchase of these goods and services. Ex-Im Bank support for U.S. environmental companies ultimately fuels U.S. job creation and the innovative research and development that allow the U.S. environmental industry to remain at the forefront worldwide. The Bank continues to allocate significant time and resources to support renewable energy. Ex-Im Bank has long been recognized as a global leader among financial institutions when it comes to supporting environmentally beneficial exports. Since 1992, Ex-Im Bank has fulfilled a Congressional mandate to promote the use of its financing products for U.S. exports that are environmentally beneficial, including those related to the production of renewable sources of energy. The Bank provides export financing that empowers exporters to seize sales opportunities in global markets. In fact, Ex-Im Bank has significantly increased its financing of renewable energy products. Since 2009, the Bank has authorized nearly \$2 billion in renewable energy exports, a dramatic increase from 2002 to 2008 where the bank only authorized \$210.9 million (an 852 percent increase). The Bank currently has two employees directly dedicated to renewable energy exports. Similar to SSA, there is other support staff who dedicate part of their time to renewable energy. Given the current export market for renewable energy, the Bank is not requesting any additional staff for this activity.

# Appropriation Language

## Export-Import Bank Program Account

The Export-Import Bank (the Bank) of the United States is authorized to make such expenditures within the limits of funds and borrowing authority available to such corporation, and in accordance with law, and to make such contracts and commitments without regard to fiscal year limitations, as provided by section 104 of the Government Corporation Control Act, as may be necessary in carrying out the program for the current fiscal year for such corporation: Provided, That none of the funds available during the current fiscal year may be used to make expenditures, contracts, or commitments for the export of nuclear equipment, fuel, or technology to any country, other than a nuclear-weapon state as defined in Article IX of the Treaty on the Non-Proliferation of Nuclear Weapons eligible to receive economic or military assistance under this Act, that has detonated a nuclear explosive after the date of the enactment of this Act[: Provided further, That not less than 20 percent of the aggregate loan, guarantee, and insurance authority available to the Bank under this Act should be used to finance exports directly by small business concerns (as defined under section 3 of the Small Business Act): Provided further, That not less than 10 percent of the aggregate loan, guarantee, and insurance authority available to the Bank under this Act should be used for renewable energy technologies or energy efficiency technologies: Provided further, That notwithstanding section 1(c) of Public Law 103–428, as amended, sections 1(a) and (b) of Public Law 103–428 shall remain in effect through October 1, 2015].

## Administrative Expenses

For administrative expenses to carry out the direct and guaranteed loan and insurance programs, including hire of passenger motor vehicles and services as authorized by 5 U.S.C. 3109, and not to exceed \$30,000 for official reception and representation expenses for members of the Board of Directors, not to exceed \$117,700,000, of which up to \$17,655,000 shall remain available until September 30, 2017: Provided, That the Export-Import Bank (the Bank) may accept, and use, payment or services provided by transaction participants for legal, financial, or technical services in connection with any transaction for which an application for a loan, guarantee or insurance commitment has been made: Provided further, That notwithstanding subsection (b) of section 117 of the Export Enhancement Act of 1992, subsection (a) thereof shall remain in effect until September 30, 2016: Provided further, That the Bank shall charge fees for necessary expenses (including special services performed on a contract or fee basis, but not including other personal services) in connection with the collection of moneys owed the Bank, repossession or sale of pledged collateral or other assets acquired by the Bank in satisfaction of moneys owed the Bank, or the investigation or appraisal of any property, or the evaluation of the legal, financial, or technical aspects of any transaction for which an application for a loan, guarantee or insurance commitment has been made, or systems infrastructure directly supporting transactions: Provided further, That in addition to other funds appropriated for administrative expenses, such fees shall be credited to this account for such purposes, to remain available until expended.

## Receipts Collected

Receipts collected pursuant to the Export-Import Bank Act of 1945, as amended, and the Federal Credit Reform Act of 1990, as amended, in an amount not to exceed the amount appropriated herein, shall be credited as offsetting collections to this account: Provided, That the sums herein appropriated from the General Fund shall be reduced on a dollar-for-dollar basis by such offsetting collections so as to result in a final fiscal year appropriation from the General Fund estimated at \$0: Provided further, That amounts collected in fiscal year 2016 in excess of obligations, up to \$10,000,000, shall become available for the cost of direct loans, loan guarantees, insurance, and tied-aid grants as authorized by section 10 of the Export-Import Bank Act of 1945, as amended, on September 1, 2016, and shall remain available until September 30, 2019. (Department of State, Foreign Operations, and Related Programs Appropriations Act, 2015.)

## Agency Reorganization

The President is again asking Congress to revive an authority enabling him to submit fast-track proposals to reorganize or consolidate Federal programs and agencies in order to reduce the size of Government or cut costs. The Budget includes a variety of proposed reforms across government designed to drive efficiency and accountability, prevent duplication, and make government work better and smarter for the American people. One of these reorganizations the President would propose with this authority reiterates his previous proposal to consolidate Federal business and trade programs into one more efficient and effective department dedicated to promoting U.S. competitiveness, exports, and American businesses and jobs. The proposal would integrate the six Federal agencies that focus primarily on business and trade, along with other related programs. These include the Department of Commerce's core business and trade functions, the Small Business Administration, the Office of the U.S. Trade Representative, the Export-Import Bank, the Overseas Private Investment Corporation, and the U.S. Trade and Development Agency, as well as rural business programs at the Department of Agriculture, Treasury's Community Development Financial Institution Program, and statistical agencies at the Department of Labor and National Science Foundation. To strengthen the new department's focus on business and economic growth, the National Oceanic and Atmospheric Administration would be consolidated into the Department of Interior, strengthening stewardship and conservation efforts and enhancing scientific resources. The Budget schedules for these agencies and programs continue to reflect them in their current alignment.