



OFFICE OF INSPECTOR GENERAL
EXPORT-IMPORT BANK
of the UNITED STATES

**Export-Import Bank's
Management of
Direct Loans and Related
Challenges**

September 26, 2013
OIG-AR-13-05



To: John McAdams
Vice Chair and Chief Operating Officer

David Sena
Senior Vice President and Chief Financial Officer

Fernanda Young
Chief Information Officer

From: Rebecca Sharek 
Assistant Inspector General for Audits

Subject: Audit of Export-Import Bank's Management of Direct Loans and
Related Challenges, Report No. OIG-AR-13-05

Date: September 26, 2013

Attached please find the final report of our audit of Export-Import Bank's management of direct loans and related challenges. The report contains four recommendations for corrective action. In response to a draft of the report, management concurred with the recommendations. Management's response is included as an appendix to the final report.

We consider management's proposed actions to be responsive. The recommendations will be closed upon completion and verification of the proposed actions.

We appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact me at (202) 565-3169 or rebecca.sharek@exim.gov.

cc: Fred Hochberg, Chairman and President
Claudia Slacik, Senior Vice President, Export Finance
Kenneth Tinsely, Senior Vice President, Credit Management
Michael Cushing, Senior Vice President, Resource Management
James Cruse, Senior Vice President, Policy & Planning
Scott Schloegel, Senior Vice President, Congressional Affairs
John Schuster, Vice President, Structured & Project Finance
Walter Hill, Jr., Vice President, Credit Review & Compliance
David Carter, Vice President, Credit Policy
Inci Tonguch-Murray, Business Compliance Officer

The Export-Import Bank of the United States (Ex-Im Bank) is the official export-credit agency of the United States. Ex-Im Bank is an independent, self-sustaining executive agency and a wholly-owned U.S. government corporation. Ex-Im Bank’s mission is to support jobs in the United States by facilitating the export of U.S. goods and services. Ex-Im Bank provides competitive export financing and ensures a level playing field for U.S. exports in the global marketplace.

The Office of Inspector General, an independent office within Ex-Im Bank, was statutorily created in 2002 and organized in 2007. The mission of the Ex-Im Bank Office of Inspector General is to conduct and supervise audits, investigations, inspections, and evaluations related to agency programs and operations; provide leadership and coordination as well as recommend policies that will promote economy, efficiency, and effectiveness in such programs and operations; and prevent and detect fraud, waste, abuse, and mismanagement.

ACRONYMS

AMD	Asset Management Division
Boeing	Boeing Space and Intelligence Systems
CB&I	Chicago Bridge and Iron Americas Ltd. of Texas
CRTI	Character, Reputational and Transaction Integrity
E&E	Engineering and Environment Division
Ex-Im Bank or the Bank	Export-Import Bank of the United States
FMS	Financial Management Service
FY	Fiscal Year
GAO	Government Accountability Office
Inmarsat	Inmarsat Investment Ltd.
Loan Manual or the Manual	Ex-Im Bank Loan, Guarantee and Insurance Manual
NARA	National Archives and Records Administration
OCFO	Office of the Chief Financial Officer
ODQ	Operations & Data Quality Division
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
Records Management	Information and Records Management Division of the Office of the Chief Information Officer
Records Management Officer	Information Quality and Records Management Officer
REFICAR	Refineria de Cartagena S.A.
SPFD	Structured & Project Finance Division
Treasury	Department of the Treasury

Executive Summary

Export-Import Bank's Management of Direct Loans and Related Challenges Audit Report OIG-AR-13-05 September 26, 2013

Why We Did This Audit

Through competitive term financing, the Export-Import Bank of the U.S. (Ex-Im Bank or the Bank) provides fixed rate loans to foreign buyers of U.S. goods and services. Such direct loans generally exceed \$10 million and provide foreign buyers financing at the most favorable terms allowed. In light of the recent international financial crisis, Ex-Im Bank's direct loan authorizations increased from \$0 in fiscal year (FY) 2007 to \$11.8 billion in FY 2012. During the same period, Ex-Im Bank's exposure to loans tripled from 9 percent to 27 percent of the Bank's total portfolio. As a result, we reviewed the Bank's management of direct loan transactions, including its compliance with Federal and agency credit program policies. Our audit included a sample of 6 of the 40 direct loans authorized and managed by the Structured & Project Finance Division between FYs 2010 and 2012. Sampled loans were underwritten by approximately half of the division's loan officers and totaled \$7.3 billion (or 33 percent) of the total \$22.4 billion in loans authorized during the period.

What We Recommended

To improve Ex-Im Bank's management of direct loans and related challenges, the Bank should (1) maintain additional documentation to support the need for Ex-Im Bank financing; (2) adopt key OMB and Treasury policies by revising agency policies and procedures; (3) develop mechanisms to ensure compliance with Federal and agency credit program policies; and (4) evaluate recordkeeping practices and implement a plan to timely address deficiencies found. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

What We Found

Ex-Im Bank updated its policies to reflect new statutory requirements and is looking for ways to streamline its business processes. The Bank is also establishing an Enterprise Risk Committee and developing a plan to address new Office of Management and Budget (OMB) requirements. These actions represent good faith efforts to improve internal controls and overall credit program management. However, as a result of inadequate recordkeeping, overreliance on institutional knowledge, and a lack of mechanisms necessary to ensure compliance with Federal and agency credit program policies, we found that Ex-Im Bank loan officers and other personnel did not always document sufficient evidence for borrower statements regarding the need for Ex-Im Bank financing, or perform or document performance of other required tasks. Those tasks included (1) completing checklists intended to ensure borrower eligibility, completeness of loan applications, and collection of all required commitment documents; and (2) documenting Character, Reputational and Transaction Integrity due diligence reviews prior to loan approval.

Also, although Ex-Im Bank's policies are largely consistent with many fundamentals of Federal credit program policies, Ex-Im Bank has not formally adopted key OMB and Department of Treasury policy documents. As a result, the Bank's policies and procedures do not expressly address Federal requirements, including new requirements in OMB Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," revised in January 2013.

Finally, Ex-Im Bank faces several challenges that, although not unique to direct loans, may impact the Bank's management of the direct loan portfolio. These challenges include:

- fragmented recordkeeping practices;
- complex business processes; and
- growing demand for Ex-Im Bank support.

Separately managing each challenge is difficult enough, but because they are inherently related they present additional complications and require management's attention.

For additional information, contact the Office of the Inspector General at (202) 565-3908 or visit www.exim.gov/oig.

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INTRODUCTION

Background

The main financial products of the Export-Import Bank of the United States (Ex-Im Bank or the Bank) are (1) export credit insurance, (2) working capital guarantees, (3) loan guarantees, and (4) direct loans. Through direct loans, Ex-Im Bank provides foreign buyers of U.S. capital goods and services fixed-rate financing in amounts generally exceeding \$10 million. Offered at the most favorable terms allowed under international economic agreements, Ex-Im Bank direct loans cover up to 85 percent of the U.S. contract value of the

Example of Ex-Im Bank Direct Loan. In 2012, Ex-Im Bank authorized a nearly \$2 billion direct loan to the Barakah One Company of the United Arab Emirates to finance the purchase of U.S. goods and services needed to construct a nuclear power plant near the city of Abu Dhabi. The facility will be built with equipment and expertise including reactor coolant pumps, reactor components, and engineering services exported by American companies from 17 states. According to Ex-Im Bank, the loan will support approximately 5,000 American jobs.

exported goods, and 100 percent of the transaction's commercial and political risks – risks that commercial institutions are unwilling to take. Direct loan financing is available for medium- and long-term transactions, although most direct loans are long-term with repayment terms in excess of 7 years.

According to the Congressional Research Service, prior to 1980, direct lending was Ex-Im Bank's chief financing vehicle.¹ In June 2009, Ex-Im Bank's Direct Lending Working Group reported that since the Bank's founding in 1934, it has disbursed more than \$64 billion under the direct loan program.² However, during the 1980s Ex-Im

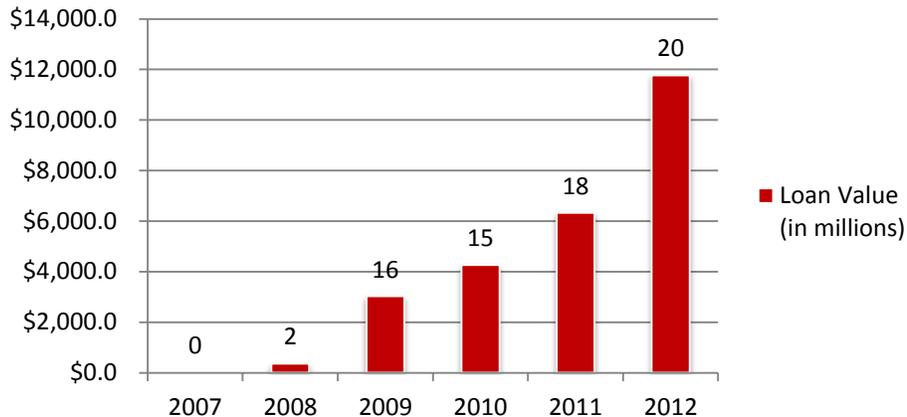
Bank's direct lending authority became a target for constant budget cuts, falling from \$5.4 billion in 1981 to \$695 million in 1989.³ Demand for Ex-Im Bank direct loans has been limited in the past decade because commercial interest rates were low. Yet, in light of the recent international financial crisis and in part due to overall growth in U.S. exports, Ex-Im Bank has experienced substantial growth in loan transactions. As shown in Figure 1, direct loan authorizations increased from \$0 (0 loans) in fiscal year (FY) 2007 to \$11.8 billion (20 loans) in FY 2012. During the same period, Ex-Im Bank's exposure due to outstanding and undisbursed direct loans tripled from 9 percent to 27 percent of the Bank's total portfolio.

¹ Congressional Research Service, "Export-Import Bank: Background and Legislative Issues," April 3, 2012.

² Ex-Im Bank Direct Lending Policy, June 1, 2009.

³ Opening statement of the Hon. Walter E. Fauntroy, Chairman of the House of Representatives Subcommittee on International Development, Finance, Trade and Monetary Policy at the May 10, 1989, hearing entitled "Future of the Export-Import Bank's Direct Lending Program."

**Figure 1. Growth in Direct Loan Authorizations
FY 2007 - 2012**



Source: Ex-Im Bank annual reports, 2007 – 2012.

In addition to the increase in direct loan authorizations, since FY 2008 Ex-Im Bank’s overall exposure has shifted from primarily sovereign governments and other public-sector borrowers to primarily private-sector borrowers. This shift in exposure increases Ex-Im Bank’s inherent portfolio risk by increasing exposure to credits not guaranteed by foreign governments.

Federal Credit Program Policies, Roles, and Responsibilities. Designing and managing Federal credit policies and programs, such as Ex-Im Bank’s direct loan program, is a shared responsibility between the Office of Management and Budget (OMB), the Department of the Treasury (Treasury), and credit-granting Federal departments and agencies. OMB’s general responsibilities for oversight of Federal credit programs include but are not limited to:

- approving agency credit management and debt collection plans;
- developing and maintaining the Federal credit subsidy calculator used to calculate the cost of credit programs;
- formulating and reviewing agency credit reporting standards and requirements, and implementation of credit management and debt collection policy; and
- working with agencies to identify and implement common policies, processes, or other resources to increase efficiency of credit program portfolio management functions.

OMB Circular No. A-129, “Policies for Federal Credit Programs and Non-Tax Receivables, (Revised)” prescribes policies and procedures for designing and managing Federal credit programs. The Circular applies to all Federal government credit programs, including Ex-Im Bank’s direct loan program. In January 2013, OMB made substantial revisions and additions to Circular No. A-129, rescinding and replacing the previous version, dated

November 2000. These changes included (1) emphasizing measurement of risk, (2) determining how well Federal credit programs meet their policy goals, and (3) establishing more robust standards for in-depth program reviews, management and oversight structures, data-driven reporting, and effective communications.

Treasury works with OMB to develop policies and review legislation to create, expand, or modify credit programs. Treasury’s Financial Management Service (FMS) “Managing Federal Receivables” (May 2005) provides Federal agencies with a general overview of standards, guidelines, and procedures for the successful management of credit activities. The document covers management functions for direct loan programs and generally must be followed by all Federal agencies.

The January 2013 revision of OMB Circular No. A-129 includes four new appendices that address:

1. Required biennial reviews of each credit program to inform budget, management, and policy decisions;
2. Establishment of robust management and oversight structures to monitor each program’s progress and take action where appropriate;
3. Effective data-driven reporting to drive decision-making and support strong credit program management and oversight; and
4. Creation of effective credit program communications policies to meet agency responsibilities for internal controls.

Federal departments and agencies are responsible for managing credit programs in accordance with their statutory authorities and the provisions of OMB and Treasury policies. OMB Circular No. A-129 and Treasury/FMS, “Managing Federal Receivables” state that agencies shall ensure that (1) Federal credit program legislation, regulations, and policies are designed and administered in compliance with the principles of the Circular and Treasury regulations and supplementary guidance; (2) the costs of credit programs are budgeted for and controlled in accordance with federal law; and (3) credit programs are designed and administered in a manner that most effectively and efficiently achieves policy goals while minimizing taxpayer risk. To achieve these objectives, agencies shall take specific actions including but not limited to:

- ensuring OMB and Treasury requirements and standards are incorporated into agency regulations, policies, and procedures;
- operating credit programs under robust management and oversight structures and taking action to improve or maintain efficiency and effectiveness;
- making every effort to effectively target Federal assistance and mitigate risk by ensuring that credit program participants meet all eligibility, financial, and programmatic requirements;
- establishing appropriate internal controls over programmatic functions and operations; and
- evaluating credit programs’ effectiveness in achieving program goals, including conducting program reviews at least once every 2 years, or as approved by OMB.

Ex-Im Bank Credit Program Policies, Roles, and Responsibilities. In addition to Government-wide policies, agencies maintain their own regulations, policies, and procedures for managing credit programs. The Ex-Im Bank Loan, Guarantee and Insurance Manual (Loan Manual or the Manual) describes the Bank’s credit policies, procedures, roles, and responsibilities, including those for direct loans. Procedures in the Manual address Ex-Im Bank credit activities beginning with the receipt of an application for financing through the point at which authorized financing is ready for use.

The Ex-Im Bank Loan Manual is Intended to:	Establish a framework for sound credit decisions
	Communicate to employees the requirements governing the extension of credit
	Encourage documentation and consistent application of credit policies and procedures

In January 2013, Ex-Im Bank revised the previous version of the Loan Manual, dated October 1999.⁴ By revising the Manual, Ex-Im Bank sought to (1) provide loan officers with current information to carry out their duties for administering and underwriting transactions, and (2) consolidate policies and procedures for all Ex-Im Bank underwriting programs.

In addition to the Loan Manual, Ex-Im Bank divisions maintain various policies, procedures, manuals, and handbooks which provide more comprehensive explanations of the Bank’s credit activities, including those for direct loans. Appendix A provides a list of Ex-Im Bank credit program policies and procedures.

Loan officers from the following three divisions within the Export Finance Group generally underwrite and process direct loans with input from other divisions, depending on the complexity of the transaction:

1. **Structured & Project Finance Division (SPFD).** Processes applications for project financing, as well as long-term corporate risk transactions, including direct loans.
2. **Trade Finance Division.** Processes applications for long-term sovereign, financial institution risk and certain corporate risk transactions, medium-term guarantees, and medium- and short-term credit insurance.

⁴ As needed, Ex-Im Bank divisions updated chapters of the Loan Manual between the 1999 and 2013 revisions. For example, Chapter 7, “Standard Long-term Preliminary Commitments and Final Commitments” was updated in December 2009 and Chapter 14, “Project Finance” was updated in December 2009 and December 2012.

3. **Transportation Division.** Processes applications for loans and guarantees related to the export of aircraft and ancillary equipment, as well as asset-based rail transactions.

Of the three divisions, SPFD manages the majority of Ex-Im Bank's direct loan transactions. Specifically, SPFD manages 74 percent (or 40) of the 54 loans authorized between FY 2010 and FY 2012, which represent 95 percent of the value of Ex-Im Bank's entire direct loan portfolio during the period. In contrast, the Transportation and Trade Finance divisions together manage the remaining 26 percent (only 7 loans each). Furthermore, SPFD manages all three types of direct loans offered by Ex-Im Bank:

1. **Project finance.** An arrangement in which Ex-Im Bank lends to newly created project companies and looks to the project's future cash flows as the source of repayment instead of relying directly on foreign governments, financial institutions, or established corporations for repayment of the debt.
2. **Structured finance.** Allows Ex-Im Bank to consider existing companies overseas as potential borrowers based on their creditworthiness as reflected on their balance sheet and other sources of collateral or security enhancements.
3. **Standard long-term.** Loans with a financed amount (excluding exposure fee) exceeding \$10 million or a repayment term exceeding 7 years, which are not categorized as either project or structured finance transactions.

Objectives

Our objectives were to determine whether Ex-Im Bank effectively managed direct loan transactions and complied with Federal and agency credit program policies and procedures. To accomplish our objectives, we reviewed 6 of the 40 (15 percent) direct loans authorized and underwritten by SPFD between FY 2010 and FY 2012 (see Figure 2). Sampled loans were underwritten by 5 of the approximately 10 SPFD loan officers during the period. Further, sampled loans totaled \$7.3 billion, or 34 percent of the total \$21.3 billion in loans authorized by SPFD and 33 percent of the total \$22.4 billion in loans authorized by Ex-Im Bank during the period.

Figure 2. Loans Selected for Review

FY Authorized	Borrower	Amount Financed (in millions)	Financing Type	To support the purchase of U.S. . . .
2012	Barakah One Company	\$1,988.2	Standard Long-Term	Equipment and expertise needed to construct a nuclear power plant near Abu Dhabi, United Arab Emirates.
2011	Punj Lloyd Solar Power Ltd. ^a	\$9.2	Project Finance	Thin-film solar photovoltaic modules for a five-megawatt solar project near Jodhpur, India.
2011	Inmarsat Investment Ltd.	\$700.0	Structured Finance	Communications satellites to meet the growing demand for mobile satellite services in the maritime and energy sectors.
2011	Refineria de Cartagena S.A.	\$2,343.6	Project Finance	Equipment and services required for a refinery and upgrade project in Cartagena, Colombia.
2010	Mahmood Saeed Collective Company	\$59.8	Standard Long-Term	Aluminum/steel can-making equipment for a new aluminum can manufacturing facility in Jeddah, Saudi Arabia.
2010	Papua New Guinea LNG Global Company Ldc	\$2,200.0	Project Finance	Equipment and services needed for a liquefied natural gas project near Port Moresby, Papua New Guinea.
<i>Total</i>		<i>\$7,300.8</i>		

Source: Ex-Im Bank annual reports, 2010 – 2012; loan documentation files; and Ex-Im Bank press releases.

^aThe direct loan to Punj Lloyd Solar Power Ltd. was converted to a loan guarantee after authorization.

See Appendix A for details of the audit’s scope and methodology, including sample methodology; our review of internal controls; applicable federal laws, regulations, policies, and guidance; and a list of prior audit coverage.

Improvements Are Needed to Ensure Compliance with Federal and Ex-Im Bank Credit Program Policies

To protect the Government’s assets and minimize losses, Federal agencies should manage credit programs in accordance with their statutory authorities and the provisions of OMB Circular No. A-129 and Treasury/FMS, “Managing Federal Receivables.” However, our review of a sample of Ex-Im Bank direct loans identified instances of noncompliance with Federal and agency policies. Specifically, we found that loan officers did not always document sufficient evidence for borrower statements regarding the need for Ex-Im Bank financing. Also, loan officers did not always perform or document performance of required tasks intended to ensure (1) borrower eligibility and compliance with Ex-Im Bank credit policies and standards, (2) completeness of loan applications, (3) collection and maintenance of all required documents, and (4) that comprehensive Character, Reputational and Transaction Integrity (CRTI) due diligence reviews were completed and documented prior to loan approval. These conditions occurred in part as a result of inadequate recordkeeping (discussed further on page 19) and reliance on institutional knowledge instead of policies and procedures.

In addition, although Ex-Im Bank’s Loan Manual and other credit program policies were largely consistent with OMB and Treasury policies, Ex-Im Bank has not formally adopted OMB Circular No. A-129 and Treasury/FMS, “Managing Federal Receivables.” As a result, the Bank’s policies and procedures do not expressly address OMB and Treasury requirements, including new OMB requirements for managing Federal credit programs. Moreover, although the Loan Manual is intended to communicate requirements to Ex-Im Bank employees and encourage documentation and consistent application of credit policies and procedures, Ex-Im Bank has not established mechanisms necessary to ensure compliance with those requirements, policies, and procedures.

Ex-Im Bank is establishing an Enterprise Risk Committee and the Office of the Chief Financial Officer (OCFO) is developing an implementation plan to address new OMB requirements. However, additional management attention is warranted to ensure that Ex-Im Bank (1) formally adopts OMB Circular No. A-129 and Treasury/FMS, “Managing Federal Receivables,” (2) specifically addresses provisions of both documents in agency policies and procedures, and (3) develops mechanisms to ensure that loan officers and other Bank personnel comply with Federal and agency credit program policies.

Lack of Documented Support for Statements Regarding Additionality

According to the Ex-Im Bank Policy Handbook, each transaction the Bank supports fosters additional exports, or exports that would not occur without Bank financing.⁵ Ex-Im Bank's Charter also states, "It is the policy of the United States to support the expansion of exports . . . It is also the policy of the United States that the Bank in exercise of its functions supplement and encourage, and not compete with, private capital . . ."⁶ Therefore, before authorizing each transaction, Ex-Im Bank staff must determine the probability that the export in question would likely not go forward without the Bank's financial support. This probability is referred to as the transaction's "additionality." The primary considerations in determining additionality are:

"Additionality" is the probability that a transaction would not go forward without Ex-Im Bank support. As stated in Ex-Im Bank's Policy Handbook, "The concept of additionality has its roots in broad U.S. economic policy . . . [which] states that U.S. government resources are a limited commodity and only in rare cases should these limited resources be used on an entitlement basis. Rather, taxpayers [*sic*] dollars ought to be channeled to those entities that actually need the support."

1. Competing financing offered by a foreign export credit agency – *i.e.*, *Ex-Im Bank support is needed to "level the playing field" and give U.S. exporters access to financing competitive with that offered by other countries.*
2. Limitations in private-sector financing, including the lack of commercial financing at economically viable terms (as defined in the Policy Handbook), or the existence of commercial or political risk that the exporter or private financial institutions are unwilling or unable to undertake – *i.e.*, *Ex-Im Bank support is needed to fill a financing gap.*

Federal and Ex-Im Bank Policy for Documenting, Assessing, and Confirming the Need for Government Assistance. OMB Circular No. A-129 and Treasury/FMS, "Managing Federal Receivables," emphasize ensuring that Federal support is truly needed and information supporting that need is obtained and documented prior to extending credit. Both documents state, "Federal credit assistance should be provided only when it is necessary and the best method to achieve clearly specified Federal objectives. Use of private credit markets should be encouraged, and any impairment of such markets or misallocation of the nation's resources through the operation of Federal credit programs should be minimized."⁷ OMB Circular No. A-129 also states, "If it is consistent with program objectives, borrowers should be required to certify and document that they have been unable to obtain credit from private sources."⁸ Treasury/FMS, "Managing Federal Receivables," further requires that loan files include a certification by the borrower that

⁵ Ex-Im Bank Policy Handbook, chapter entitled "Additionality," June 2005.

⁶ Export-Import Bank Act of 1945 (12 U.S.C. 635) as amended, Section 2(b)(1)(B).

⁷ OMB Circular No. A-129, Section II, November 2000 and January 2013; and Treasury/FMS, "Managing Federal Receivables," Chapter 2, May 2005.

⁸ OMB Circular No. A-129, Section III(A)(1)(a), "Applicant Screening," November 2000 and January 2013.

private sector financing was denied or a copy of the application for private sector financing with the letter denying the loan.

Ex-Im Bank's Loan Manual – Chapter 14, "Project Finance," which governs SPFD's management of project finance transactions, including direct loans – also requires applicants to disclose all sources approached for financing and provide a "clear articulation of the need for Ex-Im Bank coverage."⁹ Articulating the need for Ex-Im Bank financing occurs on the application form where applicants must check the appropriate box next to one of several questions indicating the rationale for Bank support, and provide supporting details. The Bank's Policy Handbook states that relationship managers (loan officers) will then "**confirm the information provided** [emphasis added]" and report the reason Ex-Im Bank financing is needed in the final memo seeking approval of the loan.¹⁰ Consequently, applications for Ex-Im Bank financing must be accompanied by sufficient, relevant information such that staff can determine whether the transaction meets the additionality test. If applications are incomplete or insufficient, the Loan Manual instructs staff to contact the applicant, obtain additional information, and write any additional information on the application.

Review of Support for Additionality. To assess whether statements regarding additionality were confirmed by loan officers and documented with sufficient supporting information, we interviewed loan officers for the loans included in our sample. We also reviewed documents maintained in application files and publicly available information.

The application for the loan to Mahmood Saeed Collective Company did not include a clear response to questions regarding the need for Ex-Im Bank support, although the memo to the Board of Directors requesting approval of the loan stated, "The Company approached Ex-Im Bank due to the lack of long term financing for private companies in the market." No additional information was included in the file to support this statement. Sufficient documentation could have included evidence that the borrower sought private financing and was denied, such as a copy of the application form for private sector financing with the letter denying the loan. When questioned, the responsible loan officer stated that she may have received an e-mail from the applicant containing the information necessary to determine whether the loan met the additionality test; yet, she could not provide the e-mail.

The applications for four transactions in our sample – loans to Punj Lloyd Solar Power Ltd., Inmarsat Investment Ltd. (Inmarsat), Refineria de Cartagena S.A. (REFICAR), and Papua New Guinea LNG Global Company Ldc – included responses to questions regarding the need for Ex-Im Bank support. But none of the loan files contained documentation sufficient to substantiate applicants' assertions.

⁹ "Structured Finance Division Project Criteria and Application Information Requirements," contained in Appendix 14-D of the Loan and Guarantee Manual, October 1999 (Appendix 14-F in the 2013 revision to the Manual).

¹⁰ Ex-Im Bank Policy Handbook, chapter entitled "Additionality," June 2005.

Specifically, the direct loan application for Inmarsat indicated the need for Ex-Im Bank financing because the company sought to purchase three satellites from Boeing Space and Intelligence Systems of California (Boeing). Inmarsat stated that Boeing faced strong competition from a French competitor who was backed by the French export credit agency (by Ex-Im Bank policy, this is a legitimate reason for support); therefore, Ex-Im Bank financing was necessary to make the sale of Boeing's satellites competitive. Ex-Im Bank's press release on the loan stated that, "The Bank's support helped Boeing Space and Intelligence Systems win the contract over competition backed by a foreign export-credit agency." In addition to the existence of foreign competition, Inmarsat's application stated there was "no availability of economically viable interest rates on terms over one to two years."



Illustration of Boeing Ka-band 702HP satellite. Source: Ex-Im Bank press release dated May 13, 2011, announcing approval of Inmarsat's direct loan.

However, the loan file contained no evidence of the company's attempts to attain long-term commercial financing, or an explanation of how Ex-Im Bank support would help Boeing win the sales contract over their foreign competitor. Additionally, according to a company press release on the matter, the Inmarsat Chief Financial Officer stated, "We expect the Inmarsat-5 programme to be largely funded from our internally generated cash flows and, with significant available liquidity today, we see no immediate financing needs. In connection with the Boeing contract, we are seeking Export Credit Agency financing support from the US Ex-Im Bank, which could provide an attractive source of long-term debt."¹¹ Based on these factors and the lack of information in the loan file, we were unable to verify the need for Ex-Im Bank support.

In the case of another loan we reviewed, REFICAR applied for a direct loan as part of a \$5 billion refinery and upgrade project in Cartagena. The loan was needed to purchase equipment and engineering and design, contracting, and process licensing services from over 150 U.S. companies including Chicago Bridge and Iron Americas Ltd. of Texas (CB&I), the primary exporter. On its loan application, REFICAR cited (1) the existence of competition from four foreign companies backed by foreign export credit agencies, and (2) no availability of "economically viable interest rates on terms over one to two years."

¹¹ Inmarsat press release, "Inmarsat Announces \$1.2bn Investment in Next Generation Ka-band Satellite Network," August 6, 2010. Available at: <http://www.inmarsat.com/corporate/media-centre/press-releases/inmarsat-announces-1.2bn-investment-in-next-generation-ka-band-satellite-network>. Accessed August 12, 2013. The Inmarsat-5 program includes a constellation of telecommunication satellites, including the Boeing satellites, used to provide worldwide mobile broadband communications.



Photo of REFICAR refinery.
Source: Ex-Im Bank 2011 annual report.

Consequently, Ex-Im Bank financing was necessary to make CB&I and its suppliers competitive and ensure REFICAR purchased U.S. goods and services for the project rather than those of foreign competitors. In May 2011, Ex-Im Bank approved REFICAR's \$2.34 billion direct loan for the purchase of goods and services from CB&I and its suppliers. However, we determined that CB&I has had engineering, procurement, and construction contracts with REFICAR for the refinery project since at least 2007. Again, based on the lack of information in the loan file, we were unable to verify the need of Ex-Im Bank support.

When questioned, the loan officers for the Inmarsat and REFICAR transactions stated that the majority of the work performed to verify borrower needs for Ex-Im Bank financing was done through verbal and e-mail communication. In addition, the loan officers had substantial institutional knowledge related to both projects and stated that detailed documentation is not required to be maintained.

The application for the remaining loan in our sample – the loan to Barakah One Company – included a response to questions regarding the need for Ex-Im Bank support. Because the loan had not been declared operative as of September 2013 and, therefore, the loan files were not centralized, we were unable to determine whether files contained sufficient documentation to support borrower assertions (discussed further beginning on page 19).¹²

New Statutory Requirements for Reporting on Additionality. In accordance with the Export-Import Bank Reauthorization Act of 2012, beginning in 2012, Ex-Im Bank must include in its annual report details on the additionality of each loan and long-term guarantee authorized in the fiscal year.¹³ Specifically, the Bank must report whether each loan or guarantee was made to: (1) assume commercial or political risk that exporter or private financial institutions are unwilling or unable to take; (2) overcome limitations in private sector export financing; (3) meet competition from foreign, officially sponsored, export credit competition; or (4) for an unidentified purpose (with an explanation

¹² After financing agreements are executed and conditions precedent to initial utilization of a loan have been satisfied, Ex-Im Bank declares a loan "operative."

¹³ Public Law 112-122, 126 Stat. 350 (2012).

provided).¹⁴ As a result, the 2013 revision to the Loan Manual states, “It is important for [loan officers] to assist in ensuring that categorization [of additionality] is as nearly accurate as possible, not only to meet the Bank’s statutory requirements and ensure accurate reporting, but also to assist the Bank in appropriately addressing changing market needs, in answering inquiries from Congress, other agencies and stakeholders, and in ensuring that Bank resources are directed where they can best support the mission of the Bank.”¹⁵ Consequently, Ex-Im Bank modified the long-term application to include additional questions regarding the purpose of each transaction. In addition, the Bank developed a detailed guide to assist loan officers in determining and documenting why Ex-Im Bank support is needed. The guide is included as Appendix 7-C to the 2013 revision to Ex-Im Bank’s Loan Manual.

These actions represent good faith efforts on the part of Ex-Im Bank to address the important issue of additionality. However, the Bank must also develop effective mechanisms to ensure that loan officers and other Bank personnel comply with Federal and agency policies and procedures for documenting, assessing, and confirming the need for Ex-Im Bank support. As discussed below, we found that loan officers did not always complete required checklists or perform other required tasks despite the creation and existence of multiple policies and requirements over time. Therefore, we question whether Ex-Im Bank’s latest changes to its policies and procedures related to additionality will be inherently more effective without the means to monitor for and address noncompliance.

Loan Officers Did Not Always Perform or Document Performance of Required Tasks

Our review found that Ex-Im Bank loan officers did not always perform or document performance of required tasks. Specifically, prior to loan approval loan officers did not complete checklists intended to ensure (1) borrower eligibility and compliance with Ex-Im Bank credit policies and standards, (2) completeness of loan applications, and (3) collection and maintenance of all required commitment documents. In addition, they did not always sufficiently document completion of CRTI due diligence reviews in accordance with Ex-Im Bank policy. Without adequate supporting documentation, we were unable to verify whether the Bank’s credit policies and standards, including those for transaction due diligence, were followed.

¹⁴ In Ex-Im Bank’s 2012 annual report, the Bank used the following “additionality codes” to categorize loans and guarantees:

- 1 – To overcome limitations in private-sector financing, including (a) to assume commercial or political risk that the exporter or private financial institutions are unwilling or unable to undertake and (b) to overcome maturity or other limitations in private-sector export financing.
- 2 – To meet competition from a foreign officially sponsored export credit agency.
- 3 – Not identified due to insufficient information.

Of the 20 loans authorized in FY 2012, Ex-Im Bank reported that 15 were authorized because of additionality code 1, while the remaining 5 were authorized because of additionality code 2. No loans were reported with additionality code 3, or insufficient information regarding the need for Ex-Im Bank support.

¹⁵ Loan Manual Section 7.1.5.1, “Additionality/Categorization of Additionality,” January 2013.

Completion of Checklists Prior to Loan Approval. OMB Circular No. A-129 and Treasury/FMS, “Managing Federal Receivables,” require agencies to make every effort to effectively target Federal assistance and mitigate risk by (1) following appropriate application screening standards and procedures, and (2) making sure participants in Federal credit programs meet all applicable eligibility, financial, and programmatic requirements. “Managing Federal Receivables” further suggests that agencies use a manual or automated checklist to ensure that they have fully and properly processed, evaluated, and documented loan applications and awards for loan assistance. Appendix 2 of the document provides a suggested “Credit Extension/Servicing Checklist” for just such purpose.

Ex-Im Bank’s Loan Manual includes many different forms and checklists to assist in documenting the Bank’s credit activities and ensure consistent application of Bank policies. Depending on the type of financing requested, various checklists are used to ensure that applications are complete and comply with Ex-Im Bank credit policies and standards, and all required commitment documents are obtained prior to loan approval. Chapter 7 of the Loan Manual describes the steps in processing applications for standard long-term final commitments. This chapter has been updated numerous times. At the time the loans in our sample were underwritten, the “Information Checklist Long-Term Loans and Guarantees” (Information Checklist) and the “Compliance Checklist Long-Term Loan and Guarantees” (Compliance Checklist) were required. Appendix B includes both checklists.

The Information Checklist required loan officers to review standard long-term loan applications and determine whether applications were complete, sufficient background data on the type of risk involved was specified, and applicant financial statements, financial projections, credit reports, and bank references (as required) were obtained.

The Compliance Checklist required loan officers to work with the Engineering and Environment Division (E&E) and Ex-Im Bank’s Policy Group to screen applications and determine if transactions complied with Ex-Im Bank credit policies and standards prior to loan approval. Loan officers were to complete the checklist to document the effort. Items on the checklist included assessing:

- whether transaction participants and related costs were eligible;
- whether requested financing terms conformed with Ex-Im Bank requirements;
- the transaction’s degree of additionality; and
- the economic and environmental impact of the transaction.

In addition, Application Processing creates an application file for each loan and sends the file to the appropriate Ex-Im Bank division, such as SPFD. In the file, Application Processing includes document checklists which loan officers are to complete to ensure required supporting documents such as the export contract, financial statements, and technical project information are maintained. Each loan in our sample included various versions of a document checklist.

Two of the loans included in our sample – loans to Mahmood Saeed Collective Company and Barakah One Company – were standard long-term transactions; however, the Information Checklist and Compliance Checklists were not completed. Also, none of the document checklists provided by Application Processing were fully completed for any sampled loans. When questioned, more than one loan officer cited significant experience with Ex-Im Bank processes and, therefore, reasoned that it was not necessary to use checklists or refer to the Loan Manual. Instead, loan officers generally relied on their institutional knowledge of Ex-Im Bank operations when underwriting loans. Although loan officers stated they performed the work that should have been documented on the checklists in question, without the completed checklists or other supporting documentation, we were unable to verify whether the credit policies and standards the checklists were intended to address were, in fact, followed.

Documentation of CRTI Due Diligence Reviews. As of March 2009, loan officers are required to submit the corporate and individual names and addresses of borrowers, guarantors, and other transaction participants to the Ex-Im Bank Library. Library staff then conduct a CRTI due diligence review, which entails checking participant information against news items, legal notices, and approximately 20 databases, including various Federal and international debarment, sanction, and watch lists. The purpose of this review is to identify any risks related to the trustworthiness or character of transaction participants prior to approval of the transaction.

According to the Ex-Im Bank Loan Manual, "risk assessment and due diligence" is the evaluation of the conformity of a transaction with Ex-Im Bank credit policies related to risk. The scope of the review varies depending mainly on the type of financing requested, the amount and term of the transaction, and the presence of policy issues. When concluded, the risk assessment and due diligence will have identified any special issues and risks associated with the transaction.

Ex-Im Bank's Loan Manual, Section 7.1.2.2, "CRTI," states that CRTI reviews for long-term transactions, such as direct loans, should include all identified exporters and suppliers, the foreign buyer, borrower, end-user, guarantors, local cost providers (if applicable), and principal owners of each entity. Also, Chapter 8 of the Loan Manual, which describes the standard credit structure of Ex-Im Bank direct loans, states that, "The [loan officer] is responsible for screening all participants to the transaction for suitability and Know Your Customer guidelines." Finally, "Ex-Im Bank Staff CRTI Transaction Due Diligence Guidelines (2011)," states that for SPFD transactions the foreign buyer, borrower, project sponsors, end-users, guarantors, and principal owners of each entity will be vetted through the CRTI process. The CRTI Transaction Due Diligence Guidelines further state that documentation of completed CRTI reviews should include the original request for CRTI screening, including the identities of all participants screened, and the results of the Library's research.

We reviewed evidence of CRTI screening for the loans included in our sample and determined that loan officers for three transactions – loans to Mahmood Saeed Collective Company, Punj Lloyd Solar Power Ltd., and Barakah One Company – fully documented CRTI screening as required. Specifically, the loan officers documented the original request to the

Library, including the names of all transaction participants to be screened, and the Library's response that CRTI screening was complete and no concerns were identified.

Files for two loans in our sample – loans to Inmarsat and REFICAR– included only the response from the Library that CRTI screening was complete and no concerns were identified, with no indication or record of which transaction participants were included in the screening. The file for the remaining loan in our sample – the loan to Papua New Guinea LNG Global Company Ldc – included no documentation regarding CRTI although the loan was approved in December 2009 after CRTI requirements were established.

Without documentation of the participants screened by the Library, we were unable to determine whether all participants were included in CRTI reviews as required and, if not, why some participants may have been excluded. In addition, if some participants were excluded, we were unable to assess the potential impact of their exclusion on Ex-Im Bank's objective of identifying risks and performing rigorous due diligence prior to loan approval.

Ex-Im Bank Has Not Adopted Federal Credit Program Policies and Lacks Mechanisms Necessary to Ensure Compliance

We found that Ex-Im Bank's Loan Manual and other credit program policies were largely consistent with many fundamentals of OMB and Treasury/FMS policies for Federal credit programs. The effort expended to revise the Loan Manual in January 2013 and communicate Ex-Im Bank credit policy to employees is commendable. However, although OMB Circular No. A-129 and Treasury/FMS, "Managing Federal Receivables," require agencies to incorporate the requirements and standards established in both documents in agency regulations, policies, and procedures, Ex-Im Bank has not formally adopted either document. As a result, the Bank's policies and procedures, including those for direct loans, do not expressly address OMB and Treasury requirements and guidance and, therefore, may not keep pace with changes in requirements and expectations for managing Federal credit programs. In fact, new and important requirements for performing in-depth biennial program reviews, developing robust management and oversight structures, establishing data-driven reporting mechanisms, and creating effective credit program communications policies established in the latest revision to OMB Circular No. A-129 were not addressed in the latest revision to the Bank's Loan Manual.

On February 13, 2013, the Credit Policy Division released the revised Loan Manual. In the e-mail that announced the revision, the Credit Policy Division stated that an effective credit manual for all Ex-Im Bank business units to use is key toward the goal of improving the Bank's credit environment. The preface to the Loan Manual further states that the Manual is intended to communicate requirements to Ex-Im Bank employees and encourage documentation and consistent application of credit policies and procedures. Nonetheless, Ex-Im Bank has not established mechanisms necessary to ensure compliance with those requirements, policies, and procedures. Moreover, the preface to the Manual undermines its own stated purpose by cautioning users with the following "Important Notice":

Please note that these policies and procedures are subject to change from time to time without notice; consequently sections of this Manual may not be fully up to date or accurate.

This warning may unintentionally discourage employees from relying on or using the Loan Manual and instead increase overreliance on institutional knowledge.

OMB Circular No. A-129 has consistently required agencies to implement management practices that ensure the goals of credit programs are met.¹⁶ Additionally, with the January 2013 revision to the Circular, OMB placed heavy emphasis on strengthening agency internal controls and establishing robust management and oversight structures to achieve credit program policy goals. Appendix C of the Circular provides detailed objectives and features of expected oversight structures and risk management functions to identify issues in a timely manner and allow for proactive management and informed decision-making. One possible risk management function discussed is a quality control or loan review function that monitors for underwriting errors or other deviations from acceptable practice. Another is the establishment of an agency-wide credit council to oversee administration of and compliance with credit policies and procedures. Ex-Im Bank does not have either type of mechanism, which would help detect internal control weaknesses and instances of noncompliance with Federal and agency policy, such as those we observed.

During the audit, we inquired about requirements in the Loan Manual for the Credit Policy Division to conduct “post-authorization audits” and for the Credit Review and Compliance Division to perform program compliance reviews of Ex-Im Bank transactions. We determined that such audits and reviews do not apply to long-term, SPFD direct loans and do not assess quality control aspects, such as deviations from regulations, policies, or procedures. Specifically, the Credit Policy Division’s post-authorization audits are completed on transactions under \$3.5 million, primarily for the Trade Finance Division and do not assess internal compliance with policies. Further, the Credit Review and Compliance Division’s compliance reviews are limited to external and internal delegated authority transactions under \$10 million, which are primarily medium-term loan guarantees.

Ex-Im Bank is establishing an Enterprise Risk Committee to address, among other issues, operational risk. In addition, the OCFO is developing an implementation plan to address new OMB requirements. However, additional management attention is warranted to ensure that Ex-Im Bank (1) formally adopts OMB Circular No. A-129 and Treasury/FMS, “Managing Federal Receivables,” (2) specifically addresses provisions of both documents in agency policies and procedures, and (3) develops mechanisms to ensure that loan officers and other Bank personnel comply with Federal and agency credit program policies.

¹⁶ OMB Circular No. A-129, Section I(4)(b)(2), November 2000, and Section I(D)(1), January 2013.

Recommendations, Management’s Response, and Evaluation of Management’s Response

To strengthen management of its direct loans, Ex-Im Bank should:

1. Update the Ex-Im Bank Loan, Guarantee and Insurance Manual to require loan officers to maintain detailed documentation regarding the need for Ex-Im Bank support.

Management’s Response. Management concurs with the recommendation. The Credit Policy Division will work with the Policy and Planning Group and business units to document corroboration of additionality. Some mechanisms will require loan officers to maintain detailed documentation regarding the need for Ex-Im Bank support. This requirement will be updated in the Ex-Im Bank Loan, Guarantee and Insurance Manual by the end of the calendar year. Also, Credit Policy is developing a post-authorization review process for long-term transactions to assess adherence to credit policies and procedures, which would include additionality.

Evaluation of Management’s Response. Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

2. Formally adopt applicable Federal credit program policies and guidance, including OMB Circular No. A-129 and Treasury/FMS, “Managing Federal Receivables,” by revising existing agency credit program policies and procedures as necessary to specifically address provisions of those documents.

Management’s Response. Management concurs with the recommendation. Ex-Im Bank has submitted to OMB a draft Circular No. A-129 Implementation Plan and is awaiting comments and approval. Once approved, the Bank’s Loan, Guarantee and Insurance Manual will be revised to reference requirements of OMB Circular No. A-129 and Treasury/FMS, “Managing Federal Receivables.”

Evaluation of Management’s Response. Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

3. Develop a systematic quality control review program or other mechanism(s) necessary to prevent, detect, and correct Ex-Im Bank staff noncompliance with Federal and agency credit program policy.

Management’s Response. Management concurs with the recommendation. The Credit Management Group has entered into an operating agreement with the Export-Finance Group and Small Business Group. This agreement will expand the scope of the Credit Policy Division and the Credit Review and Compliance Division through post-authorization reviews of long-term

transactions underwritten in Structured and Project Finance and the Transportation Division in order to assess compliance with Federal and Ex-Im Bank credit program policy. Credit Policy is presently working on developing standardized procedures for implementing the post-authorization reviews which it anticipates being fully operational by calendar year-end.

Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

Management's complete response is reprinted in Appendix E.

Ex-Im Bank Faces Challenges That May Impact Efficient and Effective Management of the Direct Loan Portfolio

Ex-Im Bank faces several challenges that, although not unique to direct loans, may impact the Bank's efficient management of the direct loan portfolio. These challenges include:

- fragmented recordkeeping practices;
- complex business processes; and
- growing demand for Ex-Im Bank support.

Separately managing each challenge is difficult enough, but because they are inherently related they present additional complications and require management's attention.

Fragmented Recordkeeping Practices

The Federal Records Act of 1950, as amended, requires each Federal agency, including Ex-Im Bank, to make and preserve records containing adequate and proper documentation of the organization, function, policies, decisions, procedures, and essential transactions of the agency.^{17,18} The National Archives and Records Administration (NARA) has broad authority under Title 36 of the Code of Federal Regulations to set standards for the management of records. Additionally, on November 28, 2011, a presidential memorandum was issued emphasizing the importance of having well-managed records to improve performance, minimize costs, and promote openness and accountability in Government operations.

Federal credit program policies also require effective records management. Both OMB Circular No. A-129 and Treasury/FMS, "Managing Federal Receivables," state that, "Loan origination files should contain loan applications, credit bureau reports, credit analyses, loan contracts, and other documents necessary to conform to private sector standards for that type of loan. Accurate and complete documentation is critical to providing proper servicing of the debt, pursuing collection of delinquent debt, and in the case of guaranteed loans, processing claim payments."¹⁹ Treasury/FMS, Chapter 3, "Credit Extension," further identifies specific documents that should be included in loan files including but not limited to: the original signed loan application, the original copy of the accepted loan commitment,

¹⁷ Codified at 44 U.S.C., Chapters 21, 29, 31, and 33.

¹⁸ 44 U.S.C 3301 defines "records" as all books, papers, maps, photographs, machine readable materials, or other documentary materials, regardless of physical form or characteristics, made or received by an agency of the United States Government under Federal law or in connection with the transaction of public business and preserved or appropriate for preservation by that agency or its legitimate successor as evidence of the organization, functions, policies, decisions, procedures, operations, or other activities of the Government or because of the informational value of data in them.

¹⁹ OMB Circular No. A-129, Section III(A)(2), November 2000 and January 2013; and Treasury/FMS, "Managing Federal Receivables," Chapter 3, May 2005.

credit reports, and all original internal review documents required for financial and legal findings. Treasury/FMS notes that, while much of this information may be contained in an automated system, agencies may still need to maintain all original documentation to support possible future legal action.

On April 15, 2012, Ex-Im Bank issued its first records management policy (“Records Management Program Policy,” [RM-2012-12]). The policy assigns responsibility for managing and coordinating Bank-wide records to the Ex-Im Bank Information Quality and Records Management Officer (Records Management Officer), under the direction of the Chief Information Officer. Furthermore, the document states that it is the policy of Ex-Im Bank to manage records effectively and efficiently in accordance with statutory and regulatory requirements and to ensure access to information. Nonetheless, throughout our review of Ex-Im Bank’s management of direct loans, we found that:

- hard and soft copy records were maintained by various individuals and divisions;
- files could not be easily located which hindered our ability to assess the Bank’s operations;
- the degree of loan documentation available varied and was often insufficient; and
- there did not seem to be agreement on when and what files were to be transferred to the Information and Records Management Division of the Office of the Chief Information Officer (Records Management).

For example, Ex-Im Bank’s records management policy does not address how, where, and by whom transaction files are to be maintained, and the Bank’s credit program policy, record control schedules filed with NARA, and intranet provide conflicting guidance on the subject. Specifically, the 2013 revision to the Loan Manual, Section 1.4, states that Records Management is responsible for maintaining Ex-Im Bank’s official records. But the same section of the Manual also states that loan officers in the Trade Finance and Transportation divisions “co-manage” with Office of General Counsel (OGC) lawyers the documentation of authorized financing. In addition, Section 4.3 of the Loan Manual states that loan officers maintain Ex-Im Bank’s official hard copy records of loan applications and related documents and are responsible for keeping the files current and orderly.

“When records are well managed, agencies can use them to assess the impact of programs, to reduce redundant efforts, to save money, and to share knowledge within and across their organizations. In these ways, proper records management is the backbone of open Government.”

--Presidential Memorandum,
“Managing Government Records,”
November 28, 2011

In contrast, Ex-Im Bank’s September 27, 2002, records control schedule for transaction files (NARA Number N1-275-02-1) states that originals of signed, legally binding direct loan, credit guarantee, and export insurance transaction files (including applications and all supporting documentation) are to be maintained by the OCFO; only draft transaction agreements are to be maintained by OGC; and all other transaction files are to be transferred to Central Files (now Records Management) after the

transaction becomes operative. Finally, the Ex-Im Bank intranet states that Records Management is the central location for all permanent and temporary records of Ex-Im Bank's business and operations, and further defines a record as original documents, Bank policies, data from certain Bank systems, e-mail, and other soft copy documents.

In practice, Ex-Im Bank divisions do not submit to Records Management loan documents, including original documents maintained in a transaction's official application file, until financing agreements are executed and conditions precedent to initial utilization of the loan have been satisfied, at which time the loan is declared "operative." Application files are critical as they contain much of the background information needed to approve the loan and perform the due diligence necessary for underwriting, including the original loan application, amendments, credit information, project summary, company information, and Department of State and CRTI clearances. However, depending on the complexities of the transaction, more than a year may pass between loan application and the operative declaration. One of the loans in our sample – the loan to Barakah One Company – was applied for on November 2, 2011, approved on September 6, 2012, but still not operative as of September 2013. As a result, none of the official files for the loan had been transferred to Records Management and were spread across many different Ex-Im Bank divisions, were not easily obtained, and may be at risk for loss.

We requested application files and all other documents maintained in Records Management and, as necessary, by other Ex-Im Bank divisions for the remaining five loans in our sample, which were all operative at the beginning of the audit. Only one of the five application files was properly maintained in Records Management. For the four loans without application files in Records Management, Records Management possessed only supporting documents of little intrinsic value. Locating the application files not maintained in Records Management required a significant effort and involved finger-pointing between various Ex-Im Bank divisions and individuals. Hard copy materials were found to have been stored in various desks and file cabinets, while soft copy materials were located on personal hard drives, shared drives, or Ex-Im Bank systems. Our experience corroborated statements made by the former Records Management Officer, who retired in April 2013 and whose position was still vacant as of September 2013. Before retiring, she told us that she often had difficulty obtaining official records. In her experience, this was particularly true for large, complex transactions because Ex-Im Bank employees perceived the records as their personal files and were reluctant to turn them over.

A summary of our review of sampled application files and supporting documentation is provided in Figure 3.

Figure 3. Summary of Records Reviewed for Sampled Loans

Borrower	Highlights of Available Records
Barakah One Company	Loan was approved on September 6, 2012, but had not been declared operative as of September 2013. Only a memo regarding compliance with Iran Sanctions requirements from OGC was available in Records Management. The application file was found in the Asset Management Division (AMD).
Punj Lloyd Solar Power Ltd	Loan was approved on July 7, 2011, and declared operative on April 13, 2012; however, application file was found with the loan officer. Records Management had only two folders that contained copies of the same operative memo.
Inmarsat Investment Ltd.	Loan was approved on December 16, 2010, and declared operative on May 13, 2011; however, the application file was found in AMD. The file contained the original application and many of the original supporting documents
Refineria de Cartagena S.A.	Loan was approved on May 18, 2011, and declared operative on February 21, 2012; however, the application file was found in the files of the former loan officer who had since transferred to AMD. Records Management had two boxes containing the credit agreement and disbursement documents.
Mahmood Saeed Collective Company	Loan was approved on February 24, 2010, and declared operative on July 19, 2010. Records Management had a mostly complete set of records, including the application file and due diligence documentation. However, as previously discussed, the file did not include information necessary to support borrower statements regarding additionality.
Papua New Guinea LNG Global Company Ldc	Loan was approved on December 3, 2009, and declared operative on March 15, 2010; however, the application file was found in AMD and contained only documentation of limited value. Other supporting documentation was found in AMD and SPFD. Records Management had only 10 different drafts of the same term sheet for common terms.

Source: Office of Inspector General (OIG) summary of information obtained from sampled loan files.

The former Records Management Officer made progress in improving Ex-Im Bank's records management program, to include contracting with a NARA-approved vendor for maintenance of Ex-Im Bank's physical records and hosting the first Small Agency Records Officer Council meeting on March 19, 2013. Additionally, she offered Bank-wide records management training on more than one occasion, but stated that it was poorly attended. Despite the progress made, Ex-Im Bank does not have an electronic document management system and, according to NARA, Ex-Im Bank's latest records management self-assessment indicated that the Bank's record management practices need additional improvement. Out of a possible 100 points, Ex-Im Bank's total self-assessment score was 27, placing it in NARA's High Risk category.²⁰ In addition, the March 2013 report from a study of leading

²⁰ Since 2009, NARA has required agencies to complete an annual self-assessment of their records management practices. NARA uses the results to rate agencies' compliance with the Federal Records Act and other laws and regulations related to records management. The latest self-assessment was conducted in 2012. According to the NARA 2012 Records Management Self-Assessment Report, agencies were scored out of a possible 100 points and each agency's overall score determined its risk in one of the three following categories: (1) Low Risk, for scores between 90–100; (2) Moderate Risk, for scores between 60–89; and (3) High Risk, for scores between 0–59. Ex-Im Bank's score was 27.

loan monitoring processes requested by Ex-Im Bank’s Audit Committee and conducted by KPMG LLP found that Bank divisions responsible for loan portfolio monitoring “do not have accurate information and readily available access to data required for project monitoring.”²¹

Complex Business Processes

Complex and convoluted business processes pose a risk to Ex-Im Bank’s efficient and effective management of direct loans. From application intake to asset monitoring, multiple Ex-Im Bank divisions as well as external advisors are involved in underwriting, servicing, and monitoring each loan. The first steps in the process include receiving an application and processing it for approval by Ex-Im Bank’s Board of Directors. As shown in Appendix C, we noted that Ex-Im Bank’s processes from the time of loan application until Board approval for a typical SPFD loan requires 8 different Bank components performing 21 different steps and many exchanges of information. For a highly complex project finance transaction, there may be as many as 10 Ex-Im Bank divisions and outside entities in the application process alone, including application processing personnel, the loan officer, internal and external attorneys, internal and external engineers, economists, financial advisors, and other advisors as necessary. Appendix D describes each participant to this process.

Ex-Im Bank management contracted with CC Pace Systems to perform a process improvement study and identify opportunities for streamlining SPFD operations. In their May 15, 2013, final report entitled, “Structured & Project Finance Process Leaning Initiative Findings and Recommendations,” CC Pace Systems also noted that loan servicing functions are segmented across multiple Ex-Im Bank divisions and “use different processing systems with very limited integration . . . often creating disconnects for what should be a more seamless process.”

OMB Circular No. A-129 requires agencies to design and administer credit programs in a manner that most effectively and efficiently achieves policy goals while minimizing taxpayer risk. The increase in Ex-Im Bank’s number of large, complex direct loans magnifies the organization’s need to work efficiently and effectively as additional time and coordinated efforts are needed to underwrite each deal. Loan officers in the Trade Finance Division, Transportation Division, and SPFD do not have organizational authority over other key components of Ex-Im Bank, yet the Loan Manual describes them as “team leaders in underwriting and processing financing requests” and coordinating the participation of external project finance consultants.²² At least one loan officer expressed to us frustration over delays caused while waiting for other divisions of the Bank to complete their assigned responsibilities.

²¹ KPMG LLP, “Export-Import Bank of the United States (Ex-Im Bank) Consultative Review of Industry Practices for Loan Portfolio Monitoring,” March 17, 2013.

²² Loan Manual Section 1.4, “Primary Participants in the Credit Process,” January 2013.

Growing Demand for Ex-Im Bank Support

As previously discussed, in the wake of the international financial crisis, Ex-Im Bank's authorizations, including direct loan authorizations, grew substantially. Additionally, in May 2012, Congress enacted the Export-Import Bank Reauthorization Act of 2012 which increased the agency's exposure limit – that is, the total outstanding value of all direct loans, loan guarantees, and insurance policies that Ex-Im Bank cannot exceed – from \$100 billion in 2011 to \$140 billion in 2014.²³ Despite the large increase in authorizations, particularly in complex SPFD transactions, and the increase to Ex-Im Bank's exposure limit, growth in the Bank's workforce has remained relatively flat.

The OIG has consistently reported human capital as a major management challenge in every semiannual report to Congress since the report for the period ended September 30, 2011.²⁴ Three outside sources have recently confirmed that many Ex-Im Bank divisions are understaffed and employees overworked. Two of the outside sources were consultants hired by Ex-Im Bank management to address this issue and find solutions, and the third was the Government Accountability Office (GAO).

Although workforce assessment was not the focus of our review, employees reported to us the impact of the growing demand for Ex-Im Bank support on their continued ability to provide quality service. Therefore, how the Bank manages this challenge, particularly given the other, inherently related management challenges we observed, may impact the Bank's efficient and effective management of direct loans. Specifically, underwriting, servicing, and monitoring increasing numbers of highly complex loans with a strained workforce, highly complex business processes, and in an environment of fragmented recordkeeping poses a significant challenge to Ex-Im Bank management.

Between 2010 and 2012, Ex-Im Bank's workforce grew 8 percent from 380 to 412 full-time equivalents.²⁵ As shown in Figure 4, key divisions that participate in managing direct loans, such as SPFD, OGC, AMD, E&E, and Operations & Data Quality (ODQ) grew at an average rate of 10.4 percent during the same period.

²³ Public Law 112-122, 126 Stat. 350 (2012).

²⁴ Ex-Im OIG semiannual reports to Congress are available at: <http://www.exim.gov/oig/reports/semiannual-reports-and-testimony.cfm>.

²⁵ According to Ex-Im Bank's Chief Human Capital Officer, the Bank had six vacancies at the end of FY 2012.

Figure 4. Growth in Ex-Im Bank Divisions Managing Direct Loans (2010 – 2012)

Division	Number of Full Time Equivalents by Year			Growth
	2010	2011	2012	Rate
SPFD	12	11	13	8.3%
OGC	33	32	36	9.1%
AMD	14	14	16	14.3%
E&E	13	14	15	15.4%
ODQ	21	23	22	4.8%
<i>Total</i>	<i>93</i>	<i>94</i>	<i>102</i>	<i>9.7%</i>
<i>Average percent increase</i>				<i>10.4%</i>

Source: OIG summary of information obtained from Ex-Im Bank Human Resources.

The small growth in key areas responsible for managing direct loans in contrast to the large increase in direct loan authorizations – particularly larger, more complex, more time-consuming deals – could increase operational risks. For example, the Credit Administration Group in ODQ reviews all borrower requests to draw down from an approved loan (or receive a loan disbursement) as reimbursement for purchases that are in compliance with the loan agreement. Before making a disbursement, ODQ must review invoices and supporting documentation submitted by borrowers for accuracy and eligibility. Between FY 2010 and FY 2012, Credit Administration’s workforce remained unchanged and included six employees, some of whom reviewed requests for disbursements on a part-time basis. Only three of the six employees were dedicated to long-term transactions. Yet, as shown in Figure 5, the number of borrower requests for disbursements during the period increased by 154 percent and the number of invoices associated with those requests increased by 222 percent.

Figure 5. Growth in Credit Administration Workload (2010 – 2012)

	FY 2010	FY 2012	Increase
Total Number of Requests for Disbursements	563	866	303 requests, or 154%
Total Number of Invoices	6,230	13,801	7,571 invoices, or 222%
Total Amount of Disbursements Requested	\$12.5 billion	\$21.2 billion	\$8.7 billion, or 169%

Source: OIG summary of information obtained from Ex-Im Bank ODQ.

Relying on the same number of employees to review more than twice the number of invoices and a large increase in requests for disbursements, particularly given the large dollar amounts involved, may increase the risks of inaccurate or ineligible loan disbursements. One Credit Administration Officer acknowledged that, with only three people reviewing disbursements for long-term transactions, staff find it extremely difficult to keep up as the transactions are complex and involve large amounts of local costs and many suppliers.²⁶

At least three other assessments of Ex-Im Bank's workforce were completed between March and May of 2013 and resulted in the following reports:

1. **GAO, "Recent Growth Underscores Need for Continued Improvements in Risk Management" (GAO-13-303), March 2013** – A mandated review resulting from the Export-Import Bank Reauthorization Act of 2012.
2. **KPMG LLP, "Export-Import Bank of the United States (Ex-Im Bank) Consultative Review of Industry Practices for Loan Portfolio Monitoring," March 17, 2013** – An analysis of industry best practices for loan portfolio management contracted for by Ex-Im Bank's Audit Committee in cooperation with the Bank's OCFO.
3. **CC Pace Systems, "Structured & Project Finance Process Leaning Initiative Findings and Recommendations," May 15, 2013** – A process improvement study contracted for by Ex-Im Bank management to identify opportunities for streamlining SPFD operations that would provide a means to increase transaction volume with current staffing levels while reducing the overall level of effort required.

Each report highlights the risks Ex-Im Bank faces and provides findings and recommendations related to Ex-Im Bank's workforce. Highlights from the reports are provided below:

From GAO's report:

Ex-Im faces potential operational risks because the growth in its business volume has strained the capacity of its workforce. Ex-Im has determined that it needs more staff, but it has not formally determined the level of business it can properly manage. GAO internal control standards state that agencies should develop a risk-management approach based on how much risk can be prudently accepted. Without benchmarks to determine when workload levels have created too much risk, Ex-Im's ability to manage its increased business volume may be limited.

From KPMG's report:

AMD and [Transportation Portfolio Management Division] are understaffed in comparison to the peer group. The average workload (number of relationships) per asset manager at Ex-Im

²⁶ Local costs are those project-related costs for goods and services incurred in the buyer's country.

Bank is significantly greater than that observed in its peer group. For example, the average workload for an asset manager in Portfolio Monitoring & Control Group (PMCG) is 100 borrowers compared to 20 to 30 borrowers for the peer group; for Project & Corporate Portfolio Management Group (PCPM), the average workload is 13 borrowers compared to 7 to 10 borrowers for the peer group. The PCPM level is projected by PCPM management to increase to 17 to 18 borrowers per asset manager once the existing pipeline of new transactions is transferred into PCPM for monitoring. The [Transportation Portfolio Management Division] workload is approximately 25 borrowers per portfolio manager compared to 7 to 10 borrowers for the peer group, and the workload is expected to increase given projected increases in the transportation portfolio. With insufficient staffing there is greater risk of staff 1) being overwhelmed by case loads, 2) being less able to actively monitor credits, 3) missing problems, 4) having less time to develop relationships with debtors/ lenders (relationships that facilitate active monitoring), and 5) staff burnout.

From CC Pace Systems' report:

Staffing levels within [SPFD] are much lower than export financing industry norms and has increasingly relied on external advisors as critical deal participants The staffing constraints at Ex-Im Bank are viewed by these external parties as contributing to the elongation of deal cycle times and often contribute to the complexity of deal negotiations due to inaccessibility.

Conclusion

The complexity of Ex-Im Bank's processes and organizational roles and responsibilities for managing direct loans from the time of application intake through servicing and monitoring increases Ex-Im Bank's challenges. In addition, managing the Bank's increasing business volume with little increase in its workforce has been repeatedly recognized as a major management challenge. GAO and Ex-Im Bank consultants have made multiple recommendations for corrective action regarding the Bank's workforce and opportunities to streamline SPFD processes. We are not making any formal recommendations regarding these issues but will monitor Ex-Im Bank's implementation of planned corrective actions.

We believe opportunities exist to improve Ex-Im Bank's records management practices. Considering the rapid growth in Ex-Im Bank's direct loan authorizations and the increased complexity and size of those loans, which impacts each transaction's documentation needs, effective records management is essential to Ex-Im Bank's future success. As observed during the audit, loan documentation did not provide an adequate audit trail or evidence to support Ex-Im Bank's decision-making for each loan reviewed. Unorganized and scattered records can also decrease efficiency and create an undue burden on already strained personnel.

Recommendations, Management’s Response, and Evaluation of Management’s Response

4. To improve records management practices, Ex-Im Bank’s Chief Information Officer and Enterprise Risk Committee should jointly evaluate Ex-Im Bank’s recordkeeping practices to:
 - a. identify operational risks and impacts on Ex-Im Bank’s ability to achieve credit program goals and objectives; and
 - b. develop and implement a plan to timely address deficiencies found and ensure compliance with applicable Federal laws, regulations, and guidance while balancing the needs of Ex-Im Bank’s business units.

Management’s Response. Management concurs with the recommendation. During FY 2014, Ex-Im Bank’s Chief Information Officer will participate in the Enterprise Risk Committee to evaluate the Bank’s recordkeeping practices and implement improvements in this area to address any deficiencies and operational risks. The Bank has made recent progress in this area and has submitted a Media-Neutral Records Schedule to the National Archives and Records Administration and expects it to be approved and implemented in FY 2014. Additionally, Ex-Im Bank is developing a Smart Form Initiative as part of the Bank’s Total Enterprise Modernization effort, allowing for electronic submission intake for the Bank’s long-term and working capital programs. This system will include an e-document management system for submitting attachments and supporting information.

Evaluation of Management’s Response. Management’s proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon completion and verification of the proposed actions.

Management’s complete response is reprinted in Appendix E.

Scope and Methodology

We performed this audit from November 2012 through September 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our objectives were to determine whether Ex-Im Bank effectively managed direct loan transactions and complied with Federal and agency credit program policies and procedures. To address our objectives, we reviewed applicable laws, regulations, and Ex-Im Bank policies and procedures. We also judgmentally selected and reviewed a sample of 6 of the 40 direct loans (or 15 percent) authorized and underwritten by SPFD between FY 2010 and FY 2012.²⁷ SPFD had approximately 10 loan officers during the period. Sampled loans were underwritten by 5 of the 10 loan officers and totaled \$7.3 billion, or 34 percent of the total \$21.3 billion in direct loans authorized by SPFD and 33 percent of the total \$22.4 billion in loans authorized by Ex-Im Bank during the period.

We chose loans authorized since FY 2010 due to the significant growth in direct loans over the previous three fiscal years. Additionally, we chose loans managed by SPFD given the characteristics of Ex-Im Bank's direct loan portfolio. Specifically, SPFD manages 74 percent (40 loans) of the 54 loans authorized during the period under review, while the Transportation and Trade Finance divisions manage only 13 percent (or 7 loans) each. In addition, SPFD-managed loans represented 95 percent of the value of Ex-Im Bank's entire loan portfolio during the period under review. In selecting loans for our sample, we chose loans of various amounts (ranging from \$9.2 million to \$2.2 billion), industries, and countries; loans of different financing types (project finance, structured finance, and standard long-term); and loans managed by different loan officers.

To assess Ex-Im Bank's overall management of selected loans, we interviewed loan officers and Ex-Im Bank staff from AMD, Credit Policy, Credit Review and Compliance, E&E, ODQ, OGC, and Records Management, and reviewed supporting loan documentation maintained in Records Management and by various Bank divisions. We also performed the following tasks:

²⁷ Ex-Im Bank converted one of the transactions in our sample – Punj Lloyd Solar Power Ltd – to a loan guarantee. Because the transaction was initially underwritten and authorized as a direct loan, we did not replace it in our sample.

- Identified requirements established in the current and previous versions of OMB Circular No. A-129, and compared those requirements with Ex-Im Bank policies and procedures to identify any differences;
- Developed a review checklist based on OMB guidance and Ex-Im Bank’s policies and procedures, and tested selected sample items to determine whether Federal and agency requirements were met;
- Reviewed prior OIG and GAO reports and the results of internal studies commissioned by Ex-Im Bank on subjects related to direct lending to identify previously reported opportunities for improvement; and
- Reviewed Ex-Im Bank’s annual reports issued between FYs 2007 and 2012 to identify trends in Ex-Im Bank’s direct lending.

Review of Internal Controls

We evaluated the internal controls associated with Ex-Im Bank’s direct loans to determine whether the Bank, particularly SPFD loan officers, complied with Federal and agency credit program policies. As discussed in this report, we found that Ex-Im Bank had not formally adopted key OMB and Treasury policy documents or established control mechanisms to ensure compliance with Federal or agency requirements. In addition, to the extent that observed Bank-wide management challenges did or reasonably will impact Ex-Im Bank’s management of direct loans, we assessed controls associated with records management, Ex-Im Bank’s overall business processes, and the growing demand for Bank support. Our recommendations, if implemented, should correct the weaknesses we identified.

Federal Laws, Regulations, Policies, and Guidance

We reviewed the following during the course of our audit work:

- USC Title 12 “Banks and Banking,” Chapter 6, “Export and Import Bank of the United States,” § 635 “Powers and Functions of Bank” (2013).
- Title V of the Congressional Budget Act of 1990 § 500 “Federal Credit Reform Act of 1990” (1990).
- 44 U.S.C. Chapter 31 “Records Management by Federal Agencies” § 3101 “Records management by agency heads; general duties.”
- OMB Circular A-123, “Management’s Responsibility for Internal Control,” Revised, December 21, 2004.
- OMB Circular A-129, “Policies for Federal Credit Programs and Non-Tax Receivables,” November 2000 and January 2013 revisions.

- Treasury/FMS, “Managing Federal Receivables,” May 2005.
- Ex-Im Bank policies and procedures:
 - Credit Review and Compliance Division Credit Underwriting Manual.
 - Policy and Planning Division Policy Handbook, June 2005.
 - Transaction Due Diligence Best Practices, January 10, 2008.
 - Internal Due Diligence Statement, September 8, 2008.
 - AMD Manual, March 2009.
 - Direct Lending Policy, June 1, 2009.
 - ODQ Manual, “Credit Administration, Guarantees and Loans,” January 2013.
 - Loan, Guarantee and Insurance Manual, January 2013; prior version titled Loan and Guarantee Manual, October 1999; and, as necessary, updates to individual chapters related to direct loans between the 1999 and 2013 revisions.

Prior Coverage

During the last 5 years, the Ex-Im Bank OIG and GAO have issued four reports of particular relevance to the subject of this report. Unrestricted reports can be accessed over the Internet at <http://www.exim.gov/oig/reports/audits-and-evaluations.cfm> (Ex-Im Bank OIG) and <http://www.gao.gov> (GAO).

Ex-Im Bank OIG:

- “Actions in Response to the Financial Crisis – Direct Lending” (OIG-EV-09-02, September 30, 2009).
- “Medium Term Export Credit Program – Credit and Fraud Risk Management Business Process Improvement” (OIG-AR-09-04, March 30, 2009).

GAO:

- “Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources” (GAO-13-620, May 2013).
- “Recent Growth Underscores Need for Continued Improvements in Risk Management” (GAO-13-303, March 2013).

In addition, Ex-Im Bank management engaged CC Pace Systems to perform a process improvement study. The objective of the study was to identify opportunities for streamlining that would provide a means to increase transaction volume with current staffing levels while reducing the overall level of effort required. The study was limited to

SPFD financing and guarantees. In its report dated, May 15, 2013, CC Pace Systems identified a series of findings and recommendations intended to lead to short, medium, and long-term opportunities for streamlining and process improvements in the following five general areas: Business Environment; Organization; Policy and Procedure Governance; Process; and Technology.

Ex-Im Bank's Audit Committee, in cooperation with the Bank's OCFO, also engaged KPMG LLP to perform an analysis of industry best practices used by export credit agencies, multilateral development banks, international lenders, commercial banks, and captive finance companies for loan portfolio management. KPMG's March 17, 2013, report identified best practices and compared them to Ex-Im Bank's loan monitoring practices, and made a series of recommendations including those related to staffing levels, monitoring resources, feedback loop, risk-rating systems, and data management.

APPENDIX B

Previously Required Checklists for Long-Term Loans and Guarantees

When Ex-Im Bank authorized the standard long-term loans in our sample, the Bank’s Loan Manual included two checklists intended to ensure (1) borrower eligibility and compliance with Ex-Im Bank credit policies and standards, (2) completeness of loan applications, and (3) that all required commitment documents were obtained and maintained prior to loan approval. The checklists, shown below, were included as Appendix 7-A and 7-B to the December 2009 update to Chapter 7 of the Loan Manual.

		Appendix 7-A Information Checklist	
Information Checklist Long-Term Loans and Guarantees			
<p>This form is used to screen PC and AP applications for standard L-T loans and guarantees for completeness. Parenthetical references are to item numbers in the PC/AP application form. Complete only the questions that apply to the type of transaction being screened. Refer to Section 7.2.2 of Chapter 7 of the Loan and Guarantee Manual for guidance regarding the completion of this checklist.</p>			
Transaction No. _____	Provided?	Information	
<u>Applies To</u>		<u>YES</u>	<u>NO</u>
PCs & APs	1. Application Form Have all questions in application been completed and form signed by applicant?	___	___
PCs Only	2. Reason for PC Is a PC requested? YES ___ NO ___ If YES, is a reason provided?	___	___
APs Only	3. Lender's Mandate (No. 2) Is a guarantee requested? YES ___ NO ___ If YES, is lender's mandate attached?	___	___
APs Only	4. Export Contract (No. 4) Is the export contract attached?	___	___
APs Only	5. Master Guarantee Agreement (No. 14) Is the transaction to be documented under an MGA? YES ___ NO ___ If YES, is a completed Annex A attached?	___	___
PCs & APs	6. Project Information (No. 16f) Are the export items to be used in a project? YES ___ NO ___ If YES, is the project information specified in No. 16f attached?	___	___
PCs & APs	7. Ancillary Service Fees (No. 18d) Is No. 18d checked? YES ___ NO ___ If YES, is the information specified in No. 18d attached?	___	___
PCs & APs	8. Background Data (Attachment G) Is the transaction political, financial institution, or non-financial institution risk? YES ___ NO ___ If YES, is background data specified in Attachment G attached for each borrower and guarantor?	___	___
PCs & APs	9. Financial Statements (Attachment G) Is the transaction financial institution or non-financial institution risk? YES ___ NO ___ If YES, are financial statements specified in Attachment G attached for each borrower and guarantor?	___	___
PCs & APs	10. Financial Projections (Attachment G) Does the transaction involve a non-financial institution borrower or guarantor? YES ___ NO ___ Does the financed portion (excluding exposure fee) exceed \$10,000,000? YES ___ NO ___ If YES in both cases, are financial projections specified in Attachment G attached for each non-financial institution borrower	___	___

**Appendix 7-A
Information Checklist**

<u>Applies To</u>	and guarantor?	<u>Information Provided?</u>	
		<u>YES</u>	<u>NO</u>
PCs & APs	11. Credit Reports (Attachment G) Is the transaction political risk or involve a non-financial institution borrower or guarantor? YES ___ NO ___ If YES, is a credit report attached for each non-financial institution borrower and guarantor?	___	___
PCs & APs	12. Bank References (Attachment G) Is the transaction financial institution or non-financial institution risk? YES ___ NO ___ If YES, is a creditor bank reference attached for each borrower and guarantor?	___	___
PCs & APs	13. Pre-clearance Does the CAS require a pre-clearance for this transaction? YES ___ NO ___ If YES, is the pre-clearance attached?	___	___
APs Only	14. Guarantor Availability Is the transaction sovereign, financial institution, or non-financial institution risk with a proposed guarantor? YES ___ NO ___ If YES, is evidence attached to indicate that the proposed guarantor is prepared to act as guarantor?	___	___
PCs & APs	15. Attachment B Is attachment B completed?	___	___
APs Only	16. Attachment D Is (i) No. 18b more than \$150,000 and (ii) the applicant not a foreign government or an entity wholly owned by a foreign government? YES ___ NO ___ If YES, is Attachment D completed?	___	___
PCs & APs	17. Attachment E Is No. 16d checked? YES ___ NO ___ If YES, is an Attachment E completed for each used or refurbished export item?	___	___

Screening Decision (Check one statement)

___ Application is complete (i.e., all required information is provided). Continue processing.

___ Application is incomplete. Request missing or incomplete items and hold application until missing or incomplete items are received. The BD officer should withdraw an application in APS only if there is a low likelihood that the application will be complete in the foreseeable future (See Section 7.2.3 of Chapter 7 of the Loan and Guarantee Manual for further guidance.). If an application subsequently becomes complete, provide date last information was received _____.

___ Application is incomplete. Continue processing. Rationale and initials of Trade Finance Division credit officer are required in this form prior to transfer of an incomplete application to the Trade Finance Division. If application remains incomplete when the credit memo is prepared, identify "incomplete application" as an Issue in the credit memo and provide the rationale for acceptance of the application.

Rationale for continuing processing of incomplete application.

**Appendix 7-B
Compliance Checklist**

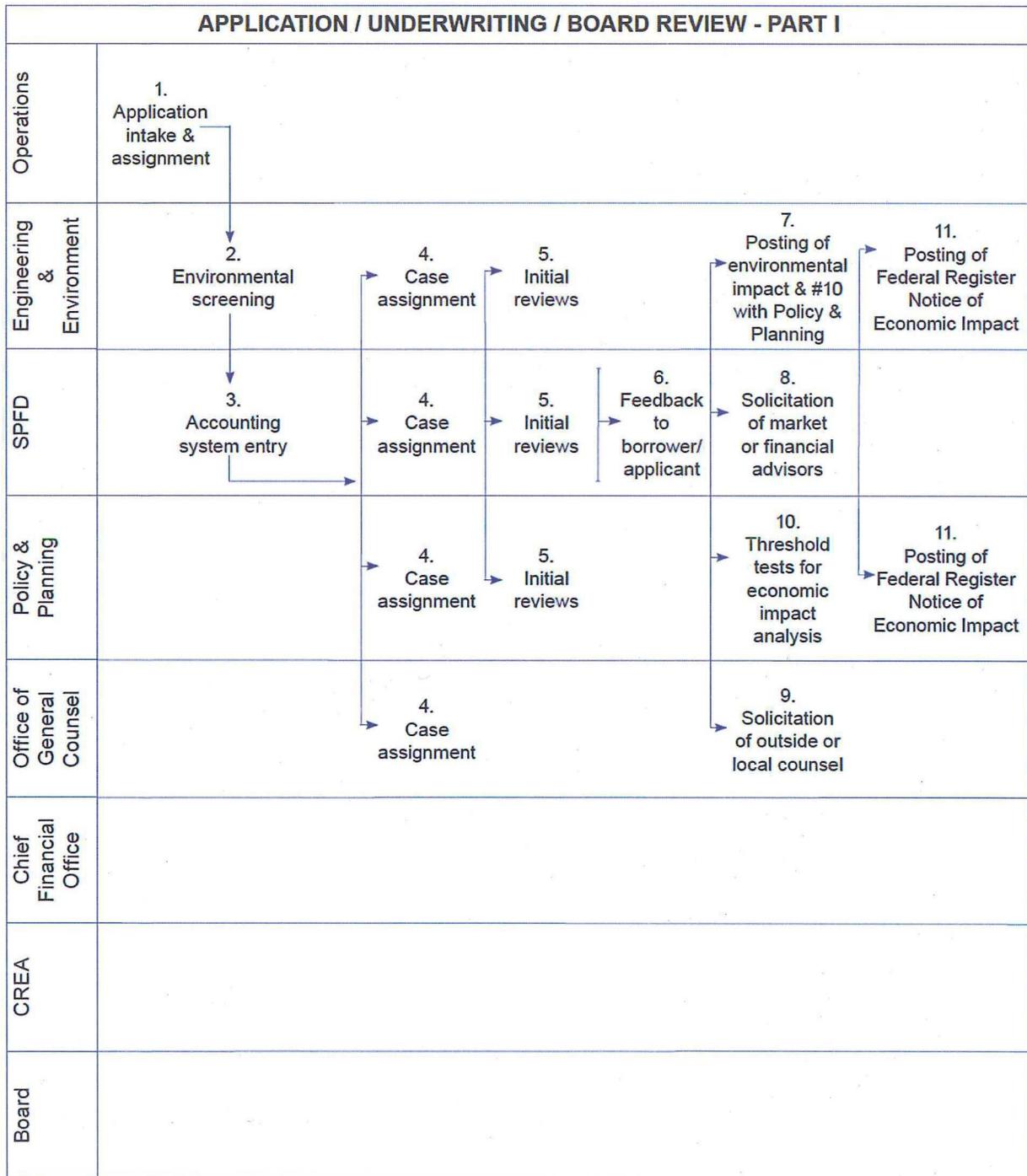
**Compliance Checklist
Long-Term Loans and Guarantees**

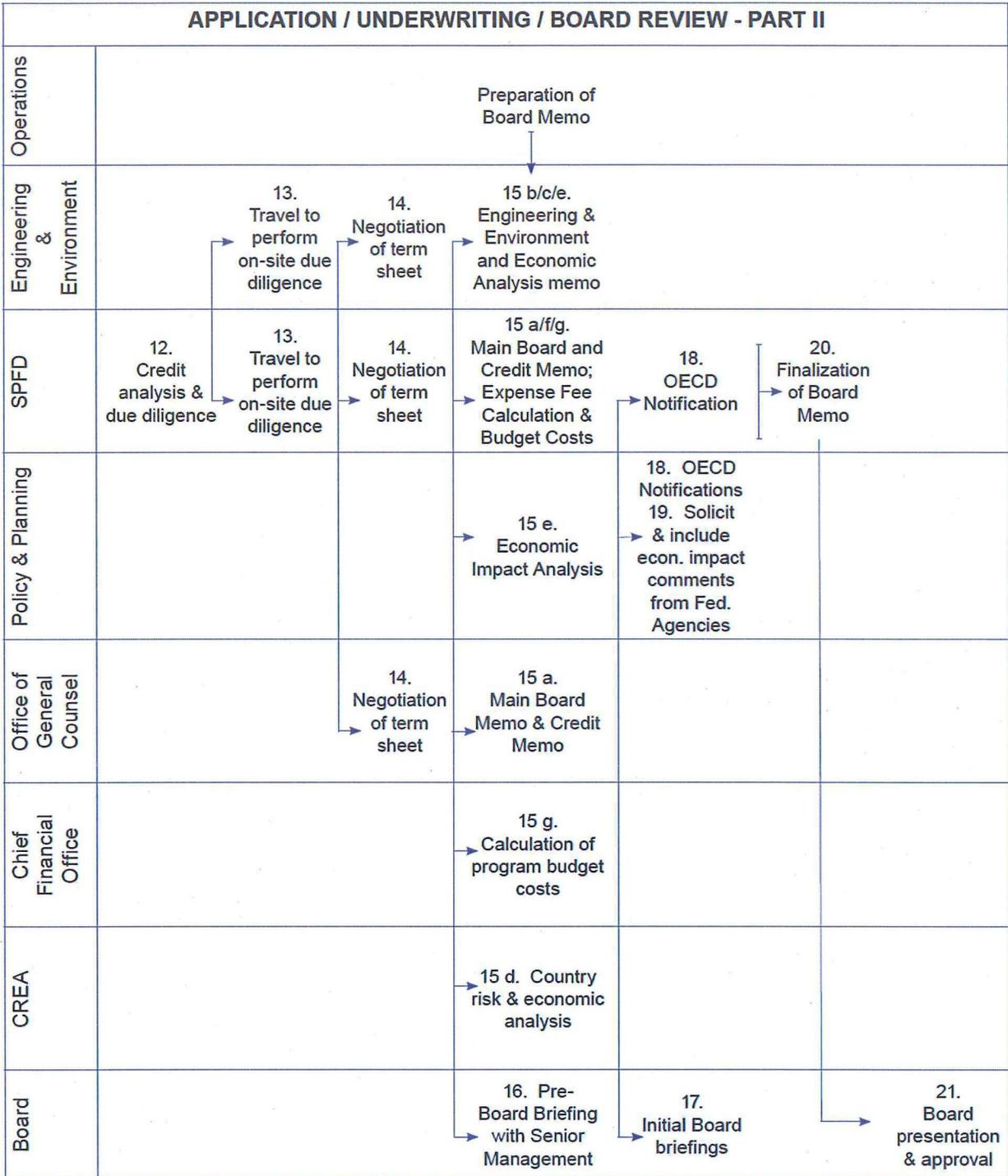
This form is used to screen PC and AP applications for L-T loans and guarantees for compliance with Ex-Im Bank credit policies and credit standards. Refer to Section 7.3 of Chapter 7 of the Loan and Guarantee Manual for guidance regarding completion of this checklist.

Transaction No. _____	Meets Criteria?		
	<u>YES</u>	<u>NO</u>	<u>N/A*</u>
Eligibility of Participants			
Applicant	___	___	___
Exporter/Supplier	___	___	___
Buyer/End-user	___	___	___
Borrower/Guarantor	___	___	___
Lessor/Lessee	___	___	___
Lender	___	___	___
Related Participants**	___	___	___
Eligibility of Costs			
Export Items - Nature of Goods and Services	___	___	___
Export Items - U.S. Content	___	___	___
Military Items**	___	___	___
Nuclear Items**	___	___	___
Used Equipment**	___	___	___
Spare Parts	___	___	___
Transportation/Insurance	___	___	___
Ancillary Service Fees**	___	___	___
Local Costs**	___	___	___
Interest During Construction**	___	___	___
Financing Terms			
Coverage	___	___	___
Currency	___	___	___
Cash Payment	___	___	___
Financed Amount	___	___	___
Environmental Exports Program Enhancements**	___	___	___
Engineering Multiplier Program Enhancements**	___	___	___
Initial Eligibility Date	___	___	___
Repayment Terms	___	___	___
Utilization Period	___	___	___
Progress Payments**	___	___	___
Direct Loan Interest Rate	___	___	___
Commitment Fee	___	___	___

APPENDIX C

Flowchart: Processes for SPFD Loan Application Intake through Board of Directors' Approval





Source: "Description of the Ex-Im Bank Board Review and Presentation Process," provided by SPFD.

Key Participants in the Project Finance Application Process

The following 10 key participants are involved in Ex-Im Bank's project finance application process:

1. **Business Development.** Responsible for all contacts by and with prospective applicants regarding SPFD programs.
2. **Operations & Data Quality (ODQ).** Processes requests for Letters of Interest and maintains the files.
3. **Structured & Project Finance Division (SPFD).** Responsible for managing final commitment applications after the application has been reviewed by ODQ; reviews all project documents; analyzes the project economics; structures the financing; negotiates issues; manages and reviews the work of financial advisors; and presents credit recommendations to the Board of Directors.
4. **Office of General Counsel (OGC).** Assigned attorney provides legal guidance; selects and oversees outside counsel; participates in negotiations, documentation, and making the project financing operative; and remains involved until full repayment is reached.
5. **Engineering & Environment Division (E&E).** Determines the eligibility of exports; ensures that projects are technically viable and comply with Ex-Im Bank's environmental guidelines; reviews reports prepared by lenders' technical and environmental consultants; and determines the need for economic impact analysis.
6. **Country Risk and Economic Analysis Division.** An economist is consulted on each case according to country responsibility.
7. **Asset Management Division (AMD).** Once a transaction has been made operative and after the first disbursement, SPFD transfers the transaction to AMD for monitoring during the remainder of the project. The transfer process includes a monitoring memo drafted by outside counsel. AMD receives a full set of the finance documents from SPFD at the beginning of the transfer process.
8. **Financial Advisor.** Due to the small SPFD staff and the labor intensive nature of project finance transactions, financial advisors assist SPFD loan officers in the analysis of financial information and project documents, and to structure the transaction.
9. **Outside Counsel.** Due to limited resources and the complex contractual arrangements that require significant legal resources, outside counsel is engaged for each transaction. At the direction of OGC, outside counsel undertakes legal due diligence, including document reviews, represents Ex-Im Bank in key negotiations together with in-house counsel, and drafts relevant loan and related financing agreements.
10. **Other External Advisors.** Independent engineers and environmental engineers may be appointed by lenders to the transaction. Depending on the type of transaction, additional consultants may be required including: marketing, reserve (for oil and gas projects), mining (for mining projects), insurance, and transportation consultants.

APPENDIX E

Management Comments



EXPORT-IMPORT BANK
OF THE UNITED STATES

September 20, 2013

Oswaldo Gratacós
Inspector General
Office of the Inspector General
Export-Import Bank of the United States
811 Vermont Avenue NW
Washington, DC 20571

Dear Inspector General Gratacós,

Thank you for providing the Export-Import Bank of the United States (“Ex-Im Bank” or “the Bank”) Management with the Office of the Inspector General’s (OIG) report on “Ex-Im Bank’s Management of Direct Loans and Related Challenges” (September 5, 2013). Management continues to support the OIG’s work and audits which complement the Bank’s efforts to continually improve its processes. Ex-Im Bank is proud of the strong and cooperative relationship it has with the OIG.

Management is pleased that the OIG has recognized the Bank’s good faith efforts to improve internal controls and the overall credit program management. In addition, Management appreciates the OIG recognizing staffing constraints as a major management challenge for the Bank. The report on “Ex-Im Bank’s Management of Direct Loans and Related Challenges” makes four recommendations in the areas of maintaining additional documentation to support Bank financing, the formal adoption of and compliance with OMB and Treasury policies, and an evaluation of the Bank’s recordkeeping practices. Management appreciates and concurs with all recommendations.

811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571

Recommendation 1: To strengthen management of its direct loans, Ex-Im Bank should update the Ex-Im Bank Loan, Guarantee and Insurance Manual to require loan officers to maintain detailed documentation regarding the need for Ex-Im Bank support.

The Bank concurs with this recommendation. Bank staff routinely addresses the issue of additionality in the Board Memorandum and briefings to the Ex-Im Bank Board of Directors. In addition, in compliance with Section 10 of the Export-Import Bank Reauthorization Act of 2012, the Bank has implemented additional procedures to reflect the categorization of the reasons for Bank support for each direct loan. With the modification of the long-term application and the detailed guidance found in the Categorization of Transaction Guide (Appendix 7-C) in Ex-Im Bank's Loan, Guarantee and Insurance Manual, staff has additional information and tools necessary to have detailed documentation regarding the need for Ex-Im Bank support. In order to facilitate the loan officers to appropriately document the files, the Credit Policy Division will work with the Policy and Planning Group and the business units to develop mechanisms to document corroboration of additionality. Some mechanisms will require the loan officer to maintain detailed documentation in the files regarding the need for Ex-Im Bank support, and this requirement and related mechanisms will be updated in the Ex-Im Bank Loan, Guarantee and Insurance Manual by the end of the calendar year. Importantly, to further encourage staff to properly document additionality, Credit Policy is developing a post-authorization review process for long-term transactions to assess adherence to credit policies and procedures, which would include additionality.

Recommendation 2: To strengthen management of its direct loans, Ex-Im Bank should formally adopt applicable Federal credit program policies and guidance, including OMB Circular No. A-129 and Treasury/FMS, "Managing Federal Receivables," by revising existing agency credit program policies and procedures as necessary to specifically address provisions of those documents.

The Bank concurs with this recommendation. Management appreciates the OIG recognition that Ex-Im Bank's policies are largely consistent with many fundamentals of Federal credit program policies. The Bank has submitted a draft A-129 Implementation Plan to OMB and is awaiting comments and approval. Once approved, the Bank's Loan, Guarantee and Insurance Manual will be revised to reference requirements of OMB Circular A-129 and Treasury/FMS, "Managing Federal Receivables."

Recommendation 3: To strengthen management of its direct loans, Ex-Im Bank should develop a systematic quality control review program or other mechanism(s) necessary to prevent, detect, and correct Ex-Im Bank staff non-compliance with Federal and agency credit program policy.

The Bank concurs with this recommendation. The Credit Management Group has entered into an operating agreement with the Export-Finance Group and Small Business Group, pursuant to which it will expand the scope of the Credit Policy Division and the Credit Review and Compliance Division (CRC) through post-authorization reviews of long-term transactions underwritten in Structured and Project Finance and the Transportation Division in order to assess compliance with Federal and Ex-Im Bank credit program policy. Credit Policy is presently working on developing standardized procedures for implementing the post-authorization reviews which it anticipates being fully operational by calendar year-end.

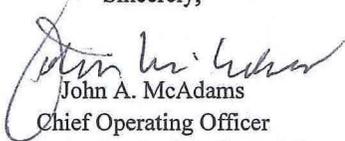
Recommendation 4: To improve records management practices, Ex-Im Bank's Chief Information Officer (CIO) and Enterprise Risk Committee (ERC) should jointly evaluate Ex-Im Bank's recordkeeping practices to: (a) identify operational risks and impacts on Ex-Im Bank's ability to achieve credit program goals and objectives; and (b) develop and implement a plan to timely address deficiencies found and ensure compliance with applicable Federal laws, regulations, and guidance while balancing the needs of Ex-Im Bank's business units.

The Bank concurs with this recommendation. During FY 2014, the Bank's CIO will participate in the ERC to evaluate the Bank's recordkeeping practices and implement improvements in this area to address any deficiencies and operational risks. The Bank has made recent progress in this area and has submitted a draft Media-Neutral Records Schedule to the National Archives and Records Administration (NARA) and expects it to be approved and implemented in FY 2014.

Additionally, the Bank is developing a Smart Form Initiative, a result of the Bank's Total Enterprise Modernization (TEM) effort, allowing for electronic submission intake for the Bank's long-term and working capital programs. This system will also include an e-document management system for submitting attachments and supporting information.

We thank the OIG for your efforts to ensure the Bank's policies and procedures continue to improve, as well as the work you do with us to protect Ex-Im funds from fraud, waste, and abuse. The Bank appreciates the cooperative relationship between the OIG and Bank management. We look forward to continuing to work closely with the Office of the Inspector General.

Sincerely,



John A. McAdams
Chief Operating Officer

Export-Import Bank of the United States

Acknowledgements

Key contributors to this report were Christopher Parrish, Audit Project Manager (through May 2013); Mathew Wiles, Lead Auditor; and Maria Tse, Auditor.

To Report Fraud, Waste, or Abuse, Please Contact:

E-mail: IG hotline@exim.gov

Telephone: 1-888-OIG-EXIM (1-888-644-3946)

Fax: (202) 565-3988

Address: Office of Inspector General
Export-Import Bank of the United States
811 Vermont Avenue, NW
Suite 138
Washington, DC 20571

Comments and Suggestions

If you wish to comment on the quality or usefulness of this report or suggest ideas for future audits, please contact Rebecca Sharek, Assistant Inspector General for Audits, at Rebecca.Sharek@exim.gov or call (202) 565-3908. Comments, suggestions, and requests can also be mailed to the attention of the Assistant Inspector General for Audits at the address listed above.





**Office of Inspector General
Export-Import Bank *of the* United States
811 Vermont Avenue, NW
Washington, DC 20571
202-565-3908
www.exim.gov/oig**