



**OFFICE OF INSPECTOR GENERAL**  
**EXPORT-IMPORT BANK**  
*OF THE UNITED STATES*

**FOLLOW-UP OF AUDIT RECOMMENDATIONS  
REPORTED IN  
MEDIUM TERM EXPORT CREDIT PROGRAM -  
CREDIT AND FRAUD RISK MANAGEMENT  
BUSINESS PROCESS IMPROVEMENT**

**Evaluation Report**  
**July 7, 2010**  
**OIG-EV-10-02**



Office of Inspector General

Export-Import Bank  
of the United States

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July 7, 2010

MEMORANDUM

TO: John McAdams, Senior Vice President, Export Finance  
Kenneth Tinsley, Senior Vice President, Credit and Risk Management  
John Simonson, Senior Vice President and Chief Financial Officer  
Fernanda Young, Chief Information Officer

FROM: Jean Smith  
Assistant Inspector General for Audit

SUBJECT: Audit recommendations reported in *Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement* (March 30, 2009, OIG-AR-09-04)

This memorandum transmits Evaluation Report OIG-EV-10-02, *Follow-Up of Audit Recommendations Reported in Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement*. The Office of Inspector contracted with Protiviti to evaluate management's progress in implementing recommendations contained in the subject audit. The specific objective was to determine whether the Export-Import Bank of the United States (Ex-Im Bank or the Bank) implemented actions to correct deficiencies in business processes to administer the Medium Term (MT) Program.

The evaluation found that Ex-Im Bank addressed many of the deficiencies. Although the specific recommendations may not have been implemented fully, the Bank has taken the necessary actions to establish appropriate controls in most of the areas that needed strengthening. Based on these actions, we closed four of eight recommendations reported in OIG-AR-09-04. The Chief Operations Officer stated in a formal response that the Bank plans to address the remaining open recommendations in the current fiscal year ending September 30, 2010.

We made one suggestion to document and formalize a risk-based approach that provides specific parameters for use of enhanced credit and due diligence procedures.

We appreciate the courtesies and cooperation provided to the auditors during the evaluation. If you have any questions, please call me at (202) 565-3944.

cc: Alice Albright, Senior Vice President, Chief Operations Officer  
Michael Cushing, Senior Vice President, Resource Management  
Jeffrey Abramson, Vice President, Trade Finance and Insurance  
Walter Hill, Vice President, Credit Review and Compliance  
Michele Kuester, Vice President, Operations and Data Quality  
David Carter, Vice President, Credit Underwriting

# Export-Import Bank of the United States

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Follow-Up of Audit Recommendations Reported In  
Medium Term Export Credit Program – Credit and  
Fraud Risk Management and Business Process  
Improvement (March 30, 2009, OIG-AR-09-04)



# Executive Summary

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The Office of Inspector General contracted with Protiviti to conduct an evaluation on recommendations made in audit report *Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement (March 30, 2009, OIG-AR-09-04)*. The specific audit objective was to determine whether Export-Import Bank of the United States (Ex-Im Bank) implemented actions to correct deficiencies in the design of business processes utilized by management to process and administer the Medium Term (MT) Program. Having strong controls in this program is critical to prevent fraud and to serve the United States exporters.

Our evaluation found that Ex-Im Bank has made significant progress in addressing the findings and recommendations previously noted in our report. Ex-Im Bank enhanced credit underwriting due-diligence requirements using a risk-based approach; improved default and performance reporting capabilities through technology improvements in Ex-Im Online and Ex-Im Reporting System; and established the Credit Review and Compliance Division, which serves in a valuable quality assurance and oversight role. Even in those instances where the Bank expressed disagreement with our original finding and recommendation, specific action was taken to strengthen the Bank's MT Program processes and controls. Overall, four of eight recommendations remained open. Appendix A presents a summary of the audit recommendations reported in OIG-AR-09-04 and the status of each recommendation based on our evaluation.

Although we determined Ex-Im Bank has taken several positive steps to enhance the credit underwriting due-diligence processes over MT transactions, we are making one suggestion management may consider implementing to further strengthen the MT Program. We are suggesting that the Senior Vice Presidents of Export Finance and Credit and Risk Management document and formalize a risk-based approach that provides specific parameters for use of enhanced credit and due diligence procedures.

A summary of recommendations that we determined were open is presented below.

The Bank has yet to develop a strategic plan for the MT Program or adjust the exposure fee pricing structure for non-sovereign transactions. However, we note that marked progress has been made in both of these areas. A Bank-wide strategic plan is estimated to be completed in July 2010 and the Bank is considering making enhancements to its exposure fee pricing framework at the beginning of the next fiscal year in October 2010.

Ex-Im Bank has instituted a work cell pilot and triage process to reduce transaction processing cycle times. However, reducing processing time continues to be a challenge for the MT Program. In our view, the Bank's willingness to process incomplete transactions remains the root cause.

Finally, while the Bank's lender analysis framework and rating model provides a much needed foundation for addressing credit and fraud risks in MT transactions, the frequency at which the lender analysis and ratings are periodically reviewed and updated has not yet been determined.

The Chief Operations Officer stated that the Bank plans to address the remaining open recommendations in the current fiscal year ending September 30, 2010.

# Table of Contents

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	Page
Executive Summary	i
Background and Objective	1
Scope and Methodology	3
Findings Follow-Up and Suggestions	4
<b>Section 1: Credit and Fraud Risk Management</b>	4
Finding 1 – Insufficient Credit Underwriting Due-Diligence Requirements and Processes	4
Suggestion 1	4
Finding 2 – Lack of Early Warning/Delinquency and Performance Reporting Capabilities	5
Finding 3 – Insufficient Lender Oversight and Quality Assurance Control Activities	5
<b>Section 2: Export Credit Program Design</b>	7
Finding 4 – Insufficient Exposure Fee Pricing Structure for Non-Sovereign Transactions	7
Finding 5 – Consequences of 100% Guarantee for Non-Sovereign Transactions	7
Finding 6 – Processing Time Inefficiencies: Definition of a Complete Application	8
Finding 7 – Lack of Strategy and Vision for the Medium Term Program	8
<b>Appendix A – Results of follow-up testing of audit recommendations reported in Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement (March 30, 2009, OIG-AR-09-04).</b>	10
<b>Appendix B – Management Comment</b>	12

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# Background and Objective

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**Background** The Export-Import Bank of the United States (“Ex-Im Bank” or the “Bank”) is the official export credit agency (“ECA”) of the United States (U.S.). Ex-Im Bank supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the U.S. Ex-Im Bank assumes the credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. At the same time, the Bank must safeguard taxpayer resources by determining that there is a reasonable likelihood of repayment with respect to each of its transactions.

Ex-Im Bank offers short term (“ST”), medium term (“MT”) and long term (“LT”) export credit financing products. The core MT products offered by Ex-Im Bank are as follows:

**MT Loan Guarantees:** Ex-Im Bank loan guarantees cover the repayment risks on the foreign buyer’s debt obligations incurred to purchase U.S. exports. Ex-Im Bank guarantees to a lender that, in the event of a payment default by the borrower, the Bank will pay to the lender the outstanding principal and interest on the loan. Ex-Im Bank’s comprehensive guarantee covers 100 percent of the commercial and political risks for up to 85 percent of the U.S. contract value of the export transaction. Guarantees extended under the MT Program typically have repayment terms of one to seven years and range in amount from \$100 thousand or less to \$10 million.

**MT Export Credit Insurance:** Ex-Im Bank credit insurance helps U.S. exporters develop and expand their overseas sales by protecting them against loss should a foreign buyer or other foreign debtor default for political or commercial reasons. Similar to the loan guarantee product, Ex-Im Bank covers 100 percent of the commercial and political risks for up to 85 percent of the U.S. contract value of the export transaction. Credits insured under the MT Program typically have repayment terms of one to seven years ranging from \$100 thousand or less to \$10 million.

**Direct Loans:** Ex-Im Bank’s direct loan program is a foreign buyer credit program in which Ex-Im Bank makes a loan to a foreign buyer to purchase U.S. exports. Loan disbursements go directly to the U.S. exporter as the export products are shipped to the foreign buyer.

## MT Program - Performance Results

The MT Program has significantly underperformed the ST and LT programs in recent years, accounting for a disproportionate share of Ex-Im Bank’s credit losses. In terms of origination volume (authorizations), the MT Program is much smaller than the ST and LT Programs – representing \$552 million in fiscal year (“FY”) 2009, or 2.6% of the Bank’s total authorizations of \$21.0 billion. Conversely, in terms of claims volume (net claims as a percentage of disbursements), the MT

# Background and Objective

Program has experienced much higher losses than the Bank's other programs. (See Table 1 for a detailed breakout of MT Program authorizations, disbursements, claims and recoveries by year for the period FYs 2004 to 2009).

Table 1: Total Authorizations & Claims – Breaking Out MT (\$ in millions) – FY2004 to FY2009

FY	No. of Trans.	Total Authorized	Total Disbursed	Total Claims	Claims as % of Disb.	Recoveries	Recovery % of Claim	Net Claims	Net Claims as % of Disb.
2004-MT	684	\$1,452.1	\$965.0	\$264.7	27.4%	\$24.5	9.3%	\$240.2	24.9%
2004-Other	2423	\$11,868.9	\$9,092.4	\$86.0	0.9%	\$9.5	11.0%	\$76.5	0.8%
Total	3107	\$13,321.0	\$10,057.4	\$350.7	3.5%	\$34.0	9.7%	\$316.7	3.1%
2005-MT	569	\$850.4	\$588.7	\$129.0	21.9%	\$16.7	12.9%	\$112.3	19.1%
2005-Other	2559	\$13,085.8	\$11,781.6	\$88.8	0.8%	\$5.9	6.6%	\$82.9	0.7%
Total	3128	\$13,936.2	\$12,370.3	\$217.8	1.8%	\$22.6	10.4%	\$195.2	1.6%
2006-MT	474	\$1,029.0	\$578.2	\$125.5	21.7%	\$7.9	6.3%	\$117.6	20.3%
2006-Other	2203	\$11,121.5	\$9,290.0	\$28.4	0.3%	\$2.4	8.4%	\$26.0	0.3%
Total	2677	\$12,150.5	\$9,868.2	\$153.9	1.6%	\$10.3	6.7%	\$143.6	1.5%
2007-MT**	360	\$806.0	\$483.3	\$34.2	7.1%	\$1.4	4.2%	\$32.7	6.8%
2007-Other**	2433	\$11,763.4	\$10,927.1	\$54.2	0.5%	\$6.5	12.0%	\$47.7	0.4%
Total	2793	\$12,569.4	\$11,410.4	\$88.4	0.8%	\$8.0	9.0%	\$80.4	0.7%
2008-MT**	285	\$925.0	\$531.4	\$49.5	9.3%	\$0.3	0.5%	\$49.3	9.3%
2008-Other**	2419	\$13,473.9	\$13,310.6	\$31.4	0.2%	\$3.3	10.4%	\$28.2	0.2%
Total	2704	\$14,398.9	\$13,842.0	\$80.9	0.6%	\$3.5	4.3%	\$77.4	0.6%
2009-MT**	192	\$552.6	\$181.8	\$0.0	0.0%	\$0.0	-	\$0.0	-
2009-Other**	2699	\$20,468.5	\$15,072.9	\$16.6	0.1%	\$0.3	1.7%	\$16.3	0.1%
Total	2891	\$21,021.1	\$15,254.7	\$16.6	0.1%	\$0.3	1.7%	\$16.3	0.1%

This table compares the relative amounts of MT Program authorizations, disbursements, claims paid and recoveries to the comparable data for all other Ex-Im Bank transactions for FYs 2004 to 2009 as of March 31, 2010. It also indicates the amount of claims paid with respect to each year's disbursed loans as a percentage of the total amount of disbursed loans for that year, both gross and net of recoveries, and indicates the amount recovered by Ex-Im Bank on defaulted loans and as a percentage of the claims paid with respect to that year.

\*\* Claims and recovery data in the most recent fiscal years are not fully seasoned and thus not as meaningful. The lag time between the dates a transaction is authorized and funded can extend to more than 12 months. Also, defaults and resulting claim payments typically do not occur for another 12 to 36 months.

## Objective

The specific objective of this evaluation was to determine whether Ex-Im Bank implemented actions to correct the identified weaknesses reported in audit report *Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement (March 30, 2009, OIG-AR-09-04)*.

# Scope and Methodology

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The scope of the evaluation focused on the business processes supporting Ex-Im Bank's MT Program. Fieldwork was conducted on-site at Ex-Im Bank's headquarters in Washington, DC in April 2010.

Interviews were held with key personnel in order to evaluate management's progress in addressing audit findings and implementing recommendations contained in performance audit report "Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement" (March 30, 2009, OIG-AR-09-04). Specifically, we met with representatives from the following Divisions of the Bank: Credit Review and Compliance (CRC), Operations and Data Quality, Trade Finance and Insurance (TFI), Credit and Risk Management, and Office of the Chief Information Officer (OCIO).

We also reviewed documentation that supported management's progress in implementing corrective actions. Detailed testing of MT transactions was not conducted as part of the evaluation.

We performed this evaluation because historically the MT Program has significantly underperformed the ST and LT Programs. Having strong controls in this program is critical to prevent fraud and serve U.S. exporters.



# Findings Follow-Up and Suggestions

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The below finding titles are a repeat of titles presented in *Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement (March 30, 2009, OIG-AR-09-04)* and are not intended to convey a present deficiency. Use of these titles is to report on the status of recommendations presented in OIG-AR-09-04.

## Section 1: Credit and Fraud Risk Management

### Finding 1 Insufficient Credit Underwriting Due-Diligence Requirements and Processes

Ex-Im Bank has taken several positive steps to enhance the credit underwriting due-diligence processes over MT transactions. Although Ex-Im Bank disagreed with our recommendation to apply due diligence enhancements on a programmatic basis, including requiring on-site inspections and appraisals of equipment being exported, Ex-Im Bank has begun applying credit enhancements with greater frequency on a case-by-case basis. From January through March of 2010, 17 of the 32 MT transactions considered and approved by the Bank's Credit Committee included 1 or more credit enhancements.<sup>1</sup> The most common being liens on equipment financed under the transactions.

Additionally, the Bank is also contemplating requiring enhanced due-diligence procedures on all third-tier lenders as measured by the Bank's lender rating model (see Finding 3 for more detailed discussion on lender ratings). These required due-diligence procedures may include one or more of the following:

- Using the MT insurance product, as opposed to the MT guarantee product. The MT insurance product provides conditional rather than unqualified coverage. Claims must be accompanied by proof of compliance with the insurance policy requirements.
- Obtaining formal compliance agreements with those lenders that have displayed weaknesses in underwriting participants and/or preparing adequate application packages.
- Obtaining risk sharing of at least 5% on MT Program transactions.
- Requiring payments on a quarterly basis as opposed to a semi-annual basis.
- Obtaining bank/brokerage statements on foreign buyers and/or guarantors.

Based on the above actions, we determined that management has satisfied recommendation 1 by implementing adequate action to strengthen the due-diligence process. However, since the forms of credit enhancements and due diligence procedures described above are used on a case-by-case basis, management should take action to ensure they are properly and adequately applied.

### **Suggestion 1** The Senior Vice Presidents of Export Finance and Credit and Risk Management should document and formalize a risk-based approach that provides specific

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<sup>1</sup> Forms of credit enhancements include liens on equipment financed, dividend restrictions, subordination of debt, bank guarantees, additional corporate guarantees, and assignment of lease receivables.

# Findings Follow-Up and Suggestions

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parameters for use of enhanced credit and due diligence procedures.

## **Finding 2**

### Lack of Early Warning/Delinquency and Performance Reporting Capabilities

Ex-Im Bank has identified and implemented actions to enhance the delinquency and performance reporting capabilities supporting the MT Program. Specifically, the Ex-Im Online (EOL) system has been enhanced to include overdue reporting of MT transactions. This functionality includes email notifications sent to Bank staff. Also, the Ex-Im Reporting System (ERS) has been implemented and provides critical metrics and detailed customized reporting for use by the MT Program staff.

We note that Ex-Im Bank disagreed with our recommendation to increase the payment frequency for MT transactions on a programmatic basis from semi-annual to monthly or quarterly. However, as noted in Finding 1, the Bank will be considering requiring more frequent payments as part of its enhanced credit and due diligence procedures.

Additionally, the Portfolio Monitoring and Control Group (PMCG), established in late 2009, monitors performance of Bank transactions with exposures of less than \$15 million and produces quarterly reports on the Bank's portfolio, which includes MT Program transactions. PMCG's primary functions include:

- Monitoring compliance with transaction terms and conditions as established by Ex-Im Bank approval and lender credit arrangements.
- Performing periodic risk profile reviews.
- Tracking repayment performance and recovery rate.
- Providing frequent structured feedback to originating and underwriting divisions.

Based on the above actions, we determined that management has implemented adequate action to satisfy recommendation 2.

## **Finding 3**

### Insufficient Lender Oversight and Quality Assurance Control Activities

#### *Lender Oversight*

The lender analysis framework, piloted in 2008, has now been expanded to cover all active medium-term lenders. This framework includes a lender rating model that is used to segregate lenders into three tiers based on past performance and other factors. New transactions from lenders with the lowest ratings, tier 3, receive greater scrutiny and are held to more stringent due diligence standards. The process is led by Trade Finance & Insurance (TFI), the division charged with day-to-day transactional responsibilities, with oversight by the Credit Review and Compliance (CRC) Division. Additionally, an automated data report for the lender rating model is in the process of being built in ERS.

While substantive progress has been made, a periodic review and updating of

# Findings Follow-Up and Suggestions

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the lender rating framework and CRC's oversight role in this process needs to be clearly defined and formalized. We note that management's response to OIG-AR-09-04 stated that the Bank "anticipates conducting quarterly updates to the lender analyses and annual reviews of lender ratings." To date, these processes and controls have not yet been put in place. Since each lender's performance history is used in determining the rating, the lender scorecard is at risk of becoming stale if not updated regularly.

Based on the above, recommendation 3A remains open.

## Management Response

By the end of FY2010, the Bank will finalize an approach to regularizing the lender oversight function and, in particular the lender rating process, to include defining the role of the Credit Review and Compliance Division in this process.

## *Quality Assurance*

CRC, established in 2008, serves as Ex-Im Bank's quality assurance function. Responsibilities of CRC include the periodic review of MT internal and external delegated authority, which includes monitoring and following up on identified issues. CRC also oversees compliance with the bank-wide Character, Reputation and Transaction Integrity (CRTI) process, which describes the Bank's policies, procedures and response to suspect participants. The CRTI process involves reviewing all parties in the transaction by checking prohibited or restricted parties lists maintained by the U.S. government and certain foreign governments and multilateral organizations. Finally, CRC is responsible for fraud detection and mitigation efforts through its focus on a "trust but verify" model. Through this model, CRC directly contacts exporters/suppliers and shipping companies on transactions and transaction participants of concern to ascertain whether or not the transactions actually occurred as purported. CRC also works in close coordination with the Office of General Counsel and the Office of Inspector General's Office of Investigations to further investigate issues uncovered.

CRC has developed an annual CRC Compliance Review Schedule that includes the internal and external delegated authority that CRC plans to review for the year. CRC may revise this schedule to focus on its fraud detection & mitigation efforts as issues warrant.

We determined that management has implemented adequate action to satisfy recommendation 3B based on the above actions.

# Findings Follow-Up and Suggestions

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## Section 2: Export Credit Program Design

### Finding 4 [Insufficient Exposure Fee Pricing Structure for Non-Sovereign Transactions](#)

Ex-Im Bank's exposure fee pricing structure continues to be based on the minimum country-specific risk fees established by the Organisation for Economic Cooperation and Development (OECD). As the Bank was performing an internal analysis to develop methods for adjusting its exposure fee pricing, the OECD released in February 2010 a new pricing framework for implementation in 2011. The Bank has analyzed the new OECD guidelines and is contemplating making enhancements to its exposure fee pricing framework at the beginning of the next fiscal year in October 2010. In the interim, the Bank has increased its default pricing and reserve allocation for non-sovereign MT transactions in Mexico to more adequately address the higher risk as evidenced by past performance.

Based on the above, the finding and recommendation 4 remains open.

#### Management Response

The Bank anticipates implementing a new pricing methodology, beginning in FY2011 and in accordance with the agreed OECD guidelines, which will more appropriately "price-to-risk" medium-term transactions.

### Finding 5 [Consequences of 100% Guarantee for Non-Sovereign Transactions](#)

Ex-Im Bank has made a business decision not to reduce MT coverage below 100%. However, the Bank has taken several positive steps to strengthen controls to address the risks associated with the MT Program, including:

- Establishing enhanced credit underwriting due-diligence measures (see Finding 1) including requiring various forms of credit enhancement and loss sharing for poor performing lenders.
- Continuing to develop the MT Delegated Authority Program (MTDAP) which requires risk retention on the part of the lender. Transactions have been executed under MTDAP since January 2009.

We also note that MT Program authorizations as a percentage of total authorizations across all of the Bank's programs have declined from 6.4% in FY2007 and FY2008 to just 2.6% in FY2009. Ex-Im Bank has asserted that lowering MT coverage below 100% would further diminish the already reduced demand for the MT Program.

Based on the above, we determined that management has implemented adequate action to satisfy recommendation 5.

# Findings Follow-Up and Suggestions

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## Finding 6

### Processing Time Inefficiencies: Definition of a Complete Application

Management has initiated several actions – triage and work cell – with the objective of reducing transaction processing times (also referred to as “cycle times”). Recently, the Bank began conducting weekly triage meetings of newly submitted transactions to proactively identify and resolve issues that may impact the Bank’s ability to timely process each transaction. Members of TFI, Credit Underwriting (CU) and CRC attend these meetings. Because this process is in its infancy and results were unavailable, we are not able to determine whether triaging newly submitted transactions will eliminate processing time inefficiencies.

For the work cell, Ex-Im Bank began this pilot in January 2010 and assigned specific members of TFI and CU to work together to process MT Program transactions for a six month period. A primary goal of the work cell pilot was to reduce cycle times. While the pilot is still ongoing, the preliminary results suggest an overall increase in productivity measured by total number of transactions fully processed by the work cell. However, there was no measurable impact on reducing transaction cycle times.

We believe that the early results of the work cell pilot further reinforce that the Bank’s decision to process incomplete applications remains the root cause of the high MT program cycle times. As we noted in the original finding, there is a need to increase the number of required fields on the application for participants to submit an application. To date, Ex-Im Bank has been unwilling to increase the number of required fields on the application because management is concerned it would discourage participants from submitting applications.

Based on the above, recommendation 6 remains open.

#### Management Response

The Bank will execute in July an organizational re-alignment that will further enhance and systematize the operational changes that have yielded material improvement in the processing time for medium-term transactions.

## Finding 7

### Lack of Strategy and Vision for the Medium Term Program

The MT Program has not had a strategic plan because the Bank-wide strategic plan has not been finalized. However, prior to our follow-up review, the Ex-Im Bank Chairman started a Strategic Planning initiative in which a high level Bank-wide strategic plan had been drafted and circulated for senior management review and comment. The Bank-wide strategic plan provides a framework for an MT Program strategic plan. Management estimated that the Bank-wide strategic plan will be finalized in July 2010.

Based on the above, recommendation 7 remains open.

# Findings Follow-Up and Suggestions

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## Management Response

Trade Finance Division will publish a Medium-term Strategic Plan no later than the end of FY2010.

# Appendix A

The documentation below provides the results of the follow-up evaluation of audit recommendations reported in Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement (March 30, 2009, OIG-AR-09-04). We determined that Ex-Im adequately addressed and closed four of eight recommendations noted below.

<b>Finding – Insufficient Credit Underwriting Due-Diligence Requirements and Processes</b>	
<p>Recommendation 1.</p> <ul style="list-style-type: none"> <li>• Require as part of credit underwriting due-diligence on-site inspections and appraisals of the equipment being exported as well as bank/brokerage statements of obligors and guarantors for MT transactions.</li> <li>• Develop a process to manage the quality of appraisers and appraisals received.</li> </ul>	Closed
<b>Finding – Lack of Early Warning/Delinquency and Performance Reporting Capabilities</b>	
<p>Recommendation 2.</p> <ul style="list-style-type: none"> <li>• Institute a defined and standardized process for lenders to report payment history.</li> <li>• As enhancements are made to Ex-Im Bank’s technology infrastructure, significant priority should be given to the end-to-end build out of performance reporting capabilities.</li> <li>• Strong consideration should be given to hiring a quantitative analyst with experience in the design and implementation of pricing, risk management and credit analysis tools and models to lead that effort.</li> <li>• Payment frequency for MT transactions should be consistent with local country norms.</li> </ul>	Closed
<b>Finding – Insufficient Lender Oversight and Quality Assurance Control Activities</b>	
<p>Recommendation 3A.</p> <ul style="list-style-type: none"> <li>• Institute a formal lender oversight function to actively manage and monitor performance of transactions on a lender-by-lender basis and to assess the quality of lender due-diligence performed on a periodic basis, quarterly at a minimum.</li> <li>• The lender oversight function should report into a division independent of front-office originations such as Credit Review and Compliance.</li> </ul>	Open
<p>Recommendation 3B.</p> <ul style="list-style-type: none"> <li>• Establish a quality assurance function for the MT program responsible for managing and monitoring performance of transaction participants.</li> <li>• Manage the process of performing periodic MT export credit transaction file reviews on a sub-sample of transactions.</li> </ul>	Closed

# Appendix A

<b>Finding – Insufficient Exposure Fee Pricing Structure for Non-Sovereign Transactions</b>	
<p>Recommendation 4.</p> <ul style="list-style-type: none"> <li>• Revamp exposure fee pricing structure for non-sovereign MT program transactions to more effectively account for transaction-level risk.</li> <li>• Consider establishing minimum, base exposure fees for non-sovereign MT transactions that are at a premium to the OECD floor pricing that the Bank utilizes for its exposure fee pricing of sovereign transactions.</li> </ul>	Open
<b>Finding – Consequences of 100% Guarantee for Non-Sovereign Transactions</b>	
<p>Recommendation 5.</p> <ul style="list-style-type: none"> <li>• Evaluate the impact of implementing a greater degree of risk sharing or other incentives for non-sovereign transactions to reduce the moral hazard currently associated with the MT program.</li> </ul>	Closed
<b>Finding – Processing Time Inefficiencies: Definition of a Complete Application</b>	
<p>Recommendation 6.</p> <ul style="list-style-type: none"> <li>• Develop a definition of a complete application by defining documentation requirements at initial application.</li> <li>• Consider creating dedicated teams in TFI and CU that would be responsible for processing transactions from first-time lenders as well as those transactions considered highly complex or risky.</li> </ul>	Open
<b>Finding – Lack of Strategy and Vision for the Medium Term Program</b>	
<p>Recommendation 7.</p> <ul style="list-style-type: none"> <li>• Develop and document a strategic plan for the MT program (even if one is not documented for Ex-Im Bank as a whole) identifying the major goals of the MT program over the next 3 to 5 years and the strategies that management will deploy to achieve the goals, including the use of technology and targets for key performance measures.</li> </ul>	Open



# Appendix B

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## MANAGEMENT RESPONSE TO EVALUATION REPORT



EXPORT-IMPORT BANK  
OF THE UNITED STATES

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July 2, 2010

Ms. Jean Smith  
Assistant Inspector General for Audit  
Office of Inspector General  
Export-Import Bank of the United States

Ref: Status Update - Follow-up of audit recommendations reported in Medium Term Export Credit Program – Credit and Fraud Risk Management Business Process Improvement (March 30, 2009, OIG-AR-09-04)

Dear Jean:

Thank you for the opportunity to review and comment on the status of recommendations made in the audit report Medium Term Export Credit Program – Credit and Fraud Risk Management Business Process Improvement (March 30, 2009, OIG-AR-09-04).

We are in agreement with the determination of the status of the recommendations reported in OIG-AR-09-04. As the follow-up evaluation report recognizes, the Bank has made significant progress in addressing the findings made in the initial audit report. We are pleased that four (4) of the eight (8) specific recommendations are closed and remain committed to pursuing further actions in response to the remaining open items, in order to address each of these findings no later than the end of Fiscal Year 2010.

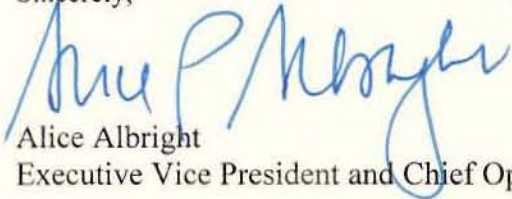
- Finding #3: The Bank will finalize an approach to regularizing the lender oversight function and, in particular the lender rating process, to include defining the role of the Credit Review and Compliance Division in this process.
- Finding #4: The Bank anticipates implementing a new pricing methodology, beginning in FY2011 and in accordance with the agreed OECD guidelines, which will more appropriately “price-to-risk” medium-term transactions.
- Finding #6: The Bank will execute in July an organizational re-alignment that will further enhance and systematize the operational changes that have yielded material improvement in the processing time for medium-term transactions.
- Finding #7: Trade Finance Division will publish a Medium-term Strategic Plan no

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later than the end of Fiscal Year 2010.

The Bank's management team looks forward to continuing to work with the Office of the Inspector General on these critical issues in order to continue to improve this important program.

Sincerely,




Alice Albright  
Executive Vice President and Chief Operating Officer

cc:

John McAdams, Senior Vice President, Export Finance  
Kenneth Tinsley, Senior Vice President, Credit and Risk Management  
John Simonson, Senior Vice President and Chief Financial Officer  
Michael Cushing, Senior Vice President, Resource management  
Jeffrey Abramson, Vice President, Trade Finance  
Fernanda Young, Chief Information Officer  
Walter Hill, Vice President, Credit Review and Compliance

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