EXAMINING REAUTHORIZATION OF THE EXPORT-IMPORT BANK: CORPORATE NECESSITY OR CORPORATE WELFARE?

HEARING

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EXAMINING REAUTHORIZATION OF THE EXPORT-IMPORT BANK: CORPORATE NECESSITY OR CORPORATE WELFARE?

Wednesday, June 25, 2014

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:06 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

Members present: Representatives Hensarling, Bachus, King, Royce, Capito, Garrett, Neugebauer, McHenry, Campbell, Bachmann, Pearce, Posey, Fitzpatrick, Westmoreland, Luetkemeyer, Huizenga, Duffy, Hurt, Stivers, Fincher, Stutzman, Mulvaney, Hultgren, Ross, Barr, Cotton, Rothfus, Messer; Waters, Maloney, Sherman, Meeks, Capuano, Hinojosa, Clay, McCarthy of New York, Lynch, Scott, Green, Cleaver, Moore, Ellison, Himes, Peters, Sewell, Foster, Kildee, Murphy, Delaney, Sinema, Beatty, Heck, and Horsford.

Chairman HENSARLING. The committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

This hearing is entitled, "Examining the Reauthorization of the Export-Import Bank: Corporate Necessity or Corporate Welfare?"

I now recognize myself for 6 minutes to give an opening statement.

Today, we will examine the Obama Administration's request to reauthorize the Export-Import Bank (Ex-Im or the Bank).

First, we should examine where the money comes from to finance Ex-Im. Whose money is it? Obviously, it is taxpayers' money—the cashier at the corner grocery store, the cop on the beat, your children's teachers, the small business owner struggling to keep the doors open in a tough economy.

And where does the money go? It goes to foreign countries and foreign companies in the way of direct loans and credit guarantees. The taxpayer money goes overseas to China and Russia, nations that openly challenge our economic and security interests. Taxpayer money goes to oil-rich countries like Saudi Arabia and the United Arab Emirates. The taxpayer money even goes to countries with a demonstrated history of atrocious human rights abuses like the Congo and the Sudan.

So, who benefits? Overwhelmingly and indisputably, it is some of the largest, richest, most politically connected corporations in the world, like Boeing, General Electric, Bechtel, and Caterpillar. In fact, in 2013 over half of Ex-Im's financing went to a handful of Fortune 500 companies. And big Wall Street Banks apparently benefit, as well. As reported in the press recently, one former JPMorgan and Citigroup banker said of Ex-Im's credit guarantees, "It is free money."

So if you are a politically connected bank or company that benefits from Ex-Im, no doubt you would like it to continue. After all, it is a sweetheart deal for you. Taxpayers shoulder the risk; you get the reward. But if you work at a small business or another American company competing in the global marketplace, it is unfair. Ex-Im effectively taxes you, while subsidizing your foreign competitors.

We hear a lot from powerful voices on K Street and Wall Street about the Bank, but we also should listen carefully to some voices from Main Street, like Hal Richards of Terrell, Texas, in my district. Quote: "As a small business owner who exports, I think it is outrageous that my own government puts my business and other small businesses at a competitive disadvantage through the Export-Import Bank. How is that fair?"

Now, Ex-Im tells us sending taxpayer money to foreign interests supports jobs for Americans. But the government's chief auditor reported that programs like Ex-Im "largely shift production among sectors within the economy, rather than raise the overall level of employment in the economy."

Delta Air Lines, whose CEO will testify shortly, points out that Ex-Im's loans to foreign airlines have killed as many as 7,500 domestic airline jobs because the Bank will subsidize Delta's foreign competitors.

Caterpillar was a recent beneficiary of Ex-Im's taxpayer financing that went to an iron ore mining project controlled by Australia's richest citizen. An American iron ore company called Cliffs Natural Resources said it will no longer be able to effectively compete with its Australian competitors due to the subsidy, and they are now having to cut employees' hours.

Another American competitor feeling the sting of Ex-Im is Valero Energy in my native Texas. Ex-Im is lending $641 million to a Turkish company to build a new petroleum refinery. Valero's CEO stated that Ex-Im's actions "jeopardize U.S. refining jobs and undermine the strength of the U.S. refining infrastructure."

Professor Donald Boudreau of George Mason University summed it up neatly when he stated, "At best, the Ex-Im Bank creates jobs in export industries by destroying jobs in non-export industries."

Now, the Bank tells us it is essential to U.S. exports, but over 98 percent of all U.S. exports occur without risking taxpayer dollars—again, over 98 percent. And most of the others who take advantage of Ex-Im could certainly do it without taxpayer support. Even Boeing, the Bank's biggest beneficiary, has admitted it doesn't really need Ex-Im and could "arrange alternative financing" without it.

The Bank has also told us it doesn't cost taxpayers a dime. The Congressional Budget Office respectfully disagrees and tells us if the Bank were to use fair-value accounting, the accepted accounting method for almost every bank and private company in America, Ex-Im's ledger would actually show a net loss to taxpayers in the neighborhood of $200 million a year. That is the difference between Washington accounting and Main Street accounting.

Perhaps what is most disturbing about the Ex-Im Bank is its ideological and crony-based lending practices. It has a green energy quota. It permits no assistance for coal projects. It has a mandate to specifically support exports going to Sub-Saharan Africa.

Last year, more than 60 percent of Ex-Im's financing benefited just 10 mega-corporations that clearly have a strong political and lobbying presence in this town. Recently, a Spanish multinational corporation received a $33-million Ex-Im loan while former Energy Secretary Bill Richardson simultaneously sat on its advisory board and Ex-Im's as well.

Ex-Im guaranteed $10 million in loans to benefit the politically favored Solyndra, which clearly did not favor taxpayers.

And just yesterday, we woke up to the report in The Wall Street Journal that, "The U.S. Export-Import Bank has suspended or removed four officials in recent months amid investigations into allegations of gifts and kickbacks as well as attempts to steer Federal contracts to favored companies." Ex-Im may not just be guilty of cronyism; it may be guilty of corruption, as well.

Now, I will admit that Republicans may disagree on whether Ex-Im should be reformed or allowed to expire, and I certainly hope that this hearing will help illuminate that decision. But we are united in believing that we cannot reauthorize the status quo. And we are also united in believing that the smarter and fairer way to promote American exports is by fundamental tax reform; strong trade agreements, a regulatory freeze, with the exception of health and safety; and greater American independence, with projects like the Keystone pipeline.

I now recognize the ranking member for 5½ minutes.

Ms. WATERS. Thank you, Mr. Chairman.

I would like to thank you for finally holding this hearing on the reauthorization of the Export-Import Bank, even though it comes less than 3 months before its charter expires. It has been over a year since this committee even discussed the Bank at a subcommittee hearing to assess its progress on reforms.

But let's be serious. This hearing is not going to be a forthright discussion on the merits of the Bank. Mr. Chairman, we know your position on the Bank. We know you have made ending the Bank your top priority, regardless if it is at the expense of thousands of American companies trying to compete against businesses in China, Russia, Korea, and countries across Europe, all of which have their own version of the Ex-Im Bank.

I am dismayed to see that the Republican leader-elect, Kevin McCarthy, has also changed his view on the Export-Import Bank. I am saddened that he has followed the lead of the extremists in an effort to shows his Tea Party credentials.

At one time, programs like the Ex-Im Bank were so apolitical that they did not even require a vote. Now, policies that create thousands of jobs and increase American competitiveness are under constant attack.

I am becoming more and more concerned that the Republican Party's willingness to work together on issues like flood insurance, TRIA, and the Export-Import Bank has fallen victim to fringe elements who put their agenda over the well-being of our country's workers, manufacturers, business owners, and the broader economy.

As the extremists celebrate, I have to admit, I mourn it as a loss for our country. Our new reality is government shutdowns and debt-ceiling crises. It is constant uncertainty. It is not knowing whether the government is going to help pick up the pieces after a major flood or a terrorist attack. It is about telling businesses, large and small, you are on your own to go up against competitors who are backed by global superpowers.

And now they have set their sights on "exiting" the Export-Import Bank, an entity that creates or sustains hundreds of thousands of jobs, and over the past 5 years has supported $233 billion in U.S. exports.

I would like to take a minute and thank Representatives Denny Heck and William Lacy Clay, who have just yesterday introduced a clean Ex-Im reauthorization bill with 200 original Democratic cosponsors.

Mr. Chairman, I am not an expert at whipping votes, but if you add these cosponsors to the 41 Republicans who recently signed a letter in support of Ex-Im's renewal, I believe you have a majority of the House in support of extending the Bank's charter for the long term.

Opponents of the Bank like to use the term "crony capitalism." Over the past few weeks, we have been working hard to learn more about the so-called crony capitalists that have been supported by the Bank. Their stories have been astounding. Mr. Chairman, did you know there are 12 exporters in your district that I guess are crony capitalists and 11 of them are small businesses?

Over the course of this hearing, Democratic members of this committee will share with you the truth about these hardworking Americans, not cronies, who are assisted by the Bank.

They are companies like SpaceX, an ambitious and revolutionary firm based in Hawthorne, California, in my district, that designs, manufactures, and launches rockets and spacecraft. It is the first private company to build, launch, and dock spacecraft at the International Space Station. And it is a company that has been strongly supported by the majority leader-elect, Kevin McCarthy, who went so far as to call its founder, Elon Musk, the Wright Brothers of the next generation.

In just a few short years, the Ex-Im Bank has authorized close to $900 million in support of exports from SpaceX, creating thousands of quality high-tech jobs across California and in the United States. I wonder when Mr. McCarthy decided that he no longer could support his friend, Elon Musk, or support the Bank that keeps SpaceX innovating and competing, despite the fact that he has identified himself as a big supporter of SpaceX.

I, too, believe in SpaceX because I know the pain in my district that has been felt over the years after losing our manufacturing base. Supporting companies like SpaceX is critical because they are bringing manufacturing jobs back and they ensure the United States will remain a world leader in the manufacturing economy of the future.

So I thank you, Mr. Chairman. I look forward to this hearing, and I yield back the balance of my time.

Chairman HENSARLING. The Chair now recognizes the gentlelady from West Virginia, Mrs. Capito, chairwoman of our Financial Institutions Subcommittee, for 2 minutes.

Mrs. CAPITO. Thank you, Mr. Chairman. And thank you for holding today's hearing.

For the last 2 years, the Export-Import Bank has joined the Obama Administration's assault on our Nation's coal industry. In December of 2013, the Bank imposed guidance that would prevent the financing of coal-fired power plants in all but the world's poorest countries. This guidance, combined with the EPA's proposed regulations to ban domestic coal-fired power plants, will irrevocably hinder the development of new clean coal technologies. This is another example of this Administration's intent to pick winners and losers in our economy, and I can no longer support the authorization of the Ex-Im Bank.

I have expressed my concerns to the Bank to no avail. In a letter to, and in a meeting with, Chairman Hochberg, I discussed my opposition to this guidance. I have been absolutely clear that it is inappropriate to use the Bank's financing mechanisms to drive an idealogical agenda rather than promote U.S. exports.

The Administration's policies come at a time when we should be ensuring the United States is leading the world in developing new coal plant technologies. We won't see carbon capture and sequestration developed by U.S. companies if we choke off the market for coal technology.

The Ex-Im Bank's guidance is bad for our Nation's economy, bad for the development of future technologies, and bad for the environment. For these reasons, I do not support the extension of this charter.

I yield back.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from California, Mr. Sherman, for 2 minutes.

Mr. SHERMAN. Mr. Chairman, a point of order. We had those clocks going for the national debt. They are going too slowly. You are proposing to eliminate the Ex-Im Bank, which will add billions of dollars to our national debt. And you have been unwilling, unless you change your mind, to join with me in tax increase measures that would replace that revenue.

Now, whenever somebody wants to increase the national debt, they always say, "Change the accounting system," and that Ex-Im Bank would be costing us money if we used fairytale-value accounting. I don't think we should. The fact is we should use GAAP, not GOP, accounting—G–A–A–P, not G–O–P, accounting.

What is the underlying theory of fair-value accounting? It is that we look not at the profits and losses of the Ex-Im Bank, properly accounting for the risk they take, but we look at what their costs would be if they weren't the Ex-Im Bank but at a higher cost of funds. That is like saying Pizza Hut is over-reporting its income because they report accurately the cost they pay to the Bank for the money they borrow, not the higher amount they would pay if they were Jack's Pizzeria instead. The fact that Pizza Hut has a lower cost of funds doesn't mean they should report higher interest costs and report a loss. But that is what you do under fairytale-value accounting.

I am also on the Foreign Affairs Committee. I sit there while Republicans say that Democrats might support unilateral disarmament, that we would give up our arms and then go into the arms-limitation talks asking others to follow our lead. That is what we are doing here.

Germany has an export credit authority that is 3 times as large, they have total exports 3 times as large per capita, and they run a trade surplus. And we would go into negotiations with Germany giving up the Ex-Im Bank. Why don't we give up our missile—

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, the chairman of our Capital Markets Subcommittee, for 2 minutes.

Mr. GARRETT. First of all, thank you, Mr. Chairman, for holding this hearing.

Thank you also, Mr. Chairman, for all of your efforts on fostering not only in this area but also, in general, economic growth and job creation in this country, including manufacturing. As the ranking member has bemoaned the fact that she has lost it in her district, I would just note that the chairman is encouraging economic growth and manufacturing but not on the backs of the American taxpayer.

Thank you also, Mr. Chairman, for holding this hearing in a very timely manner, as well.

And thank you to the panelists.

You know, panelists, I was struck by an article on the front page of The Wall Street Journal. It was entitled, "Officials at Ex-Im Bank Face Probes." What I found especially interesting and concerning in this article, notwithstanding the fact that four Bank employees have been suspended or removed for allegations of kickbacks, was a statement of the agency spokesman that, "The Export-Import Bank takes seriously its commitment to taxpayers and its mission to support U.S. jobs."

Really? To begin with, I would question the Bank's seriousness to taxpayers, given in this committee we only learned of the allegations of potential criminal misconduct by reading the front page of The Wall Street Journal. I guess this so-called serious commitment to taxpayers did not reach the level of the requisite seriousness that would result in Congress being notified of various serious allegations like this.

While we need to be certain that we have the facts, and ensure that this committee does not jump to proverbial conclusions, I do find it curious that these examples of employee misconduct were withheld against the backdrop of this debate over the Bank's future as well as the well-funded lobbying campaign to ensure the Bank's continued existence.

If true, these allegations would go to the heart of the concern about this Bank, its lending, and of the special interests of multi-billion-dollar corporations. I only need to look at the lobbying disclosures of some of our largest businesses to know that when you mix corporations and taxpayer guarantees, you get something that looks a lot like crony capitalism.

And, with that, I yield back.

Chairman HENSARLING. The Chair now recognizes the gentlelady from New York, Mrs. McCarthy, for 1½ minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you, Mr. Chairman. And I appreciate this hearing.

I am a little confused on what I am hearing. This is about jobs. And I can talk about my district. I work in my district. I try to bring, certainly, businesses into my district. And I know in the last several years I have been able to help my small businesses—$86 million just into my district alone, and a lot more jobs added over the last 7 years. That is what our job is, to make sure that we can bring jobs home.

And as the ranking member mentioned, Mr. Hensarling—who, unfortunately, didn't bring a lot of money into his district, but maybe he didn't work the district, I don't know. And Mr. McCarthy, who always supported the Ex-Im Bank, did have over $69 million that came into his district.

This is about jobs. My colleagues on the other side keep saying, we are going to do jobs, we are going to do jobs. Where are they?

People seem to have a very short memory. When we went through the great crisis, nobody went after the Banks, nobody went after the insurance companies. And when we look at the Ex-Im Bank and we hear my colleagues talking about how they found four employees, can I remind everybody, yes, they found four employees. They did an investigation, and they let them go. That is the way the system works. Anybody who understands any business, there are always going to be people who are going to try to rig the system.

If we brought this bill up onto the House Floor, we would get it passed. So stop with this. Let's do jobs and let's—

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Illinois, Mr. Hultgren, for 1 minute.

Mr. HULTGREN. Thank you, Mr. Chairman.

I want to take a hard look at the current structure of the Export-Import Bank. Protecting taxpayer dollars by keeping government out of tasks that the private sector can perform itself is central to a nation based on free enterprise.

An estimated 760 jobs in the 14th District alone rely on the Bank to ensure their exports reach their customers. Miner Elastomer in Geneva, Illinois, who exports truck and shovel parts, has asked me to support the Bank. The Crystal Lake Matthews Company, a manufacturer of agriculture equipment, has jobs dependent on the Bank. We can't overlook the 29 smaller production suppliers who fulfill Boeing orders in my district.

Since 2007, the Bank has supported almost $6 billion in Illinois exports from 301 exporters, including 204 small businesses. An outright elimination leaves U.S. jobs in peril.

We must ask the hard questions: Do we know the job impact of eliminating the Bank without a proper glide path in place? Have we addressed the worldwide subsidies offered by our competitors through trade agreements? Can we put a reform plan on the table to ensure a more limited scope for the Bank?

I am committed to working together to put a viable alternative forward.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Arizona, Ms. Sinema, for 1 minute.

Ms. SINEMA. I strongly support the operation of the Export-Import Bank, because helping Arizona businesses expand their manufacturing capacity and exporting ability creates jobs and grows our economy. The Export-Import Bank fills gaps in private financing, stepping up where the private sector can't or won't.

Last year, Ex-Im Bank Chairman Fred Hochberg visited my district to help small and growing businesses increase their global exports right in our own backyard. From Fiscal Years 2007 to 2014, the agency supported $176 million in exports from companies in my district.

One of those companies, MarTech, Inc., was reluctant to sell their semiconductor equipment to customers in Asia. They were concerned that once the equipment left their building, there was no guarantee they would get paid. The Ex-Im Bank offered MarTech a solution. The Bank issued an insurance policy so MarTech could make sales and have a guarantee they would get paid. Thanks to the Bank, they now export to companies in Asia, Europe, and the Americas.

Allowing the Bank's current charter to expire would threaten the competitiveness of these and many other Arizona businesses. And that is why I am a cosponsor of legislation to extend the Bank's authorization and I will continue to work to reauthorize this important investment in American jobs.

Chairman HENSARLING. The Chair now recognizes the gentleman from Georgia, Mr. Westmoreland, for 1 minute.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

The problem with the Export-Import Bank is the entire mission and structure. Simply, the Export-Import Bank is designed to advantage one U.S. industry at the expense of another. Even if Congress directed the Bank to make changes, as it did in 2012, we have seen that this massive bureaucracy will not yield to even modest reforms.

People talk about the cost of jobs that would be lost if it is not reauthorized. How about the new jobs and the more capital for growth created by finally being competitive with foreign competitors?

The Bank has shown it is not able to conduct mandated economic impact analysis, and the Bank regularly employs fuzzy math and accounting. Congress mandated the Export-Import Bank be more transparent, and, quite simply, they have failed to follow this mandate.

I am happy to join the chairman and the new majority leader in this effort.

And I yield back the balance of my time.

Chairman HENSARLING. The Chair now recognizes the gentleman from Missouri, Mr. Clay, the ranking member of our Monetary Policy Subcommittee, for 1 minute.

Mr. CLAY. Mr. Chairman, the mission of the Ex-Im Bank is to support American jobs by facilitating the export of U.S. goods and services. The Ex-Im Bank does not compete with private sector lenders but provides export financing that fills gaps in trade financing. The Bank assumes credit and country risks that the private sector is unable or unwilling to accept. The Ex-Im Bank helps to level the playing field for U.S. exporters by matching the financing that other governments provide to their exporters.

Refusing to reauthorize the Ex-Im Bank would reduce the number of ECAs from 60 to 59, hurting only U.S. exporters and workers that they employ. And in my home State of Missouri, the Ex-Im Bank supported $1 billion in exports and $339 million in exports from the district that I represent. Mr. Chairman, those are American jobs—

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Washington, Mr. Heck, for 1 minute.

Mr. HECK. Thank you, Mr. Chairman.

Just because somebody says something that is untrue over and over and over again doesn't make it one whit less untrue. Let's start this hearing with the truth.

Here is the truth: The Ex-Im creates jobs, 205,000 last year. Here is the truth: The Ex-Im supports small businesses. Ninety percent of its transactions go to small businesses.

And an appalling lack of understanding of how the private sector works. Even large corporations are dependent on small businesses. The greatest plane manufacturer in the word is dependent upon 15,000 suppliers, 6,600 of which are small businesses which would be put at risk by your position.

Here is the truth: There are no tax dollars involved in subsidizing the Ex-Im. In fact, the Ex-Im transferred over a billion dollars to the Treasury. Where is the proof that the Treasury ever transferred any money to the Ex-Im?

And, finally, here is the truth: If we abandon the Ex-Im, we will engage in unilateral disarmament—unilateral disarmament. Every other developed nation in the world has an export credit authority. Don't render the United States the only one without one.

Chairman HENSARLING. The time of the gentleman has expired.

We will now turn to our first panel of witnesses. And to introduce our first witness, I will yield to the gentleman from Georgia, Mr. Westmoreland.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

It is my pleasure to introduce Richard Anderson, the chief executive officer of Delta Air Lines. Richard has been the CEO of Delta since 2007 and has more than 25 years in the aviation industry.

As you probably know, Delta Air Lines is one, if not the largest employer in my district and across Georgia. Delta has been placed at a competitive disadvantage by the actions of the Export-Import Bank, and the time has come to level the playing field.

Richard, welcome to you and the members of the Delta family team who are with you, and I look forward to your testimony.

Chairman HENSARLING. Our next panelist, Dr. Veronique de Rugy, is a senior research fellow at the Mercatus Center at George Mason University, where her primary research interests include the U.S. economy, the Federal budget, and various financial issues.

Captain Lee Moak is the president of the Air Line Pilots Association, which represents almost 50,000 professional airline pilots in the United States and Canada. Before becoming an airline pilot, Captain Moak served as a Marine Corps fighter pilot.

Last, but not least, Steven Wilburn is the chief executive officer of FirmGreen, a Newport Beach-based energy company that participates in virtually all aspects of the global green energy business.

Before we proceed, Mr. Wilburn, we have one clerical matter to clean up with you. We received two different copies of your testimony, one at 6:00 last night. In that testimony, in that version, when describing why your commercial Bank officer could not provide financing to a Brazilian company, you said, "Simply out of the question, given the new TARP regulations and the then-new Dodd-Frank legislation." A couple of hours later, from the Democratic staff we received a new copy of your testimony that struck that language and included the reason: "reluctance of Banks to support small business exports."

To ensure that we have the correct copy of your written testimony for the record, which did you intend, the one we received from you at 6:00 or the one that we received from the Democratic staff at 8:00?

Mr. WILBURN. Mr. Chairman, I apologize—

Chairman HENSARLING. I'm sorry, could you hit the button there? Just for the record, we need to know which testimony it is your intention to include?

Mr. WILBURN. My intention is to provide an accurate written statement. I was flying from California on an airplane WiFi, trying to respond to your staff. And I was working realtime—

Chairman HENSARLING. Well, is it—

Mr. WILBURN. —editing. The last version—

Ms. WATERS. Mr. Chairman?

Chairman HENSARLING. The last version is the one you intend to use?

Mr. WILBURN. —is my official written statement.

Chairman HENSARLING. Okay. Thank you. Thank you, sir. That is what we needed to know.

Without objection, each of your written statements will be made a part of the record.

Not unlike a traffic light, if you are new to this, there is a green light, a yellow light, and a red light system. The yellow light will tell you there is 1 minute remaining. The red light means that it is time to wrap up so we can move on to the next witness.

Mr. Anderson, you are now recognized for your testimony.

STATEMENT OF RICHARD H. ANDERSON, CHIEF EXECUTIVE OFFICER, DELTA AIR LINES

Mr. ANDERSON. Thank you very much for having me here today.

As a private citizen, it is a privilege to be in the halls of Congress and have the opportunity, regardless of what the issue is, to participate in the process. And, second, it is a real privilege to be here on behalf of the 80,000 people that I serve at Delta Air Lines and the 165 million passengers that the Delta family serves around the world with over 6,000 flights a day.

I would note that we are one of the largest operators of Boeing airplanes and GE engines in the world. We currently have 100 Boeing airplanes on order with GE engines, and we are paying cash for them. And there are not many airlines in the world that buy 100 Boeing airplanes and pay cash for them. So let's make sure we put our discussions here in context.

I was pleased to hear that we are talking about jobs, because I have about 100 Delta employees here with me who have my back today; they are the pilots and the flight attendants who provide the best airline service in the world.

I am here to talk about their jobs, because the Ex-Im Bank takes their jobs. And if that is really what we are serious about, we should be serious about reforming the Bank. You tried to reform the Bank in a bipartisan way the last time, and your reforms were ignored. And it is our jobs that are at risk.

I have a slide up here. The Ex-Im Bank finances the wealthiest, most profitable airlines in the world with huge amounts of our Treasury dollars. And you can see on this slide, we have an example of an Ex-Im Bank financing that was just done and a market-based financing that was just done. And those financing numbers show you that a very wealthy airline that goes in the private market on a regular basis to finance airplanes gets, over the life of the airplane, about a $20-million advantage.

And these airlines are also owned by governments and deeply subsidized by their own government, in addition to being deeply subsidized by our government.

Our focus here today is on a narrow issue. I am pleased to hear the job growth. My business depends upon job growth. We have no objection to anything that anybody does in the halls of Congress on either side of the aisle that grows jobs in this country. My business, our business, the Delta family serves people at work at all the great companies in the United States.

But we shouldn't have a government policy that sacrifices the jobs of hardworking people at the Delta family in order to subsidize the wealthiest, most creditworthy airlines in the world.

I was elected the chairman of the International Air Transport Association by the CEOs of all the airlines of the world. In the course of doing that, I have had many conversations with the CEOs of the most profitable airlines in the world. And they tell me, look, I don't really need the Ex-Im Bank financing, but it is so cheap, I might as well take it. This is effectively a free airplane every eighth airplane.

All I want is a level playing field. The story of Delta Air Lines is a great American story. We are now the most successful, profitable airline in the world. But we have to compete against deeply subsidized government airlines that are, in turn, deeply subsidized by our government.

And the prime example is Air India, a government-owned, government-subsidized airline that drove us out of the marketplace with a billion dollars of Ex-Im Bank financing. That cost about 1,000 jobs.

So when we talk about creating jobs, why can't we navigate a policy? And our objection is a narrow objection. It is wide-body financing for creditworthy, state-owned and state-subsidized airlines. We have no objection to narrow bodies; we have no objection to small business. Our focus is on the policy junction of where U.S. jobs are destroyed by the Bank. So if we are serious about creating jobs, this Bank needs to be reformed.

I yield my time.

[The prepared statement of Mr. Anderson can be found on page 118 of the appendix.]

Chairman HENSARLING. Dr. de Rugy, you are now recognized for your testimony.

STATEMENT OF VERONIQUE DE RUGY, SENIOR RESEARCH FELLOW, MERCATUS CENTER, GEORGE MASON UNIVERSITY

Ms. DE RUGY. Thank you, Chairman Hensarling, Ranking Member Waters, and members of the committee. It is a pleasure to be here today.

We don't agree on much in Washington, but I think we can all agree that the Federal Government shouldn't be sending our limited resources to the wealthiest and most politically connected corporations. And, yet, that is what the Ex-Im Bank does.

Some say that there are good reasons for doing this. They say that the Ex-Im Bank promotes exports, supports jobs, returns money to Treasury, and helps taxpayers. None of these arguments withstand scrutiny, as my written testimony has shown, and I will briefly address in my statement today.

However, my main focus will be on groups who are affected by Ex-Im activity that have gone ignored. These people don't have connections in Washington. They don't have access to press offices and lobbyists, but they matter, too. It is difficult but extremely important that we consider the unseen costs of political privilege, whatever form it takes, whether it is market distortions, job losses, potential destroyed, or higher prices.

So, let's start. First, the Bank claims it is essential to promote U.S. exports. Economists disagree. We have long known that export-subsidy schemes, like Ex-Im, do not meaningfully improve national exports, and, in fact, the data prove this point. Ex-Im backs less than 2 percent of U.S. exports.

Ex-Im likes to tout subsidized firm successes, but they do not consider the unseen costs imposed on everyone else involved with the other 98 percent of unsubsidized exports. In these cases, it is firms' own government, not foreign government, that puts them at a competitive disadvantage.

For instance, Ex-Im harms these firms' export opportunities by making it harder for unsubsidized buyers to secure their own financing. That is because Ex-Im gives lenders an incentive to shift resources away from unsubsidized projects toward subsidized projects regardless of the merits of the business.

These capital market distortions have ripple effects. Subsidized projects attract more private capital, while other worthy projects are being overlooked. The subsidized get richer, and the unsubsidized get poorer or, worse, get out of business. Unfortunately, we will never see the businesses that could have been. Perhaps they would have been better, more profitable, and more responsible than the well-connected subsidized businesses.

Second, the Bank claims to have supported 205,000 jobs in 2013. This number, however, should be taken with a grain of salt since GAO has criticized the Bank's job calculation methodology for failing to consider how many jobs would have been created without Ex-Im, among other flaws.

But even if we accept the Bank's questionable jobs claim, that means that it only supported 1.8 percent of all export-related jobs in 2013. The Bank doesn't promote jobs as much as it promotes jobs for favored companies at the expense of everyone else.

The other 98.2 percent of unsubsidized export jobs are placed at a competitive disadvantage by Ex-Im. Unsubsidized employers may not expand hiring, they may not increase wages, and they may even have to fire employees because they face competition from subsidized projects.

Third, the Bank claims that it benefits taxpayers. A recent CBO report debunks claims of future Ex-Im profitability. Ex-Im is projected to yield losses for taxpayers over the next decade.

But taxpayers are unseen victims in other ways. The Ex-Im Bank transfers risk away from lenders and toward every single U.S. taxpayer that you represent. This creates what economists call "moral hazard." Since well-connected lenders like CitiBank and JPMorgan bear almost no risk when a company defaults, they have less incentive to apply transaction oversight. They collect high fees on billion-dollar loans in good times, but normal taxpaying Americans must pick up the tab in bad times.

Everyone in this room knows who will benefit if the Bank is reauthorized, because the beneficiaries are few enough in number that they can effectively organize and are wealthy enough to apply significant political pressure. But what about the forgotten firms, workers, taxpayers, and consumers whose voices are so easily drowned out by the corporate beneficiaries of government privilege? They should not matter less than Boeing, GE, and Caterpillar. This is your opportunity.

Thank you.

[The prepared statement of Dr. de Rugy can be found on page 133 of the appendix.]

Chairman HENSARLING. Captain Moak, you are now recognized for your testimony.

STATEMENT OF LEE MOAK, PRESIDENT, AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

Captain MOAK. Mr. Chairman, Ranking Member Waters, and members of the committee, I am Captain Lee Moak. I am the president of the Air Line Pilots Association (ALPA), and it is an honor to represent our more than 51,000 pilots.

As a labor leader, I believe that airline employees should work with their companies to better our industry. ALPA's goal is to make the pie bigger, rather than focusing on getting a bigger share. Ensuring our company's ability to compete is essential in safeguarding U.S. jobs and our national economy.

I don't believe in subsidies. If we are going to grow our economy, it must be based on fair competition. Fair competition is good. And on a level playing field, I am here to tell you, U.S. airlines can compete with anyone in the world.

However, we compete in a global economic environment. And it is one thing to compete with foreign airlines that are subsidized by their government and I know I can't do anything about them, but it is an entirely different matter to compete with foreign airlines that are subsidized by our government. We need to do something about that.

This is where the Export-Import Bank comes in. I don't take issue with the historic mission of the Bank, but the Bank has lost its way. Today, the Bank is being used to provide subsidies to foreign companies—companies that don't need the financing but use the advantage to undercut U.S. companies.

Recently, the House of Representatives voted unanimously to require the U.S. DOT to simply follow the law when it considers foreign air carrier applications. Why does this matter? Because Norwegian Air Shuttle is attempting to subvert U.S. law and international policy to establish a flag-of-convenience operation. Norwegian has also applied for Ex-Im Bank financing that it does not need and that will hand it an unfair economic advantage which threatens U.S. airlines, U.S. jobs, the U.S. economy, and, I am going to tell you, U.S. national interests. We thank this committee for recognizing that unfair business practices such as NAI should be rejected.

International flying is crucial for U.S. airlines. Tens of thousands of flight crews at the three largest U.S. carriers fly international operations, so our jobs are directly at risk from this competitive and inappropriate imbalance.

Since the United States first implemented its open-skies policy, the U.S. share of international wide-body fleet has dropped from 45 percent to 17 percent, and the share is now forecast to be at 5 percent by 2025. And if that doesn't concern you, well, it should concern you.

The threat affects airports such as Los Angeles International, where in 2013 American, Delta, and United flew only about 16 percent of the total international passengers. International jobs at mainline carriers are in jeopardy, but so are jobs at the small regional airports that are U.S. destinations for many of these international passengers.

In 2013, the Ex-Im Bank approved $7.9 billion in financing for U.S.-made aircraft that will be operated by our foreign competitors. Ex-Im financing is not available to U.S. airlines, and, through this financing, the Bank is effectively providing a subsidy to foreign airlines that operate on routes that are, have been, and could be served by U.S. airlines.

As a result, U.S. airlines have been forced to withdraw from or not enter key international routes. One example mentioned earlier is Air India. Using its Ex-Im Bank-subsidized airplanes, the state-owned airline flooded the U.S.-India market. And, in 2008, this excess capacity forced Delta Air Lines out of the New York-Mumbai route, displacing U.S. workers due to unfair competition. And that was U.S. jobs that we lost directly as a result of actions by the Ex-Im Bank.

In 2012, the reauthorization, Congress rightly directed the Treasury Department to negotiate with the European Union to end wide-body aircraft financing. ALPA encourages this committee to seek a full accounting of that effort.

And I am going to say, because I could go on and on, thank you, and I am looking forward to all your questions, every one of them. Thanks a lot.

[The prepared statement of Captain Moak can be found on page 176 of the appendix.]

Chairman HENSARLING. Mr. Wilburn, you are now recognized for your testimony.

STATEMENT OF STEVEN P. WILBURN, FOUNDER, CHIEF EXECUTIVE OFFICER, AND PRESIDENT, FIRMGREEN, INC.

Mr. WILBURN. Thank you, Chairman Hensarling, Ranking Member Waters, and the honorable members of this committee, for allowing me the great honor to be here.

Mr. Chairman, I do apologize. I am a disabled veteran, and I have post-traumatic stress disorder. I am not using that as an excuse, but I don't have a staff to write my reports or anything, or my written statement. So when I got that email from one of your staff members that said they had to have my statement right away, I was editing it in realtime on an airplane coming from California with WiFi.

So I don't want to take up more of my time than that, but I just thought—hopefully, that clears the record. No one influences my statement. No one ever will influence my statement. I guarantee you that, sir.

With that said—

[applause.]

Mr. WILBURN. And that is—I wasn't looking for that, but thank you.

My name is Steve Wilburn, and I am the CEO of FirmGreen. I am married to Margaret Wilburn, the proud father of five children, nine grandchildren, and one great granddaughter. I won't bother with their names right now because it would take up too much of my time, but I love them.

I work hard for them. I built this business for my family first and my employees second. My employees are treated like family. We are a small company. I want to put a face on small business today, if I can, okay? It is an awesome burden, because there are thousands of small businesses out there. I don't have the authority to speak for all of them; I can only give you my story.

And Semper Fi to you, sir, and thank you for your service.

I started pursuing the FirmGreen dream 10 years ago. I am a firm believer in the Lord, my God. And serving as a Marine in Vietnam, I fought for equal rights for all, for free trade, limited government. But I do not share, nor do I understand, the rabid antigovernment animus that seems to be motivating the current attacks on the Export-Import Bank. Government, in my view, is simply people working collectively to accomplish things for the greater good that can't be done by individuals alone. In combat, I could not have survived without my fellow Marines. We cooperated. That is the way I thought we acted in America.

I firmly believe that the Ex-Im Bank delivers enormous value to Main Street America. It provides small businesses like mine with the opportunity to grow in a prospering commerce without borders. We are not limited to domestic markets; we dare to reach out to the world's markets.

For example, in my award-winning biogas project in Brazil, my client asked me how we intended to present our ECA-financed proposal for the project. I was embarrassed. I had to ask him what "ECA" meant. They laughed and said, that meant the export credit agency, your Ex-Im Bank. That is how I was introduced to the concept of Ex-Im Bank support. I was that naive.

I was competing with Air Liquide and Linde Corporations, billion-dollar companies, much more prepared for that type of discussion and finance plan than me. But my clients and I went to the Export-Import Bank of the United States, my clients went through a very rigorous underwriting, and, thankfully, they were approved for that financing that I could not obtain through my private Bank. At that time, it was Wells Fargo, and they just basically told me that it didn't meet their underwriting criteria.

I am going to deviate from my prepared remarks a bit more and just say that, due to the air of uncertainty swirling around the reauthorization, in large part, I think, by harmful words uttered by the Bank's opponents in an orchestrated, unprecedented, nonstop public smear campaign, I feel I lost a valuable contract in the Philippines.

Words do have consequences, especially when they are uttered by people in power and position. I am a small man. I cannot combat the machines that are out there saying what they are saying. I am not a crony capitalist. I don't receive any welfare, corporate welfare, whatever you want to call it. We work hard.

As a result of losing the memorandum of understanding—because the Korean Bank came in with my Korean competitor who had lost to me, and they basically came up and said, "The Bank is not going to be reauthorized, he is not going to get to deal"—now my employees, including Ms. Dena Elbayoumy, my general counsel, are on furlough. We are scrambling.

Please, words have consequences. Be careful.

I will yield back the balance of my time.

[The prepared statement of Mr. Wilburn can be found on page 196 of the appendix.]

Chairman HENSARLING. Thank you—

Ms. WATERS. Mr. Chairman, if the gentleman needs extra time, I would request the same time that was allotted to Ms. de Rugy when she went over her 5 minutes.

Do you need extra time, Mr. Wilburn?

Mr. WILBURN. Not at this time. Hopefully I will have some adequate time in my answers. Thank you so much.

Ms. WATERS. Thank you very much.

Chairman HENSARLING. The Chair yields himself 5 minutes for questions.

First, Mr. Wilburn, thank you very much for your service to your country, as I thank Captain Moak, as well.

I used to be, prior to coming to Congress, an officer in a green energy company, myself. I don't know that much about your particular company, but it is a subject in which I am highly interested.

But, Mr. Wilburn, I am still a little curious. I understand that you were on a flight, I guess, when you were sending your testimony. But I guess my first question is, was it simply a clerical mistake, or did you change your mind on whether or not TARP regulations in Dodd-Frank played a role in failing to finance the Brazilian company that sought your product? So is it a clerical error, or did you change your mind about including that in the testimony?

Mr. WILBURN. No, it is not a clerical error. I didn't have exactly all the facts in hand.

Chairman HENSARLING. Okay.

Mr. WILBURN. You will see, the rest of my written statement, I think it speaks to some of those issues surrounding that—

Chairman HENSARLING. Okay.

Mr. Wilburn, you heard the testimony of others on this panel. You were very passionate with your testimony, but, frankly, so was Captain Moak, and Mr. Anderson, as well.

I have spoken to people, particularly those, for example, at Cliffs Natural Resources, who said that they are having to cut hours for working people, single parents.

And so I guess my question is one of fairness. Perhaps Ex-Im is—I have no doubt Ex-Im helps your business, but do you acknowledge that it can hurt other businesses?

Mr. WILBURN. I can't speak to hurting other businesses directly unless I had a more specific example, Mr. Chairman, but I can say this, that it is not my intent to harm anyone. But if I don't compete through the Export-Import Bank, I know who is going to be harmed. Because my competitors in foreign countries, financed by their Banks, will get those deals.

And I believe the same would happen to the aircraft industry. If Boeing doesn't sell those aircraft, I think—

Chairman HENSARLING. Let me, then, ask you this question. "Fairness" is a very subjective term, I understand that. But we seem to have a Federal policy that says, if you create a product and you want to sell it to foreigners, if you want to sell it to the Chinese, the Federal Government will step in and subsidize you, but if you want to sell your product to hardworking Americans, then, no, no subsidies for you.

And so, I am thinking about small businesses in my own district. At Annexus Personnel and Business Services in Mesquite, the owner said: "My mother and stepfather opened up the business without any government subsidies. They used their own retirement, 401(k), other resources to pay for rent. We had to go to auctions to buy office furniture. Small businesses like ours can't rely on the government."

So, again, I guess, by definition, you received the subsidy, you believe it is necessary to your business model. I accept that. But how is that fair to the other millions and millions of small businesses who sell to Americans but don't get their products subsidized by the Federal Government?

Mr. WILBURN. Sir, I would love to compete on a fair basis in America with my green technology to take biogas into methane. I don't get a subsidy. I take exception to your remark. My point is that 15 percent—

Chairman HENSARLING. Does Ex-Im not subsidize the financing for your product?

Mr. WILBURN. I don't believe that I am subsidized.

Chairman HENSARLING. Okay.

Mr. WILBURN. I don't believe that at all—

Chairman HENSARLING. Okay.

Mr. WILBURN. —sir. Let me speak to that point, if I may, Mr. Chairman, with all due respect. And I do respect you from the bottom of my heart.

My point is that—you asked a question. I can't sell my technology here because there are barriers to entry to the market, and the barrier to entry to the market is that the oil and gas industry is subsidized with a 15-percent oil and gas depletion allowance. I don't get that, as a biogas producer. I can't put my biogas into the pipelines in California that is a pipeline equivalent because—

Chairman HENSARLING. Mr. Wilburn, we would be happy to work with you and try to make you—

Mr. WILBURN. Well—

Chairman HENSARLING. —so much more competitive in—

Mr. WILBURN. —I am trying to be responsive, Mr. Chairman.

Chairman HENSARLING. —that area. I have limited time.

Dr. de Rugy, the proponents of keeping Ex-Im as the status quo have painted an apocalyptic vision should the Bank fail to be reauthorized. Is that an accurate vision, in your opinion? And if not, why not?

Ms. DE RUGY. I don't think it is an accurate version, Mr. Chairman. For one thing, as I said in my testimony, less than 2 percent of U.S. exports are backed by Ex-Im, and that doesn't consider the possibility that these exports would happen independently of the existence, absent the Bank.

More importantly, we have to think about some of what the other witnesses have said. So, for instance, a large part of the activity of the Bank is to subsidize big companies, Boeing, in particular.

In the loan guarantee, 66 percent of the activity of loan guarantees through Ex-Im benefits Boeing. Boeing is selling planes to companies that could get access to credit, as we have heard, without the loan guaranteed.

More importantly, Boeing has a really important and wealthy financing arm and it could do a lot of things itself, and it does.

Chairman HENSARLING. My time has expired.

The Chair now recognizes the ranking member.

Ms. WATERS. Thank you very much, Mr. Chairman.

I would like to explain to those who are wondering why there are three individuals presenting who all seem to be opposed to the reauthorization—let me explain the rules. These three individuals were invited by the opposite side of the aisle and we only get one witness, and that is Mr. Wilburn, who is here.

So I don't want you to think that somehow these witnesses were objectively chosen and that there are more people against reauthorization than for reauthorization. We just only get one witness to come here today.

Having said that, I would like to enter this letter into the record. This is a letter that our witness told us about where he lost a multi-million-dollar contract because of uncertainty regarding the future of Ex-Im.

Chairman HENSARLING. Without objection, it is so ordered.

Ms. WATERS. The letter reads, "Dear Mr. Wilburn, In view of the uncertainty of the reauthorization of the Ex-Im Bank and project finance structure you propose have become problematic, we have made the decision in May this year not to proceed with your project offering. Our previous partner developer has provided us assurance of the certainty of obtaining satisfactory finance from the Export-Import Bank of Korea for our carbon biomass waste-to-energy project. With previous discussions with you, we had the impression that your company, FirmGreen, can provide the best technology for our project, but without terms similar to that being offered by the Ex-Im Bank of Korea, it would be impossible for our company to conclude a transaction."

Thank you for entering that.

I have other letters that I would like to read and share with you.

This is from your district, Mr. Chairman, from Mr. Gabriel Ojeda, who is the president of the Fritz-Pak Corporation. I will read an excerpt:

"During the past 5 years, we have grown our international sales from 15 percent to over 35 percent of our business. We now have major trading partners in over 30 different countries including Brazil, Russia, India, and Taiwan. Most recently, we exhibited our products at the BAUMA International Trade Fair in Munich, Germany. In addition, our products were used in the construction of the Sochi Winter Olympics in Russia.

"So what is Fritz-Pak Corporation today? We are an American manufacturer of the best concrete admixtures in the world, and we sell them as far north as Yellowknife, Canada, and as far south as Wellington, New Zealand. We may be small, but we think big. In an age where everything seems to be made someplace else, we are thriving here in the United States. And it is in no small part due to the services provided by Ex-Im Bank."

Mr. Neugebauer, we also have a letter from your district, from Air Tractor, Inc., and I will read an excerpt:

"As a small business that employs 265 people, 25 percent of those employees are supported by the Ex-Im Bank. We use Ex-Im Bank to create jobs in rural America. Ex-Im Bank levels the playing field so that small businesses can grow.

"Ex-Im Bank is a self-sustaining operation that has a solid history of making money for U.S. taxpayers. It has created millions of new jobs in the United States. Reauthorization of the Ex-Im Bank is a simple issue. Ex-Im creates and sustains jobs, strengthens the brand of American-made goods, and reduces our national deficit. If Ex-Im Bank ceases to exist, the deficit will increase, and we will lose jobs in Olney, Texas."

Mr. Chairman and Members, you are going to hear a lot from small business here today because we have received any number of letters from all over America, many of them from small businesses talking about the importance of the Ex-Im Bank.

Jobs, jobs, jobs. As was said earlier, we all talk about jobs. We have been through a recession. We almost went into a Depression. We still have high unemployment in many of our areas, and we are all saying to our constituents that we are going to do everything that we can to provide jobs.

But when we look at how we lost our manufacturing base in this country and how Ex-Im is helping us to re-create and develop and sustain manufacturing, which creates jobs, we say that is what we want. But here we are talking about not reauthorizing Ex-Im, which is responsible for these jobs and job creation.

And so I submit to you these letters. I would ask my colleagues here on this side of the aisle—if you have letters or information from your businesses in your district, now is the time to share them.

And, with that, Mr. Chairman, I won't use up all of the time that you allotted me because you used extra time. I just think the message is clear. Jobs, jobs, jobs.

I yield back the balance of my time.

Chairman HENSARLING. The Chair now recognizes the gentleman from California, Mr. Campbell, chairman of our Monetary Policy Subcommittee.

Mr. CAMPBELL. Thank you, Mr. Chairman.

You know, I sat in this very room however many years ago it was—I guess 3 or 4 or whatever—when the Ex-Im Bank was reauthorized for its current reauthorization, and there were about 6 people sitting out there.

The vast majority of the American people never heard of the Ex-Im Bank. This American had never heard of the Ex-Im Bank before being elected to Congress.

I doubt that the Ex-Im Bank's footprint on the American economy has grown or contracted since that time. But, yet, this room is full, and I understand there is an anteroom that is also full.

And it seems that the debate over this Bank has become a proxy for a bunch of other things. But amongst the things that it has become a proxy for, in my view, is how we operate around here and how we operate in this place.

And it seems there are only two options that are being discussed. One is the complete elimination of the Ex-Im Bank, and the other is the complete reauthorization of it as it is.

But you know what? I think there is a third option. I think there is another way to do this that doesn't involve complete elimination and doesn't involve assuming that the Bank has nothing wrong with it and that it is absolutely perfect the way it is.

Some months ago I formed—as the subcommittee chairman of the relevant subcommittee, I formed a working group to work on reforms for the Ex-Im Bank.

Regrettably, none of my friends on the other side of the aisle—that is my fault, not theirs—were in that working group. But amongst the Republicans on our side of the aisle, we had a broad spectrum of Republicans.

It included people who were and probably are still opposed to the Ex-Im Bank and its reauthorization and others who came in favoring it, and we did develop a work product, which until now, I have not released to anyone.

But, Mr. Chairman, I have a discussion draft. This is the work product of that working group, which I would request be entered into the record.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. CAMPBELL. And for those of you out there, this will be up on my Web site very soon, and I will be issuing a press release on the same as well.

Now, this is a discussion draft. It is in bill form. It has about 20 different reforms to the Ex-Im Bank. Certainly I don't, and I don't believe the members of the working group, think that this is the final answer or the only way or whatever.

But it is an idea and I believe an idea that we need to have not only about this subject, but perhaps about other subjects as well, where we need to—rather than we are going to do this over here or this over here, that perhaps there is something where we can agree that there are some problems we need to fix.

But maybe we can fix them and maybe this thing can do what it was originally intended to do, what we all would like it to do, which is support American jobs and American export and enable us to compete against all those other export-import banks around the world and do so in a more objective, a more—just a better manner than it is right now.

And in my last little bit of time, Mr. Anderson, I heard you say that you felt the Bank should be reformed. I didn't hear you say that it should be eliminated. Is that correct?

Mr. ANDERSON. That is correct. And our position, by the way, the last time around when we were here, the reason there were only 6 people in the room, we have been working on this for 5 years because it has hurt us. And we got reforms and they were ignored.

So that is why our position the second time around is, if it is not reformed, it needs to be abolished. Because we got all the reforms, and they were totally ignored. I can read you the language, but it is very—the language was strong, and the Bank has totally ignored it.

Mr. CAMPBELL. Okay. Mr. Anderson—and I don't know whether the reforms—this working group, we didn't have you, we didn't have Boeing, we didn't have anybody in the room. It was just us working on what we felt was right.

Mr. ANDERSON. That was probably good.

Mr. CAMPBELL. And so—and what we felt was right. And we did something which we believe begins to address your issue. It doesn't necessarily eliminate your issue, but we believe it begins to address it. But that is what we tried to do.

Mr. Wilburn, just picking someone on the other side of the issue, do you have—you obviously are supportive of the Bank.

Do you have any objection to looking at things we can do to reduce the taxpayer risk, but perhaps continue its mission?

Mr. WILBURN. Helping businesses compete, whether they are small or large on the global stage, I am all for that. I am a free market guy.

Basically, I agree with 95 percent of what has been said here today. So, I applaud the Delta chairman and the other Members for stating that they don't want to abolish the Bank.

Mr. CAMPBELL. Thank you. I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney, ranking member of our Capital Markets Subcommittee.

Mrs. MALONEY. I thank the chairman and all the panelists and the ranking member.

I believe we live in a very inconvenient truth right now, especially in global capitalism, and as much as we like to think that American businesses may not need any help, but what they are competing against is that total support, in some cases, subsidy, in some cases, is even owned by the foreign government.

And if we were not, we would be unilaterally disarming in the international stage, putting American jobs and exporters at risk.

Oftentimes what we hear in Congress is, "We are not exporting enough. Why isn't America exporting enough?"

Our number one exporter is Boeing. Boeing exports a lot of planes, but they are competing against Airbus that is subsidized, financed, and even owned by a government.

And a lot of the areas where we are exporting and competing, the subsidies from their governments are far deeper and stronger than ours.

I fail to understand why we would in any way want to disrupt an agency that is helping export American goods, create American jobs, and is not costing taxpayers any money. I think this is something that we should expand.

I was at one export meeting where, literally, a company in New York was exporting clothing to China. I thought that was a great thing. Why in the world would I want to stop an agency that is helping them to do that?

Therefore, I ask unanimous consent to place in the record a document that has been signed by 865 organizations and businesses in America supporting the Ex-Im Bank, including the Chamber of Commerce and, also, the National Association of Manufacturers.

Chairman HENSARLING. Without objection, it is so ordered.

Mrs. MALONEY. I have to think that 865 organizations and businesses can't be wrong, I tell you.

And I just wanted to ask Mr. Wilburn: The opponents of the Bank claim that trade finance should be left to the private sector. What has been your experience with finding commercial lenders willing to extend credit to foreign buyers who want to purchase your company's services?

Mr. WILBURN. Recently, I just obtained some private finance for my three works in progress in Brazil. The problem is that I had to pledge my house, my intellectual property, my inventory, everything I own.

I am a risk-taker. I am willing to do that. But I can only do that once, because once I pledge that collateral for those three, I can't take care of the next six, seven that we are working on.

And if there are those sources out there and the committee members know them, the chairman or anybody—or anybody hearing these words today—if you know these sources of private finance, please get in contact with me and the other small business people. I know they desperately would like to have that as a solution.

Thank you.

Mrs. MALONEY. I have all these stacks of letters from businesses in support of the Ex-Im Bank. I would also like to ask unanimous consent to put it in the record and, also, one from labor. Labor is supporting it on the basis that this creates jobs in America.

I ask unanimous consent to place this in the record.

Chairman HENSARLING. Without objection, it is so ordered.

Mrs. MALONEY. And in response to Mr. Anderson, I am a big fan of Delta. I fly it about once a week. I love the airline.

Mr. ANDERSON. Thank you.

Mrs. MALONEY. And I was pleased to vote for the support for the bailout by the Federal Government after September 11th.

I think we voted to transfer the pilots' pension obligations to the Federal Pension Benefit Corporation. So, we have provided that help. And that is a subsidy, I would say, and we needed to do that. And I supported it. I voted for it.

And I think, also, that to this day, we have passed bills that restrict and prohibit foreign air carriers from competing with Delta by flying routes within the United States, that we are trying, in our own way, to help the private sector compete and win in a world economy and provide the wonderful service that you do.

But I, for one, am going to be writing Boeing and asking them to write in their own words whether they think the Ex-Im Bank has been helpful in allowing them to compete and win and who are their competitors and compare how much they are subsidized, if they are, to their foreign competitors in Asia and in Europe and, also, to GE and to every small company that is getting any help from the Ex-Im Bank.

And all of our Members should do the same. And let's create our own—

Chairman HENSARLING. The time of the gentlelady has expired.

Mrs. MALONEY. —report on what we are hearing from American workers and businesses.

Chairman HENSARLING. The Chair now recognizes the gentleman from Alabama, the chairman emeritus of the committee, Mr. Bachus, for 5 minutes.

Mr. BACHUS. I thank the chairman.

And I would say to all Members, Mr. Anderson, what he is saying is identical to what he and the Air Line Pilots Association and the union representatives were saying when we reauthorized this bill in May of 2012.

And I met with Chairman Hochberg in March. In fact, several Members on both sides expressed the same concern that Mr. Anderson had. And I was told at that time that they would sit down with Delta, and I was also told that Boeing would take a look at it.

We then put in the language of the reauthorization, directing the Treasury Secretary to initiate and pursue multilateral negotiations for reducing and eliminating government export subsidies for aircraft.

We specifically told them that we were concerned about widebody aircraft, two companies that had government-owned subsidies, rich companies, as Mr. Anderson said, and everybody expressed a great sensitivity to this. And we documented losses by American air carriers on overseas routes.

And that is what we are talking about. We are not talking about routes within the United States. That has nothing to do with this. Our American Airlines used to lead the world in these overseas routes.

From the time that we reauthorize this, which, really, I say it is strong language, but it turned out it wasn't that strong because it didn't forbid these sales. And I could tell you that they are going to—as long as we don't just forbid them, they are going to have them.

Because when Mr. Hochberg met with my office—and I am going to later—when he testifies, I am going to show you my letter to him and his response, which was a nonresponse. We have always gotten those.

Members also expressed to me some great concern on the Australian loan, but there were Members on both sides. I wrote Chairman Hochberg about that on behalf of several Members on August the 2nd. We then inquired about the status of our letter, and we were told they were going to respond.

On December the 20th, I woke up to read in The Wall Street Journal that the loan had been approved after my August letter. No response.

Finally, on February the 19th, 2 months after the loan was approved and announced, and the iron ore industry, the miners; there were all sorts of union groups that were expressing concern—he wrote me back and he said, "We approved it."

In my letter, I asked him to get with us and we wanted—there was no detailed analysis of the financing request or how it would affect U.S. jobs, and I asked him to share that information with me.

And I know Mr. Hochberg is here. I look forward to maybe some explanation. But no one from Ex-Im gave us any of this information.

They didn't even give it to us—he just said, if I have questions, I should call him. This is for a loan that had already been made.

I had what I considered a commitment from Ex-Im Bank and so did Mr. Anderson on a directed prohibition that was costing probably 10,000 U.S. jobs. These jobs have been being eliminated since 1978, when they started doing this.

There are estimates that this one mine produces more iron ore than our entire U.S. production, and it shut down iron ore production in this country as a result, a lot of it.

But we got a lot of promises and then we reauthorized and then—and even the Treasury Department, when I asked them—and I will say, if I could have 30 seconds, I asked them, "What are you going to do about these negotiations?", they basically told us, "What are you going to do? Are you negotiating?" "Well, we formed a talking group." And they basically just blew us off, the staff.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. The ranking member notes that only Mr. Wilburn here is outnumbered three to one, but I will point out his arguments are 3 times as good; and, therefore, I think it is fair.

It has been noted that Ex-Im Bank is financing the sale of airplanes to airlines that could get credit from somewhere else. That is entirely true.

Every one of those airlines could get credit from the export credit agencies of Germany and France. There is only one catch. They would have to buy an Airbus.

So the question here is not whether the buyer could make the purchase. The question here is whether the buyer will purchase the U.S.-made product.

And we are told that only 2 percent of American exports are at stake here. America is running the largest trade deficit in the history of the world. We can't afford to give up 2 percent of our exports. We can't afford to give up half a percent of our exports.

We are told that there has been a scandal involving some officers of Ex-Im Bank. There has also been a scandal involving officers of the United States Navy dealing with the repair of our ships in the Pacific. Yet, no one is proposing that we deauthorize the United States Navy.

I look forward to working, hopefully, with the chairman, and perhaps the gentleman from California, to improve Ex-Im because I don't think our position is that everything is perfect and none of these criticisms deserve any attention.

One of those reforms would be to have language and even more clear language to say that they can't make a loan or guarantee a loan without looking at the total effect on U.S. jobs.

One particular area is airplanes. We are supposed to have an Ex-Im Bank to finance exports. If you're talking about a power plant being built in India, the turbine is an export. If the power plant is in Indiana, it is not an export. It doesn't matter whether the company that owns the plant is in Germany or the United States or India.

Planes are different. They fly. And whether a plane has been exported or not doesn't or shouldn't depend upon the headquarter's building of the buyer. It should depend upon where the airplane will be used.

There are two approaches we could take.

One is to allow U.S. airlines to consider an export and, therefore, get Ex-Im financing on a plane that they are going to use in international routes in competition with foreign airlines that are also eligible for Ex-Im financing, should they buy American planes.

The second approach is to deny Ex-Im financing to those foreign airlines when they are buying a plane that is going to be used to fly to and from the United States.

But these are things to explore. I think to throw out 2 percent of our total exports because of one issue affecting flights to Asia and the Middle East would be a mistake.

Now, Mr. Anderson, you have financial statements that you send to shareholders and maybe you really have a choice. You could use GAAP accounting—generally accepted accounting principles—or some have suggested that we use fairytale-value accounting.

When you produce a P&L statement, one of the biggest items on it is your interest expense. Do you report the interest expense you have based on the deals that you have made with your Banks and bondholders or do you instead report the interest expense you would have had if you lived in a fair world?

When I read your income statement, do I see as interest expense what you are actually going to pay your lenders or some notion of fairness as to what you would be paying if only the world were fair? It is an easy question.

Mr. ANDERSON. No, it is not.

Generally accepted accounting principles have various methods for how you account for different—

Mr. SHERMAN. Do any of them involve you reporting as your interest expense what the interest expense would be in a fair world?

Mr. ANDERSON. Yes. In some instances, in the case of a merger where you have to go back to fresh-start accounting—

Mr. SHERMAN. Okay. In some limited—

Mr. ANDERSON. No. It is not limited. We have a—

Mr. SHERMAN. You just had a merger.

Mr. ANDERSON. We have a lot of interest expense on our balance sheet that is not the actual interest we pay because the generally accepted accounting principles require you to market-to-market.

Mr. SHERMAN. That may be. But you don't do it and say, in a fair world, interest rates would be the same for you as they are for the Emirates.

You don't say Pizza Hut should report the same interest cost as the local pizzeria or the Pellicola Pizzeria reports the same interest cost as Pizza Hut.

You report—you just had a merger. I know you are an expert on merger accounting—or at least you have had a big experience with it.

In the ordinary case and without a merger—I don't think Ex-Im Bank is going to do a merger with its German competitor—you report interest expense based on the deal you negotiated, not based on an imaginary fair world.

Mr. ANDERSON. Look, I am not trying to obfuscate.

In some instances, you do. In some instances, you have to come to a fair accounting standard. I wish it were that simple.

Mr. SHERMAN. None of those reflect a really fair world.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from West Virginia, Mrs. Capito, chairwoman of our Financial Institutions Subcommittee.

Mrs. CAPITO. Thank you, Mr. Chairman.

Mr. Anderson, how many employees does Delta Air Lines have in the United States?

Mr. ANDERSON. We have about 78,000 employees in the United States and probably a quarter of a million retirees.

Mrs. CAPITO. Is that up or down or pretty steady?

Mr. ANDERSON. Actually, we are hiring quite a bit right now. We are hiring about 600 pilots a year and over 1,000 flight attendants a year. So we are growing our employment without any government aid, by the way.

Mrs. CAPITO. And you made a mention in your comments that with the Ex-Im Bank's behavior in financing wide-bodies around the world, you kind of quantified it as to maybe 1,000 jobs it might have cost you.

Could you expand on that a little bit?

Mr. ANDERSON. Well, that was a specific instance of Air India. And when I hear the notion of this arms battle, what the Ex-Im is doing is putting our employees in the crossfire because it is U.S. airline jobs that are lost when heavily subsidized foreign-owned airlines are able to then also get a subsidy from our Treasury.

And it has reduced the growth of our company. This is the first year we will actually have any real growth in the last 5 years. And we see it in the marketplace by the entry of carriers with Ex-Im Bank finance below-market financing.

Mrs. CAPITO. So the argument to either relook and reshape, like Mr. Campbell is saying, or deauthorize, as I was—it is small business jobs, but it is businesses that have 75,000 employees at the same time.

Mr. ANDERSON. Exactly. And the point is I don't understand why we don't have the same view about jobs that are hurt by the Bank as we do about small business jobs. These are all really important jobs.

And the small business part of what Ex-Im does is actually really small and is pretty new to the Bank because, after the last reauthorization fight, the Bank went into a really aggressive marketing mode to small business so that it would have constituents in every congressional district.

Mrs. CAPITO. Right.

Mr. ANDERSON. Let's set that aside.

The real issue is 90 percent of this goes to the top 10 biggest companies in the United States that are well-funded and well-capitalized. And that is what we are focused on.

Mrs. CAPITO. Thank you.

Mr. Wilburn, I don't know if you remember, but in my opening comments I commented about the Administration—the Ex-Im Bank's policy of not funding coal-fired power facilities, including coal technologies, except in developing countries.

You are a green energy company developer, and I love green energy jobs. We love our coal jobs. They are just as important to us as a green energy job is to you.

Do you think, in thinking about this, that it is proper for an entity such as the Ex-Im Bank, because it has a certain environmental belief, to disenfranchise one American job over, say, one of the jobs in your company as a green energy company? Don't you think those jobs should be treated equally if we are going to be looking at financing exporting across the globe?

Mr. WILBURN. Let me respond that, basically, I am very supportive of technologies that are good for the environment, and I think the coal industry—particularly my family has a background in that and were affected by it.

I think the point here is, though, that the Bank is looking at an environmental policy. Okay? And I am not an expert on it. I serve on the advisory committee of the Ex-Im Bank on the environmental and renewable energy committee.

And what I have tried to advise them of is to be cautious when we are taking a look at the environmental impact, make sure they have the data, make sure that they have the studies and the reports; don't just make arbitrary decisions.

And I think, for the most part, they have been listening to me, but I understand your argument. And all I can say is that I want an environmentally sound policy by Ex-Im Bank that creates and protects American jobs.

Mrs. CAPITO. Thank you.

I looked at your list of your vendors and you are in and around in the State of Virginia. You just need to slip over the border there and bring a few over to West Virginia. Importing those jobs into West Virginia will be—

Mr. WILBURN. Give me the names and the addresses. I will be happy to talk to them.

Mrs. CAPITO. All right. Thank you so much.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from New York, Mr. Meeks, ranking member of our Financial Institutions Subcommittee, for 5 minutes.

Mr. MEEKS. Thank you, Mr. Chairman.

And I thank the ranking member.

First, I want to just say thank you to Mr. Anderson. Delta Air Lines is one of the largest employers in our district, and we really appreciate what you have been doing at JFK airport, the expansion there and the folks that you have been adding. So, we want to thank you for that.

And, as a result, I have made sure that I was reading your testimony very, very carefully because we do want to create jobs and I think that is tremendously important.

But in looking at it, I just wanted to double-check, because I would just like to ask first outright, and I will start—I think I know where Mr. Wilburn is in reference to the reauthorization of Ex-Im.

But I just was wondering, to, first, Captain Moak, do you think that we should do away with Ex-Im or should Ex-Im be reauthorized? I just want to know "yes" or "no" before we get into—what do you think about Ex-Im?

Captain MOAK. First, I want to thank the Congressman. I fly out of Kennedy. You have done an incredible job up there.

I have been there since 1994, flying a Boeing airplane 767. Great airplane. I want to thank you and what you have done for my members. We have thousands of our members up there.

The Ex-Im Bank needs to be reformed because we have lost jobs at John F. Kennedy Airport because of actions by the Ex-Im Bank. It needs to be reformed, period.

Mr. MEEKS. So do you think that it would be okay if Ex-Im was not reauthorizing all of the jobs that are created by Ex-Im?

I know we have to figure this out, but Ex-Im was not there. Because one of the things that concerns me—I am one of the largest supporters of trade. And the reason why I support trade is because I want to export our goods to other places.

And then, when I hear an example—for example—and trying to level the playing field. There is an example that I know took place in 2011, for example.

Brazil had the largest landline telephone company and the Republic chose to purchase the network equipment with China's technology because of access to China Development Bank's $30 billion credit line, which came with a 2-year grace period on payments and an interest rate of 2 percentage points below the market rate.

Now, that is just one example that I could give on how China has used its Banks to win new exports. This is our competition. And there are hundreds of other examples which I could give from all over the world.

So my concern is and—to all of you—so wouldn't you agree that several industries and export jobs throughout, which would devastate America?

I wish I could just say I am focused only on JFK, but I have to think bigger than JFK in this one.

I have to think about how I am a Member of the United States Congress who represents—I represent my district, but, also, my first—when I took—swore in is the overall benefit.

And sometimes you have to figure out on a balance that—wouldn't we be really jeopardizing export jobs without Ex-Im Bank?

Captain MOAK. Sir, just to follow, we are here because we need your help to level the playing field. Right now, we are not able to compete, and we are losing jobs out of Kennedy. So we need leadership to reform the Bank. The Bank hasn't followed the will of the Congress.

Mr. MEEKS. But what I am getting at is this—and, as I said—and Mr. Anderson, I will go to you, also.

See, because what I have to weigh here is the overwhelming balance of companies that come to me because I am a pro-trader that say this is absolutely important to them.

And if I would show you the number of companies that have come to me and the jobs that they represent—because it absolutely would be devastating to them compared to one company that I like who have done something like, I have to say good, but compared to one company, then I have a decision to make, as a Member of Congress, especially me because I have to defend my own record of wanting to export things all over the world and making it easier so we can compete.

And when I look at, for example—I know that there are other ECAs, almost upwards of 60 export credit agencies (ECAs) that exist in all of the other foreign countries, many of whom who do not even comply with international export credit standards established by OECD, and that such countries as China and Brazil and India offer below-market and concessionary financing alternatives.

So I would think that—wouldn't you agree that is what we need to look at so we can level those playing fields and, if we don't level those, then we are putting at risk hundreds of thousands of American jobs because we cannot export to these other countries because there is no level playing field here?

I see I am out of time.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, chairman of our Capital Markets Subcommittee.

Mr. GARRETT. And I thank the chairman.

There are a number of different areas that we can talk about here, and I think the gentlelady to the right of me may go into this in more detail.

But just as a beginning, I will just do the highlight, and that is the fact that although there is a statement from the other side of the aisle saying that Ex-Im has never lost money, I think we have some documents to show that has not been the case over its somewhat sordid history of mismanagement, severe losses, and a past history of having to have been bailed out and recapitalized by the American taxpayer in the past.

But I will let the gentlelady address that, if she chooses, later on.

Secondly, to a technical point, Mr. Anderson, with regard to accounting and all those sort of things, GAAP accounting, under FASB rules—I think it is 157 because we have been in this on other hearings before. Fair value accounting. Right? That is part and parcel of your process, isn't it?

Mr. ANDERSON. Absolutely. I think most companies in America would love to have the government's accounting system.

Mr. GARRETT. Yes, exactly.

The next point is on reform. And maybe I will throw it back to Mr. Anderson or anybody else.

So, the idea is maybe we can just reform this. But as some of you indicated before, we have been down this road before. We reformed it before, passed legislation just a few years ago. We instructed Treasury to do something, and we instructed Ex-Im to do something.

We instructed Treasury to try to enter into new negotiations and we tried agreements and we tried to have Ex-Im do cost-benefit analysis.

Neither of those things were completed. Correct? You are nodding your—

Mr. ANDERSON. You were totally ignored.

Mr. GARRETT. Okay. So the question I have is: Before I think about re-re-re-re-reforming something, if we do that—and you don't have to answer this—I am wondering why I will not anticipate being here 2 or 3 years from now after this re-reform has not been—or has been ignored again.

Mr. ANDERSON. That is why we thought this problem was fixed last time and then we worked over the course of the last 2 years to try to get the reforms that both sides of the aisle agreed to enacted.

Mr. GARRETT. Right.

Mr. ANDERSON. Lael Brainard told me they were not going to negotiate with the Europeans over Ex-Im Bank subsidies right across the table in the Treasury Department.

Mr. GARRETT. And, in the meantime, while we wait for the re-reform to be implemented and find out that it is not implemented, how many jobs will we lose in the interim?

Mr. ANDERSON. We are going to lose thousands. And that is why our position now has changed. Last time we tried to—we thought we had it fixed.

Now our position is, if there is not a hard stop on wide-body financing for state-owned, creditworthy airlines, the Bank should be ended.

Mr. GARRETT. And I appreciate it.

Our small business guy at the end, Mr. Wilburn, for what you are doing, I appreciate your service as well, and I appreciate your entrepreneurial spirit.

I just have one bone to pick with you. I know you say you are a free market type of guy. And I think you said, "I pledged my collateral. I can only pledge that once." And I get that, but I guess that is the way the free markets work.

If I have an idea or a product or a business and I have capital, I can only pledge it once. And I guess the industry in front of us, they can only pledge it once. That is the rule whether you are a big guy or a little guy. You can only pledge it once.

And even though—I have had lots of great business ideas but nobody wanted to invest in them. That doesn't mean they weren't great business ideas.

But just because you have a great business idea and a great business model doesn't mean that you can look to somebody else to finance it. You can try to seek somebody else to finance it.

And that is what you're trying to do, and it is great that you are on TV today, maybe. So maybe it will help you out there. But—

Mr. WILBURN. That is not the reason I am here, with all due respect.

Mr. GARRETT. My point is we should not be asking the American public to step in and be the one to ultimately finance once any business, big or small, pledges their collateral once. Independent investors should be the ones who are responsible for doing that. We should not ask the taxpayer to step in.

And I will close, then, with Dr. de Rugy. Can you quantify any of what we are talking about here—Mr. Anderson has tried to—as far as, without a cost-benefit analysis being done like Ex-Im should have done, what we are really looking at when we continue down this road or path of picking winners and losers in this current system that we have as far as job losses. Do you want to talk about that?

Ms. DE RUGY. It is very—it is very hard to know exactly how many jobs are lost. One of the things that we know is who the beneficiaries are. We also know that the Ex-Im Bank picks winners and losers and that is very different from the free market.

And, also, we have 200 years of economic literature which explains that free market is the way to go and protectionism isn't because it hurts consumers by raising prices. And with the Ex-Im Bank, it is not free market. It is protectionism.

Chairman HENSARLING. The time of the gentleman has expired.

Ms. WATERS. Mr. Chairman, I would request unanimous consent for Mr. Wilburn to have an opportunity to respond to the teaching that he just received from Mr. Garrett on oil and gas subsidies that he mentioned in response to Mr. Garrett's claim that the government should not be subsidizing anything or anybody.

Chairman HENSARLING. I am sure there are many Members on your side of the aisle who would be happy to yield more time to Mr. Wilburn.

The Chair now recognizes the gentleman from Massachusetts, the ranking member of our Housing and Insurance Subcommittee, Mr. Capuano, for 5 minutes.

Mr. CAPUANO. Thank you, Mr. Chairman.

And I thank the panel for being here.

Mr. Wilburn, I just want to thank you for your commonsense approach. It amazes me that people can disagree on substance, but you deserve more respect than you have received here today, and I regret that approach, as one member.

Mr. Anderson and Captain Moak, I think you raise interesting and very good points. I have actually worked with the ALPA in the past on a similar issue just in Massachusetts using taxpayer dollars to help encourage wealthy foreign airlines. I am more than happy to look at this. And Mr. Campbell and others have suggested that.

However, I am not willing to shut down the Bank because, very simply, Ms. de Rugy, I have to tell you, I don't live in the ivory tower. In the ivory tower, what you say makes sense.

And if every country in the world would legitimately shut down their ex-im bank or their comparable one to it, I would consider it because I don't disagree. This should be unnecessary.

But I don't live in that world. I live in the real world of fair competition. And when France has 4,600 people working for their ex-im bank and we have 400, if we want to compete, we need to do this.

Ms. DE RUGY. But we have 200—

Mr. CAPUANO. So, for me, that is part of the problem.

With that, I would like to yield the remainder of my time to Mr. Heck, who knows a lot more about the Ex-Im Bank than I do.

Mr. HECK. Thank you, Congressman.

First, I want to thank especially Mr. Wilburn and Captain Moak for their service. It is deeply appreciated.

Mr. Wilburn, I am interested, as a small businessperson out there trying to build something for his family and his employees kind of one day at a time, one contract at a time, whether or not you would be surprised that the company to your right, which has claimed such material damage and is represented by its own spokespeople, is now the most profitable airline in the United States, and arguably the world, and indeed made $2.7 billion in profits last year, for which I am grateful. I think that is a good thing. I am really glad.

I am not asking the question of you, Mr. Anderson.

Would it surprise you that the company has paid no Federal income taxes for the last 6 years and is projected not to for the next 3 years?

Mr. ANDERSON. Are you talking—

Mr. HECK. Mr. Chairman, it is my time, not Mr. Anderson's.

Would it surprise you, Mr. Wilburn?

Mr. WILBURN. I don't know if I'm surprised. I can't characterize it as surprise. It is new information to me I was not aware of.

Mr. HECK. Mr. Wilburn, I am wondering if you would consider what the gentleman to your right has repeatedly said.

Again, I want to interject here my gratitude for living in a Nation that builds the greatest airplanes in the world, which are flown by the most competent pilots.

I did 150,000 miles last year and I didn't lose one wink of sleep about my personal safety. And I thank you all for that, quite genuinely.

But, Mr. Wilburn, the gentleman to your right said repeatedly in his opening testimony—I want to make sure I get it exactly right—"I don't believe in subsidies."

Mr. Wilburn, would you consider it a subsidy that the Federal Government, through its Pension Benefit Guaranty Corporation, took over the pension liabilities of Delta and, at the point at which Captain Moak collects his, will, in fact, be provided by the taxpayers of the United States? Would you consider that a subsidy?

Mr. WILBURN. Again, with all due respect, I don't think I am really qualified to answer that, but I understand your point.

Subsidies exist in a variety of different ways, and I am faced with that unlevel playing field every day. And I would have to have some more information on that, but you have piqued my interest.

Mr. HECK. So, lastly, then, I am wondering whether or not you would consider it at least inconsistent that the company has argued that the existence of the Export-Import Bank to loan money to their competitors—will you consider it inconsistent that they have that view when, in fact, that same company borrowed from the Canadian export credit authority to buy what I deem short-hop airplanes?

Mr. WILBURN. Again, I am not familiar with those facts, and I am learning a lot of things today in realtime and, as a small business guy, I am more focused on my issues.

But I can tell you this. There are a number of issues raised here today, including the ones you mentioned, that lead us to a broader discussion.

And the broader discussion is: What role does the Ex-Im Bank really play? These gentleman have opined and they have given their opinion.

I can tell you just from my perspective, without the Export-Import Bank of the United States, people are going to buy in the Philippines, not my goods, but they are going to buy Korean goods, and they are going to buy that because it is financed by the Korean Export-Import Bank.

So I think we need to get to their reasonable position and do some reforms, but get and save the Export-Import Bank of the United States.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, Mr. Neugebauer, chairman of our Housing and Insurance Subcommittee.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. Anderson, I detected that you might want to respond to some of the questions that were raised awhile ago. Would you like to—

Mr. ANDERSON. I would start by saying Boeing got a refund, didn't pay any taxes. But Delta accrues its taxes at the full Federal tax rate. We don't have any offshore subsidiaries.

The reason why we are not a cash taxpayer is because we went through a very painful Bankruptcy and restructured our company without any subsidies from the government.

We paid our premiums into the insurance—into the Pension Benefit Guaranty Corporation and, unfortunately for our pilots, we had to terminate their pension plan. And so Captain Lee Moak, I would correct the record, doesn't have a pension because his pension was terminated.

We were able, with the help of this committee, to pass the Pension Protection Act in 2006 and save the pensions by getting an amendment to the law so that Delta can pay out over a billion dollars of pensions to our retirees today, and we are overfunding those pensions.

So you hit a raw nerve when you look back at these people who went through a really tough restructuring—and we are a full taxpayer in this country—and these people bore the brunt of a tough Bankruptcy and a lot of them lost their pensions.

Mr. NEUGEBAUER. I thank you.

And, I want to expand on something that has been brought up, but I don't think people realize the scope of that, and that is I was shocked to learn that 14 of the largest 20 state-owned or state-supported airlines receive Ex-Im funding.

And so, just to put that in perspective, these countries—many of whom have fairly substantial sovereign wealth funds, are able to get financing backed by the U.S. taxpayers to compete with U.S. companies.

Mr. Anderson, you mentioned, I think, a couple—India, Emirates, China. There is a long list of airlines that American taxpayers are subsidizing to compete with your airline, and that puts you at a disadvantage.

Mr. ANDERSON. That is exactly right. The prime examples would be Singapore Airlines, which is owned by Temasek, the largest sovereign wealth fund in the world. Our government finances the airplanes.

The largest oil-owning company in the world is Abu Dhabi. It has the largest oil reserves in the world and it owns and operates a government airline, and we, our Treasury, finances their airplanes well below market to fly into our markets.

Mr. NEUGEBAUER. Now, one of the things that you mentioned in your testimony, too, is that—you said that you did not support reauthorization of Ex-Im Bank because you kind of felt like you got double-crossed on the last reauthorization, but you would support possibly a reauthorization that had some reforms.

Do you want to elaborate a little bit on that?

Mr. ANDERSON. Absolutely. Our position has been consistent. It was consistent at the last reauthorization. Language was put in the bill to fix these issues that hurt American jobs, and it was ignored.

So we have taken a harder-line position this time, along with all the employees I have here and the 3,000 employees we have in Seattle, Washington, to require that there be real reform this time.

We aren't talking about small businesses. I respect small businesses. I want him to be successful. We want all small businesses to be successful. And this isn't about small business.

This is about 90 percent—95 percent of the money that this Bank uses are for the top 10 corporations. So, let's not confuse the small business issue.

This is about putting safeguards in place so that you, as Members of Congress, are not picking and choosing which companies win and which companies lose.

I think these jobs are just as important as the manufacturing jobs. If they aren't, I would invite any Congressman here to just tell my employees that their jobs are not as important.

Mr. NEUGEBAUER. I thank you.

I had a question for Mr. Wilburn.

Mr. Wilburn, has your firm ever received any Federal grants, loans, guarantees?

Mr. WILBURN. No, sir.

Mr. NEUGEBAUER. Okay. Thank you.

And Dr. de Rugy, you have done some analysis on Ex-Im and their financing and their structure. I will have to—I see my time has expired, so I will submit it to you in writing.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Clay, ranking member of our Monetary Policy Subcommittee.

Mr. CLAY. Thank you, Mr. Chairman.

Dr. de Rugy, do you believe that there is an appropriate role for government to make sure financing is available for U.S. businesses in cases where the private sector is unable or unwilling to provide financing to legitimate business ventures?

For example, what about commercial exports for nuclear power projects? I understand that these deals are often untenable for commercial Banks. Is it appropriate for the government to help finance such deals?

Ms. DE RUGY. I don't think the government should be in the capital market business because the way government allocates monies is based on politics and not on sound economics.

And, more importantly, you have to understand that when the capital market does not allocate funds to someone because they are cash-poor, it is a feature of the capital market, not a bug, and it is unfair for Congress to demand that taxpayers be the one footing the bill because some people want to borrow money and are not able to find lenders to actually lend them that money because they don't think it is a worthy or a safe enough bet.

Mr. CLAY. Well, Doctor, isn't it true that Congress picks winners and losers every year as far as through our Tax Code?

Ms. DE RUGY. I agree. And I am against that, too.

Mr. CLAY. Oh. You are against that, too?

Ms. DE RUGY. I am against the government picking winners and losers. I think the general rule should apply.

Mr. CLAY. And you have lobbied your Members of Congress on that, I assume?

Ms. DE RUGY. I don't lobby. I write research papers.

Mr. CLAY. Well, at least you talk to them.

Ms. DE RUGY. Yes. I specialize mostly on the budget. But when I have talked about tax reforms, I have talked about leveling the playing field.

I don't believe in giving tax credit to some companies and not others, or to taxpayers based on the fact that they are buying a house rather than renting. I believe in the general rule. I believe in a flat tax, for instance, rather than the system that we have today.

Yes, I am against the government picking winners and losers across-the-board, whether it is through taxes, through government funding, or through loan guarantees.

Mr. CLAY. Thank you.

Mr. Anderson, a review of U.S. airline purchases by U.S. carriers between 2012 and 2014 reveals that all of the recent capital market deals have been on more affordable terms and would have been available if the carriers had used the export credit that is made available to foreign purchasers of U.S. aircraft.

Given this, how do you defend the claim that the United States is providing below-market rates to our foreign competitors?

Mr. ANDERSON. This is a competitive business and, depending upon what your interest rates are—your interest rates are determined by your capital structure.

And when the government gets involved and takes that market component out, we are no longer competing on who is the best at managing capital. You have distorted the market.

Just because we have lower interest rates, that just means we pay our debts better, and we should have lower interest rates. And if a competitor gets lower rates for an artificial reason, they are getting a subsidy.

Mr. CLAY. You don't think it—

Mr. ANDERSON. They should be in the marketplace—

Mr. CLAY. Okay.

Mr. ANDERSON. They should be in the marketplace raising capital the way we raise capital and having to pay a market-based interest rate and compete on that basis.

Mr. CLAY. You don't think France or England—

Mr. ANDERSON. Pardon?

Mr. CLAY. You don't think France or England uses their ability to level the playing field for their airline-makers like Airbus?

Mr. ANDERSON. No. Because there is something called the gentleman's agreement between Airbus and Boeing. It is an oral understanding that creates something called the "home market rule." So the United States, Britain, Germany, France, and Spain do not use and are not allowed to use export credit.

Mr. CLAY. Okay. Thank you.

I am going to yield the remainder of my time to my colleague from Missouri, Mr. Cleaver.

Mr. CLEAVER. Thank you.

Mr. Anderson, some of your points I actually think are good. I hate that everything becomes partisan here. Let me ask you one question. You were talking about the employees behind you and what you would say to them. What would you say to the 16 exporters in Kansas City, Missouri, my congressional district, which supports—because Ex-Im Bank supports about $84 million in exports each year. What do I say to them when I say that the Ex-Im Bank is closed?

Mr. ANDERSON. I think we should put both our employees and your employees and say we are going to preserve and grow both of their jobs, and that is the reform that needs to take place.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Westmoreland.

Mr. WESTMORELAND. Mr. Anderson, thank you, again, for being here and for bringing the crowd with you.

So I guess to put it in just really simple terms, if a European government-subsidized or any government-subsidized airline buys a plane from Boeing, and you buy a plane from Boeing, you compete with them on some of the same routes. Is that not true?

Mr. ANDERSON. We compete on virtually—in a global network, you complete on virtually all of the routes internationally in some form or fashion over the hub system.

Mr. WESTMORELAND. And it is so if you were buying 60 planes from Boeing. Is that not correct?

Mr. ANDERSON. Right now, we have about 100 airplanes on order from Boeing.

Mr. WESTMORELAND. A hundred airplanes. If you had some of the same—even though you said you were paying cash, if you had some of the financing options that some of your competitors had, you may even buy more planes from Boeing and give Boeing more work to do. Is that true?

Mr. ANDERSON. The market needs to dictate how many airplanes we own. I am not in favor of opening up export financing for U.S. carriers because I don't think that is a free market.

Mr. WESTMORELAND. Thank you.

Ms. de Rugy, could you please tell me why it is misleading for the Export-Import Bank to claim that 90 percent of its loans actually go to small businesses?

Ms. DE RUGY. That number is only correct if you look at the—it is actually not 90 percent. It is a little less than that, but when you look at the number of transactions, when you look at the money, what you see is that roughly 19 percent of the money goes to small businesses, and that is less than even the Bank's charter asks. What it means is that—and by the way, they have a very expensive definition of small business. When you talk about small business, people think about mom-and-pop stores or 10/50 companies. The definition of Ex-Im for "small" can go to a company of at least 1,700 employees. These are big businesses in my book.

But what it means is that really over 80 percent of the money goes to very big companies. And we know that they go to leading manufacturers, the number one U.S. exporter, Boeing is obviously leading the pack.

Mr. WESTMORELAND. Thank you.

Mr. Moak?

Captain MOAK. Congressman, I just wanted to add one other thing that might have gotten missed a little earlier. If you want to have apples to apples, airlines manufacture seats. That is essentially what we do, and we are actually getting impacted twice, not only by what the U.S. Ex-Im Bank does by financing airlines below market rates, but what happens since we don't have the ability to access that along with a few other countries that manufacture airplanes, countries like the Middle Eastern companies, not only are they using Ex-Im Bank financing and putting them on routes and costing us jobs, they are also using European credit agency Airbus airplanes overlaying our routes at a number like $3 million per year, per airplane, so you start out at the beginning of the year $3 million behind. It is hard to catch up. We have to pull out of markets, and we lose jobs, so we are getting hit not just by Ex-Im Bank practices but also by ECA practices, and that is why we came before this group to ask them to negotiate taking that down because the Middle Eastern countries are taking advantage of it.

Mr. WESTMORELAND. So, Mr. Moak, would it be true that when the other side of the aisle says that labor is for the reauthorization of the Ex-Im Bank, that would not be entirely true?

Captain MOAK. Labor is for reform, fair practices, competing in the world. We have the best workers in the world. We need to be given the opportunity to compete because when we have a fair opportunity to compete, we win, and we are coming to this place because government policy matters. We need your help or we wouldn't be here.

Mr. WESTMORELAND. And, Mr. Anderson, just one last thing. You had made an attempt at the last reauthorization to do the right thing. You are back here today because it didn't work, and they did not do the things that were promised. Is that not true?

Mr. ANDERSON. Correct.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Mrs. McCarthy, for 5 minutes.

Mrs. MCCARTHY OF NEW YORK. Thank you, Mr. Chairman, and I appreciate the opportunity.

Number one, I think it should be noted that we are not against any of the unions. We are not against any of our American airlines. We certainly support them, and I think I would like to ask Mr. Anderson one quick question, are there any other American airlines that are experiencing the same problems as you?

Mr. ANDERSON. Yes.

Mrs. MCCARTHY OF NEW YORK. Captain?

Captain MOAK. I represent 51,000 pilots, 31 different properties, all the major U.S. airlines, and the answer to that is absolutely yes, we are getting hit by this. We need reform.

Mrs. MCCARTHY OF NEW YORK. Let me go back to Mr. Anderson. We did negotiate 2 years ago, which we thought was a fair agreement. So here we are at this point. What do you think would be a fair agreement? Where would you want to change the language? Is it only enforcing Ex-Im Bank? Is it something different?

Mr. ANDERSON. It needs to be mandatory. The language that was prefatory last time needs to be made mandatory. And it is specific in our business. We have tried to be narrow because there is plenty of merit to what happens with small business. There is no question. And we have tried to be targeted to try to just go at the very issues that hurt our employment. And the issue that hurts is our government further subsidizing deeply subsidized foreign airlines?

Mrs. MCCARTHY OF NEW YORK. Let me say something. Number one, I doubt very much whether you would ever get language that was mandatory. It is just not going to happen. People here, myself included, don't like to use the word "mandatory." So if we don't get the language in as mandatory and you are basically saying that we should abolish the Bank, then, to be very honest with you, your union, all the other unions, are going to have a problem. A lot of my constituents will have a problem, so we have to come up with some sort of solution to that.

But with that being said, too, I know that you are probably the most profitable airline. That is great. We want to see that, and I know you had your ups and downs, especially when you had to go through the Bankruptcy. But wasn't going through the Bankruptcy more because of what was going on in the world that day—that year, as far as oil prices and everything else like that and you had to reconstruct?

Mr. ANDERSON. The terrible tragedy of 9/11, and I sat in one of these rooms in September 15, 2001, representing the industry, so we lived through that. And it dealt a devastating blow to our industry. Our capacity fell off 25 percent. It has taken 10 years to get back. So I would have to say that between very high oil prices—and we could have another discussion on the depletion allowance—and the 9/11 tragedy, and then the aftermath of that really wreaked havoc on our industry.

Mrs. MCCARTHY OF NEW YORK. I am only trying to bring out that unfortunately whether small businesses or large corporations, we really want to support them because that is jobs, but sometimes we, even in the government, can't do everything.

I want to also say that as someone who has been always supporting my unions, I would like to insert in the record, Mr. Chairman, statements from four other labor unions.

Chairman HENSARLING. Without objection, it is so ordered.

Mrs. MCCARTHY OF NEW YORK. Thank you.

So I think one of the things that fascinates me about this, as it did 2 years ago, is trying to find that common ground, which is really difficult around here. It seems all or nothing the last several years. And so I hope we can come to an understanding because I do believe in the Ex-Im Bank. I do believe that it helps an awful lot of our people in this country. I do believe it brings good jobs and keeps good jobs here in this country. But with that being said, I want to turn over the rest of my time to my colleague. You wanted extra time?

Mr. HECK. Are you pointing at me?

Mrs. MCCARTHY OF NEW YORK. Yes, I am.

Mr. HECK. Thank you very much.

Mr. Chairman, I would seek unanimous consent to enter into the record verified excerpts of the speech given by former Vice President Richard Cheney.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. HECK. And with your permission, I would like to just quote him briefly. There are those who say that the Bank is just some form of so-called corporate welfare. They obviously don't know that for every dollar appropriated in the last 5 years, Ex-Im has returned approximately $20 worth of export. That is the kind of successful government program that even a fiscal conservative such as me can embrace.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from New York, Mr. King.

Mr. KING. Thank you, Mr. Chairman.

Thank you for holding today's hearing. It is a vital issue, and I want to thank all the witnesses. I want to thank Mr. Anderson.

Certainly, Delta is a good employer in my district. In fact, I just got my flight confirmed for tomorrow on Delta, so I want to thank you for that.

Dr. de Rugy, besides your testimony today, I want to thank you for the work you have done on Homeland Security, and I have sometimes plagiarized some of your words without giving you credit, so let me do that now. Okay?

Also, Captain Moak, I have had a very good relationship with the airline pilots.

And, Mr. Wilburn, you do, I believe, represent an American success story.

So, with all of that, I think I am trying to find a way we can all be on the same page. I was impressed by what Mr. Campbell said about trying to find reforms.

Mr. Anderson, you believe that reform is necessary. I believe we have to find a way to reauthorize the Export-Import Bank. I know we hear of crony capitalism, and that may happen in some cases, but certainly the businesses in my district are small businesses. We have a musical string instrument manufacturer, a woodworking tool manufacturer, and a seafood distributor. I believe there are 10 companies in my district. I know Mrs. McCarthy mentioned a number in her district, which is next to mine. And in downstate New York, our districts are one on top of the other, so probably within adjacent four or five districts, there already hundreds of employees in each of our districts who work in businesses in adjacent districts. So, it is important.

I have also voted for every free trade agreement that has come before Congress in the 22 years I have been here. I believe in free trade. I also don't like the idea of unnecessary government intervention. But I also know that countries such as Germany, France, China, Brazil, India, and Korea provide up to 7 times the support that Export-Import does. And to me, that is not a level playing field. What we have to do, I believe, is find a way to level the playing field. And with our Export-Import Bank, I believe we are definitely giving advantage to our foreign competitors. I think of former CBO Director Douglas Holtz-Eakin, who is, if I can use the partisan term, a Republican economist. And he said, "The reality is you would like to live in a world and I would love to live in a world that does not have a need for an Export-Import Bank, one where international transactions were done on a level playing field. That is just not the reality. Many other countries, notably China, have an export credit agency. They are all out there trying to gain market shares. The West simply has to not disarm."

Jim Nussle, who was a former Republican Congressman—I served with him on this committee—and ended up being the Director of OMB said, "Export-Import is self-funding and has generated income for the Treasury since 1992."

I bring these arguments out not just to make the appeal to authority, which they taught us in law school is one of the easiest things you can do; find somebody who agrees with you who supposedly is on the other side and if it sounds good. I just feel what Mr. Campbell said is important. I don't see how we can just end our involvement with Export-Import now. I don't know if we should end it, but obviously, reforms are necessary. We have seen the stories of corruption that are there, and obviously, that has to be changed. But on the other hand, I think the blow to our economy by suddenly ending Export-Import, putting small businesses and also larger businesses at risk is, especially at this time, when we still have not fully recovered from the crash of 2008, at a time when there is the increased burdens of Obamacare, of EPA, of regulations, of burdens, that it is just not appropriate, and it is not the responsible thing to do to end the authorization of Export-Import.

At the same time, I believe reforms are necessary. If a way can be found before the expiration date to bring that about, I would strongly support that, work with that. I think the chairman has raised some important issues, but I think we go too far if we just say that we are going to end it.

And as we saw today, there is always some government involvement in the company. Bankruptcy is the government involvement. I support that fully, but that is the government getting involved in the economy to help businesses get back together. So we use that. Protections given to labor unions that are in our economy. We have veterans. We have senior citizens. Everyone has some government involvement. My goal is to keep that to a minimum, but I think we would be going too far if we do not reauthorize Export-Import, but we should do it, I believe, with reforms.

I certainly look forward to looking at the work and paper of the gentleman from California, Mr. Campbell, and I thank him for his efforts.

And, Mr. Anderson, if nothing else, you have certainly forced Congress to pay more attention to you now maybe than was done 2 years ago.

With that, I yield back the balance of my time.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

I want to thank the witnesses for their willingness to come before the committee and help us with our work. I have been involved on the Oversight Committee and this committee in dealing with some of our trade agreements and just trying to rebalance our Export-Import imbalance with a number of countries. I spent a little time in China recently, as well as South Korea, India, France, and Germany. I travelled to South Korea for a few days in connection with the South Korean trade agreement, and I couldn't help but notice that—this is just anecdotal, but I was there for several days. And the only U.S. cars—now South Korea is a booming economy, very modern, big highways, and the only U.S. cars I saw there on the days that I was there was the one I was riding in and the one that had my security detail from the Embassy, so no U.S. cars. In Japan, same thing. You need a detective to find an American car in Japan.

So those companies obviously have closed markets in order to boost their domestic car production. I walk outside this door here, and I can't spit without hitting a Japanese or a Korean car, so they are doing massive investments and highly protective structures to protect their domestic markets so that they can export goods. And as Mr. King pointed out just recently, they are pumping in about 7 times what we are doing in terms of credit assistance through their versions of their ex-im banks.

In addition, in my State of Massachusetts, the French government just came in and took over one of our rail systems, a commuter rail system. They backed one of their companies, Alstom. France's idea is they want to become the world's rail company. They want to manufacture the rails. They want to go out into other countries and dominate those markets, kind of like what Boeing is trying to do in the aircraft industry on behalf of American machinists and American workers.

Spain is gobbling up a lot of the construction firms. It has become a globalized strategy, and they are there to push their workers, and I understand the theoretical arguments I am hearing today about it would be nice—we want a level playing field. The playing field is going to become much less level if we exit the battlefield, which is what you are suggesting that we do right now.

I wish that our exit from the Ex-Im Bank—let's make no mistake. We are not talking about reforming the Export-Import Bank here. It is going away. So it is going to increase the imbalance here, but it will tip it drastically in favor of foreign competition. We are opening up our markets. We are walking off the battlefield. We will no longer try to protect our workers in this iteration the way we have been doing, and it hasn't been smooth. It hasn't been fair to smaller businesses. I will agree with that. We are protecting a whole boatload of workers right here. The reality I am dealing with is if you succeed, if the Ex-Im Bank goes away—and it looks like that will happen, because no other nation is going to disarm—we are going to be at a huge disadvantage. And foreign manufacturers will be handed a huge advantage, and I think it will be a very, very good day for Airbus. I think you will see their stock go right up. It will be a great day for them.

But at the end of the day, when the Ex-Im Bank goes away, government will still be picking winners and losers. It just won't be the U.S. Government. And the governments that are picking the winners and losers will be the foreign governments, and those winners, you have to be kidding me if you don't believe those foreign governments are going to pick their own companies, their own workers—you see what China's doing, you see what South Korea and India, all these other countries. It is a nice theoretical argument you have here, but when this goes away, it will be a bad day for America, a bad day for the American worker.

Chairman HENSARLING. The time of the gentleman has expired.

Dr. de Rugy, I think I have been informed that you have asked to be excused from the panel at this time because you have a prior commitment. Is this correct?

Ms. DE RUGY. Yes, I have a plane to catch.

Chairman HENSARLING. In that case, Members—I won't ask which plane, and I won't even ask which airline—will have 5 legislative days to submit questions to Dr. de Rugy. We would ask that you respond as quickly as possible.

Ms. DE RUGY. Can I add just one thing?

Chairman HENSARLING. Not substantively. Process-wise, yes. Substantively, no. In which case, we will excuse you at this time.

The Chair now recognizes the gentlelady from Minnesota, Mrs. Bachmann, for 5 minutes.

Mrs. BACHMANN. Thank you, Mr. Chairman.

And if Ms. de Rugy would like to make her comment right now, I would be more than happy to let her make her comment. If you would like to make your comment, Ms. de Rugy, that you wanted to make, make your comment right now during the course of my time.

Ms. DE RUGY. Thank you. Based on the discussion, I think it is important to remember that the Bank itself only justifies 30 percent of its activity based on the need to countervail foreign subsidies, so the idea that everything that the Bank does is to compete with foreign government is not accurate, based on the Bank's data itself.

And finally, I will say that we are talking a lot about jobs. We are talking a lot about businesses, but we are forgetting consumers. Protectionism, which is what the Ex-IM Bank is doing, hurts consumers in the form of higher prices, and economists care about producers and consumers, too. We have many years of economic studies which show that basically protectionism tends to the benefit—even for the beneficiary of the protectionism does not outweigh the cost to all the unseen victims.

Mrs. BACHMANN. Thank you so much.

That goes to my point. A lot of what I have heard here today is that we need to continue to provide subsidies and stay on the subsidy train because the rest of the world is on the subsidy train. And to continue that logic means that nations of the world have to continue one-upmanship on subsidy, so it is subsidy versus subsidy, and it is a complete rejection of the free market.

I don't think that is the direction we want to go. The free market has built up the most magnificent economies of this world. I remain a defender of the free economy. One of our former Presidents said that nothing is more representative of eternal life than a government program. And I think we heard the defenders here today of this program, despite the mismanagement, despite the fraud, despite the failures, we have an executive summary in front of me that says, as a matter of fact, that Export-Import Bank operated at a loss every year from 1982 to 1995. And when reform was passed, the FCRA, that meant the losses were backfilled by the taxpayer, and Ex-Im Bank received $9.92 billion in direct appropriations from the government between 1992 and 1996.

When we talk about free economies, the United States used to be considered under the category of a free economy. We are not the freest economy in the world. We are not the fifth freest economy in the world. We are not even the 10th freest economy in the world. We have actually fallen out of the status called free economy. We have now dropped out of the top 10. We are considered a mostly free economy. And while the fault isn't at the foot of the Ex-Im Bank, it is death by a thousand cuts. This is just one example.

I think that Congress needs to look at itself in the mirror and to see what we have done to contribute to a less free economy. I think there are four areas. One is we have the highest—look at the tax code in the United States. We have the highest corporate tax rate in the world, bar none, 35 percent. Then you add on to that the Obama new tax rate, the 3.8 percent, various state—corporate tax rates, and you see how uncompetitive the United States is. We need massive tax reform.

Then you look at the next factor, regulatory burden. The Dodd-Frank Act was brought up today. Obamacare was brought up today. The new EPA rules are new regulations. We have heaped upon American businesses the uncompetitive factor of a tax rate you might say through increased regulatory burden. That is number two.

Number three is the United States Government, which has exceeded growth beyond the taxpayers' ability to pay for government services. We are growing the cost of government.

And number four, the lack of sound money. We have seen through what the Federal Reserve has been doing, the increased inefficiency with sound money.

Those four reasons alone aren't your fault. Those are the fault of the United States Congress and this Government. We are the ones who need to look in the mirror at how we have made this a less free economy.

Regarding the Ex-Im Bank and the 4 firings that just occurred, that also doesn't include the 74 cases since April of 2009, when Bank officials were forced to act on the basis of integrity investigations by the Office of Inspector General. There are dozens of other fraud cases involving the Ex-Im beneficiaries that have now been referred to the Department of Justice for prosecution. I see that my time is gone, but I ask unanimous consent to enter into the record several recent stories about the fraud that is going on at this Bank.

Chairman HENSARLING. Without objection, it is so ordered.

Mrs. BACHMANN. I want to stand on record that I oppose the continuation of this Bank because reform hasn't worked. We have been ignored.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you very much.

Mr. Chairman, this has, indeed, been a very, very interesting hearing, a very important one. Let me say at the outset that Atlanta is the world's busiest airport. And I always like to tell people that whenever you land at the airport in Atlanta, you land in Congressman Scott's district. So I say welcome to that. Certainly welcome to you, Mr. Anderson. I have listened to this discussion with a very jaundiced ear, and I don't see where the success and the movement forward of the Ex-Im Bank is not mutually—is mutually exclusive to addressing the concerns of our airlines. I would like to see the committee, Mr. Chairman, give some very thoughtful—we have a very talented, we have a very skillful committee, and it seems to me that we ought to be able to address these concerns narrowly focused on what Mr. Anderson and what Captain Moak are saying without interfering with the forward progress and the very basic need the Ex-Im Bank has provided for small businesses that Mr. Wilburn has done. There may be some on this committee who want to do away with the Ex-Im Bank altogether. I am not one of those because it has been very beneficial. But I think we would be very derelict in our duty as a legislative body to ignore the very pointed concerns that have been raised by Mr. Anderson and Mr. Moak. I think we can have some folks from both sides go to work to try to put some language into this Ex-Im extension that will address those concerns.

So, with that, Captain Moak and Mr. Anderson, let's narrow in specifically. I think what concerns you most is the competition with the wide-body or the Boeing 777. What can we do to put in some language that could address that? It could be a trigger mechanism. It could be an assessment, as Mrs. McCarthy said, mandating things that are rather difficult. What could we do to address those concerns and move this thing forward?

Captain MOAK. Thank you, Congressman Scott.

First, I just want to thank you. I don't know if you remember, but you stood by my side in front of 1,000 Delta pilots in "Keep Delta My Delta," and your speech is still viewed in that light when you stood up and said this is truly a David and Goliath, and when David was walking back and said, Is there a cause? There is a cause. He turned around and went back. The cause here is Ex-Im Bank reform. And I commit all our resources, everything, to work on that narrow part of the reform that we need so that we meet a fellow veteran's needs, small business needs, but we meet our needs so that we stop losing jobs. I would be happy to help. Our team will help. Anything we can do. Thank you again for that day. You know where we have come from there.

Mr. SCOTT. Absolutely. And I certainly understand.

Mr. Anderson, what would be the narrowest scope of language that we could add that would address your problem as we move the Ex-Im Bank forward?

Mr. ANDERSON. The Bank would not finance below market wide-body airplanes for state-owned, state-subsidized airlines that are otherwise creditworthy. There won't be a need, and that would solve the competitive issue, because what we are dealing with is a much broader competitive issue. And I think both sides of the aisle have addressed this. We don't compete in my business against other companies. In our business, we compete against government. So my big competitors, our big competitors internationally are governments that happen to have a department that is an airline. They get huge, huge subsidies, and it really hurts us when our government gives them a subsidy on top of the huge subsidy they already collect.

Mr. SCOTT. My time is running out.

Mr. Chairman, I think it might be wise that we could make a point of order that as we move forward with this, that we could develop some language—I would be delighted to work with your side on that—that I think could accomplish that as we move this forward.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Mexico, Mr. Pearce.

Mr. PEARCE. Thank you. I appreciate each one of you making the appearance here today.

Mr. Wilburn, you had mentioned barriers to entry in subsidies to oil and gas as being one of the problems that you have as a business unit. Could you tell me a little bit more about those obstacles?

Mr. WILBURN. I'm sorry, Congressman. Could you repeat your question? I didn't quite catch it.

Mr. PEARCE. I was asking if you could go a little bit deeper into the obstacles that you face as a small business. You had mentioned the barriers to entry and the subsidies to oil and gas, and I think you specified the depletion allowance. How is it those keep you out of the domestic market or make it less available to you?

Mr. WILBURN. They make it less available to me because I am basically competing with the price of natural gas. Trust me, I am an advocate of strong natural gas resources here. But I go to landfills and I go to pollution sources, and I take that organic material, and I make methane. That methane has a cost, but it also has some benefits to it. It doesn't go to a landfill. Oil and gas has a subsidy if you want to call it that, that allows an advantage over my product. I don't have access to that, so I have to go to markets where I have a chance to compete, and those markets are where there is not natural gas reserves, and they don't receive those subsidies. That is the barrier entry of which I was speaking.

Mr. PEARCE. The oil and gas company has to pay for that. They don't just get the oil and gas for free. They have to pay for it, and so, basically, all that is is a depreciation of what they have paid.

Mr. WILBURN. —the same benefit.

Mr. PEARCE. When you go to a landfill, do you have to pay to get the right to harvest that gas?

Mr. WILBURN. Absolutely.

Mr. PEARCE. And so you don't get a writeoff for creating that gas? You don't get a writeoff?

Mr. WILBURN. No.

Mr. PEARCE. That is probably something that we should consider. But in contrast, it is not the major producers that would provide a barrier to entry that don't get the depletion allowance. It is just the independents, the small producers. That is about 12 percent of the market.

Mr. Chairman, we have talked today about the catastrophic effects that we are going to have on the job market if we don't take action one way or another, and there have been all sorts of suggestions here. But I don't think what we do here is going to affect jobs nearly as much as other things. And the gentlelady from Minnesota had gotten this covered pretty well. The corporate tax rate the President has set is probably one of the biggest impediments to business in America, and I sent him a letter personally saying I will work with you on that, sir, across party lines, across any other lines, because I agree that one of the greatest impediments to manufacturing in this country is the corporate tax, but I have yet to hear from the President, and that has been 4 years ago. But the regulations are where we really are killing the job market. For instance, the timber industry: 85 percent of timber jobs are now gone from America; 123 mills in New Mexico closed because of a government regulation, one government regulation that said the spotted owl is going extinct because of logging, and the government came back this last year and said, oops, logging wasn't the problem, so not only do we have a government that intervenes, but we have a stupid government that intervenes; 23,000 agriculture jobs in the San Joaquin Valley went begging because of a 2-inch Delta smelt, another regulation. Now we are importing 80 percent of our vegetables from areas that spray things that we could not spray before, and that has hurt the job market in America more than what we do on the Ex-Im Bank.

We, in 2007, passed a bill through this Congress that outlawed incandescent light bulbs. That killed the incandescent light bulb industry. That last manufacturing facility closed down, and China is able to produce the small curly bulbs that require more labor because of actions like this; and that was not an Ex-Im problem. We have continually put the consumers at risk by driving the price of electricity up, and the President has said, yes, electricity is going to be necessarily higher because of our regulations. And we are a 70 percent retail economy, and yet I hear no one on this committee who is defending the job creation of the Ex-Im Bank addressing that. We are killing the consumer market by higher electricity. It is the government that is at fault. The government is not the solution.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, Mr. Green, ranking member of our Oversight and Investigations Subcommittee.

Mr. GREEN. Thank you, Mr. Chairman.

I thank the witnesses for appearing, and I especially thank our two veterans who are part of this panel.

And, Mr. Wilburn, I thank you because you indicated that you may be impacted by PTSD, and that says to me that you have had some experiences that are less than pleasant, and my prayers are with you.

I am reminded of Chairman Barney Frank, who, on the topic of reality versus desires, would often say he wished that he could eat more and lose weight. I wish that I had options other than end it or extend it. I would dearly like to have options other than end it or extend it. But these are the options that we seem to be confronting, and I am a person who believes in compromise, and I am willing to work across lines to do something other than end or extend.

But given that these are the options, let me just share some of the comments associated with the options that are before us. A Houston Chronicle editorial published on June 25, 2014, that would be today: “No time for games. Export-Import Bank loans support American jobs, including Houston area jobs.” Apparently, Mr. Hochberg was interviewed by the Chronicle and gave his commentary. The Chronicle goes on to indicate large or small Export-Import Bank loans support American jobs, including jobs in the Houston area. Bank officials told the Chronicle that its financing has supported $11 billion in export sales from the area since 2009 with $3.5 billion of that attributable to small businesses. The Bank also cost taxpayers nothing. It supports itself through the fees and interest it charges and regularly sends money to the U.S. Treasury to reduce the debt. This is from the Houston Chronicle.

I concur with the ranking member with reference to there being persons of note who were not here to testify today. And if they were here to testify, I believe they would say, some of them, what the

Greater Houston Partnership says. The Greater Houston Partnership indicates, and this is an excerpt: “Small and medium-sized businesses in our region also benefit directly from Export-Import. Small businesses account for nearly 85 percent of Ex-Im Bank’s transactions. Further, these transaction figures do not include the tens of thousands of small and medium-sized businesses that support goods and services to large exporters using the Bank. We trust—this is addressed to me—you will carefully consider the impact Ex-Im Bank has on our region and our position as a global economic leader.”

Now this letter, while sent from the Greater Houston Partnership, appears to be supported by the Bay Area Houston Economic Partnership, the Baytown Chamber of Commerce, the Brenham Washington County Chamber of Commerce, the Clear Lake Chamber of Commerce, the Greater Beaumont Chamber of Commerce, the Greater Houston Partnership, the Greater Tomball Area Chamber of Commerce, the Houston East End Chamber of Commerce, the Houston Northwest Chamber of Commerce, the Lake Houston Area Chamber of Commerce, the League City Chamber of Commerce, the Pearland Chamber of Commerce, the West Chambers County Chamber of Commerce, and the Wharton Chamber of Commerce.

Finally, there are some small businesses in the Houston area which, if they were given the opportunity to testify, would indicate that they are supportive of the Ex-Im Bank as well. This would include the South Coast Products business. It would also include the Hallmark Sales Corporation in Houston—this is not the card company—and the Everest Valve Company in Houston and others.

Thank you, Mr. Chairman. I will yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

And I thank the witnesses for being here today. I certainly appreciate your testimony.

Mr. Anderson and Captain Moak, thank you for your comments and concerns. I appreciate the fact that you have brought some issues to light with regards to the aircraft manufacturing sales portion or financing portion of the Bank. I think those need to be addressed, but I congratulate Mr. Wilburn also on being here and thank you for your testimony from the standpoint that we have several different things to look at and discuss here today, and that is the small business portion of this as well.

In 2013, aircraft manufacturing made up only 40 percent of Ex-Im’s financing; 40 percent went to other manufacturing; and 20 percent went to oil and gas, base telecommunication services, and mining. So it does have a lot of other financing interests that it takes care of and works with. I think the statement has been made many times this afternoon and this morning that about 3,400 of the 3,800 loans it made were to small businesses, and so I think that at the end of the day, it is something that we need to consider, how we can find a way to reform it, make it work for everybody.

I get this crony capitalism comment, and it kind of sticks in my craw a little bit from the standpoint that crony capitalism is truly when you hand out favors for somebody as a favor for them having done something for you. And yet the Federal Government helps with SBA loans. Is that crony capitalism? It helps with VA loans, helps a veteran own a home. Is that crony capitalism? We have in our treaties and in our export and trade tariffs and all sorts of treaty protections with regards to everything from automobile manufacturing, to agricultural products, to intellectual property to be able to protect and incentivize businesses here in this country to be able compete internationally and protect their products so they can compete and provide jobs here.

Dr. de Rugy a while ago made the comment that she would like to see it all go away. Well, that would be great. If we lived in a perfect world, that would be fine. But if that would happen and none of the rest of the world disarmed, as the comment has been made before a couple of times, what would happen? Let's stop and think about that for a second. What would happen if we did away with all our tariffs, all the intellectual property protections, and the rest of the world could really come in and rape and pillage our industries through the this country. We would have no ability to protect them. They could compete, subsidize, and take all of our jobs away. Yes, we would lower the price of products at the supermarket and the hardware stores and whatever, but our jobs would certainly be gone, wouldn't they? And we would suffer. Quality of life would go down, and some things would be a national security problem for us because we would lose the ability to be able to build things, provide services for things that are of national importance to ourselves. In my district alone, we had the last lead smelter in this country, and it went out of business because of the EPA in the beginning of January. You know what we do with the lead that is mined in my district? We send it to China. You know what we do when we want to build a bullet? We have to go to China and buy our lead back. That is what would happen if you continue down this path of forgetting about how to protect the ability of our industries to compete.

Is it a perfect world? No, it is not. It is not what I would like to have either. But at the end of the day, I think that we have to find a way to come together to realize that there has to be a way to find a middle ground on this, to reform this thing. I am a banker. I can tell you there are a half dozen things I would love to see changed about this thing. I am working with Congressman Campbell on trying to do that because I believe that this can be done. I believe that there is enough good about this thing, this entity that we can use it for the good of our people, our country and our industries. Does it need to be reformed, absolutely. There are a few things in there that drive me up a wall.

And I am glad, Mr. Anderson and Mr. Moak, that you brought those to light today.

Mr. Wilburn, you also make a great point from the standpoint of the importance of how this Bank can help small businesses compete, can grow, can market a product that may not be able to even be marketed here in this country but can be in other countries around the world. And by enabling our markets, our entrepreneurs in this country to be able to build that product, can market it and bring revenue to our country instead of sending it out.

Mr. Chairman, I yield back the balance of my time. I appreciate the opportunity today.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentlelady from Wisconsin, Ms. Moore.

I'm sorry, if the gentlelady would suspend, I will recognize the gentleman from Texas briefly for unanimous consent.

Mr. GREEN. Thank you, Mr. Chairman. I ask unanimous consent that the letters and documents that I referenced be submitted for the record.

Chairman HENSARLING. Without objection, it is so ordered.

Now, I recognize the gentlelady from Wisconsin.

Ms. MOORE. Thank you so much, Mr. Chairman, for having this hearing. I think it is extremely important to everyone.

I do want to raise a bit of caution to Captain Moak and to Mr. Anderson here. I have heard you say continuously that you want the Bank to be reformed and not dismantled. I have clearly heard that, but I want you to be clear that this hearing is about whether or not we are going to reauthorize this Bank, and the authorization is going to expire in 90 days or so. And there are not many days left in this session.

Our chairman has been very articulate in indicating that he does not believe in this kind of government activity. We had a very passionate witness, Dr. de Rugy. I am sorry that she had to leave before I had a chance to ask her some questions. Very, very passionate, given her economic view that this is bad.

So I want you to be clear that you are sitting on the side of people who do not want this to be extended.

I also want to associate myself with many of the excellent questions and comments that have been made by my colleagues on both sides of the aisle and just really want to remind people that we are not talking about just Boeing or the airline industry here. I represent an area that is home to six Fortune 1,000 companies, manufacturers like Johnson Control, Rockwell, and Harley-Davidson. We are second in the country in manufacturing, and we are dominated by small to medium-sized metal fabricators that export all over the world and really need the Ex-Im Bank, so we are not just talking about one group of employees, and I am very, very sympathetic and empathetic to them, but there are hundreds of thousands of other employees who rely on these activities.

And, indeed, Delta got a $45.5 million subsidy from the Export-Import Bank for their engine maintenance services, 400 jobs that rely on the Export-Import Bank in order to do maintenance, I believe for Brazil. I see you shaking your head over there. Maybe I will give you a chance to answer.

I have a chart up here because there are a couple of things that I really want to point out. We have heard a lot of testimony about how the Export-Import Bank creates competition, and that green line below shows the last nine brand new airplanes that were built by Boeing. That is the interest rate and the price that they paid as compared to the commercial Bank financing rate in the red, and the blue line there is the OECD agreement, the gentleman's agreement that we have heard so much about, with regard to what export credit agencies can provide. So Delta is buying planes at that green level. We are not squeezing out the private sector.

One other thing that I continue to hear over and over again was about the Cliff Mine in Michigan and how the Export-Import Bank was creating an uncompetitive situation. And I am disturbed because Caterpillar is headquartered in the Midwest, and they have a huge operation in Mr. Ryan's district right across the street from my district. Many of my constituents work at Caterpillar. And the iron ore that was coming out of the mine in Australia and the one coming out in Michigan were two different iron ores, two different applications. Apples and oranges are both fruit, but they are not the same. That was not the truth.

I don't have much time, so I will yield the rest of my time to Mr. Heck.

Mr. HECK. I would just like to make the point that the threat to the American manufacturing base is existential. It is very real. As we sit here, the Chinese, at considerable state investment, are developing an airplane to complete with both Airbus and Boeing—the C919, I believe. They have an export credit authority that is larger than ours, that is a larger percentage of their GDP than ours, and be assured that when they successfully complete development of their airplane, they will compete with us on the open market. More to say later.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Tennessee, Mr. Fincher.

Mr. FINCHER. Thank you, Mr. Chairman.

I am going to give Mr. Anderson briefly a chance to respond. I also have the question that you guys did receive financing from a Canadian import-export.

Mr. ANDERSON. I am glad you asked the question about GOL Airways. First of all, Delta is a huge manufacturing company. We have 7,000 manufacturing jobs, and we are one of the largest engine overhaul companies in the United States. We run the largest shop in the United States. And GOL is a terrible example for the Ex-Im Bank, and I think it was something they contrived to try to say it created jobs at Delta, as we are an opponent of the Bank. In 2010, we won a worldwide competition to overhaul engines at GOL Airways in Brazil. It had nothing to do—the Ex-Im Bank wasn't involved, and we won it against Lufthansa and against GE to overhaul their engines in Atlanta. Two years later, the Bank went down to Brazil and gave them a loan for .622 percent—and I know about this because we own part of that airline—and then issued a press release saying it created 40 jobs at Delta. That is just false.

Mr. FINCHER. Okay. Mr. Anderson, let me start by saying, as someone who lives 60 miles north of Memphis, I love Delta Air Lines. And the pilots and the airline, the flight attendants, you do a great job, so please don't hold anything I say against me today as we fly in the future. I was born at night but not last night.

I didn't support reauthorization last time of Ex-Im Bank because I felt that reforms that needed to be made were not made. But today, listening to the testimony from all three of you—and the doctor is gone—reforming Ex-Im Bank with reforms, I think you all would support reauthorization. Correct?

Mr. ANDERSON. With reforms.

Mr. FINCHER. With reforms. As we have been talking, and I have a whole package of reforms here that we have been working on for the last 6 weeks, 2 months. A thousand jobs in the Eighth Congressional District of Tennessee, my district, are supported by the investment of Ex-Im Bank. This is not about—I have heard some people today talk about 10 big companies or whatever. This is not about leadership and our party. I think, as Republicans, we are all trying to get to the same place of having a government that is more accountable and more transparent and more responsible with taxpayer dollars. This is about, for me, the jobs in my district.

And it is going to be hard for me to go back home, Mr. Anderson and Captain Moak and Mr. Wilburn, and have my constituents ask, "Congressman, have you balanced the budget?" And I am going to say, "Well, we are working on it." And they are going to ask, "Congressman, did you get rid of Fannie Mae and Freddie Mac?" And I am going to say, "Well, we are working on it with the PATH Act." "Well, Congressman, the only thing that you have done is you have gotten rid of an investment that was creating a thousand jobs in our district, and now I am on unemployment. I don't have a job."

I have a paper right here: "U.S. economy shrank at steep at 2.9 percent rate in quarter one." The Commerce Department says the first quarter contraction was even more severe than the 1 percent annual decline it estimated a month ago. Another major factor was a bigger trade deficit than initially estimated.

Again, if we don't reform Ex-Im Bank, then we will have some real problems. And as a lot has been said today about the way that Ex-Im Bank is being operated, Mr. Hochberg, if they won't respond to the changes that we are trying to make, maybe Ex-Im Bank needs to be—maybe we will need to clean house there. But please, let's not overreact. Let's try to fix this investment. Let's make it better. Let's get back to the original mission of Ex-Im Bank, and don't hurt jobs in our districts.

I am going to have a hard time, I am just going to tell you, going back home to my district and telling my people, my folks, that the only thing I have done is kill jobs for my district. Let's try to work this out. I think we can.

Again, I have a whole list of reforms here I will be glad to talk to anybody about. I appreciate Mr. Campbell and the work he has done.

And I appreciate all of you gentleman, and we are going to reform this hopefully and make it better.

And with that, I yield back, Mr. Chairman.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Maryland, Mr. Delaney.

Mr. DELANEY. Thank you, Mr. Chairman.

I want to thank all the witnesses for joining us here today.

Mr. Wilburn and Captain Moak, thank you.

And, Mr. Anderson, I want to thank you, in particular, for joining us and for bringing so many of your colleagues. Delta is an important and iconic company. I think you all should be congratulated for the great work you have done positioning this airline as such a successful business. And the fact that all your colleagues joined you here today is a reflection of the good culture of the airline and your good leadership. So I just want to make it clear that I think what you are doing is terrific.

Mr. ANDERSON. Thank you.

Mr. DELANEY. My question is actually more of a factual question. And perhaps, unlike some of my colleagues, I don't actually know the answer to my question before I ask it.

But I was struck by this page when you put it up, and I was very concerned by it because, as I think many of my colleagues know, I care deeply about free markets and believe that market pricing should dictate all of, kind of, government financing. And when I saw this, I was very concerned about that, because it said that the government is making a loan at 3.4 percent and the same loan in the market would be made at 6.1 percent, and that is obviously a very big subsidy.

But, as someone who is used to reading footnotes, I did read the footnote, and it said that the private-market example is something called Doric Nimrod Air Finance Alpha. I looked that up. And that is a special-purpose entity based in Ireland that owns 58 airplanes and leases those 58 airplanes to about a dozen carriers, including the Emirates. And it leases those airplanes on an operating lease basis, not a capital lease basis, which means the risk of ownerships and the benefit of ownerships are not fully transferred to the lessee.

And so, when I saw this, recalling my days in the credit business, I said, well, this strikes me as a worse credit, because I would much rather lend directly to Emirates and have their full faith and credit saying that they are going to pay back every penny of the loan on a fixed amortization, which is what Ex-Im finances, versus the loan to a special-purpose entity that has, structurally and contractually, certain limited recourse.

Now, I may be wrong about this, because, again, I am just reading the footnotes and I just did some searching on my little Google device here. But my question is, first, is that accurate?

And, second, do you think, as the CEO of Delta, if you were to borrow directly from a Bank and put the—and I recognize you didn't have to borrow to buy your planes, which is great. But if you were to put the full faith and credit of Delta Air Lines on the line, as well as a lien on the aircraft you purchased, wouldn't you expect to borrow at a lower rate than if you were to set up an unrelated company that purchases the airlines and signs a lease to you with certain limited recourse and then you were to get a loan for that special-purpose entity?

So I am really just trying to figure out what the apples-to-apples pricing comparison is.

Mr. ANDERSON. What we were to do here is make it apples-to-apples. Okay? And if you go down through the footnotes, obviously, the coupon—these were both public market financings.

Mr. DELANEY. Right.

Mr. ANDERSON. The one on the left had an Ex-Im Bank guarantee attached. Right? And you can see the collateral. The coupon is beyond question—

Mr. DELANEY. Yes, that is obvious.

Mr. ANDERSON. The coupon was obvious. The loan-to-value ratio—with the Ex-Im, you get a higher loan-to-value ratio because you don't need as much equity. And what you have approximated here is that this is the Emirates credit, and—

Mr. DELANEY. But isn't it true that it is actually not the Emirates credit?

Mr. ANDERSON. No. But it is the Emirates credit, based on what Moody's said. I can give you—

Mr. DELANEY. I read the Moody's credit report on my device here, and it talked about how the lessor had risk of the value of the asset at the end of the term and that it wasn't fully recoursed to the Emirates.

Mr. ANDERSON. Pardon?

Mr. DELANEY. That it wasn't really recoursed to Emirates?

Mr. ANDERSON. No, this is an apples-to-apples, because they were both issued at the same time and both of them were public financings.

Mr. DELANEY. Right, but—

Mr. ANDERSON. And one of them decided they were going to lease, so I think the market-based financing was a lease-based financing on the A380s.

Mr. DELANEY. Right. But at the end of the lease term, the lessor takes back that airplane if the lessee doesn't—like, if you leased a plane, at the end of 10 years, if you didn't want the plane, you would give it back. And if—

Mr. ANDERSON. Correct.

Mr. DELANEY. —someone had a loan on that plane, that loan won't be your obligation.

Mr. ANDERSON. But airlines lease—we tend to want to own, right, because you get the residual value. But part of what the market is reflecting here is that they are going to return—they want the option to be able to return the airplane in 5.7 years, because that is the average life of the lease.

Mr. DELANEY. So, just a quick question. Do you think you should pay less for the direct Delta credit in the market secured by assets than you do for a lease?

Mr. ANDERSON. Well, yes. You will—I think you are better off—well, it depends on the airplane. And that is probably what they are doing here. They probably want to own the 777s, but they probably only want to lease A380s.

Chairman HENSARLING. Time—

Mr. ANDERSON. And this is what a lease looks like for Emirates at their credit.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from South Carolina, Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman.

When we started today, I believe it was somebody on the other side—in fact, I know it was somebody on the other side, I believe it was Mr. Heck; I wish he was still here—who challenged us not to believe false statements regardless of the number of times they are repeated. And I think that is always good advice.

I would think it is similarly good advice to not believe statements that you can't prove. And one of the things that I think he said—and I don't want to put words in his mouth, but I couldn't find the transcript—was that the Export-Import Bank had created 255,000 jobs last year. If I have that number wrong, I apologize. If I got the exact verbiage wrong, I apologize. But that was the general extent of things. Nobody can prove that number.

And I want to explore that a little bit. I want to explore the weaknesses in these job numbers. Mr. Fincher talked about 1,000 jobs in his district. Nobody can prove that number.

Mr. Anderson, you have mentioned in your testimony that the Export-Import financing in the aviation sector has cost you all 7,500 jobs. Ex-Im says that its Boeing-related activities created 51,000 jobs. Who am I supposed to believe between those two?

Mr. ANDERSON. Me.

Mr. MULVANEY. Why?

Mr. ANDERSON. In the instance of Delta, in the example that we used with Air India, that actually happened. We went through a reduction in force. Fortunately, we were able to get enough employees to take voluntary early retirement. But when we pulled all that flying out of India—we had a very successful business flying to Mumbai. And we bought, by the way, two 777s and financed them ourselves to be able to do that service. And so, I know those jobs are there.

I think you make a correct intellectual point on both sides of the debate, honestly, in that it is very difficult to put a precise number, for you or for any of us here.

And so I guess what I rely back on is, I see what goes on in the marketplace. We have one going on right now in JFK to Milan, Italy, with Emirates Airlines, which has financed airplanes from the Ex-Im Bank. And they have dumped 65—they have increased the capacity in Milan to JFK 65 percent. That is going to have an impact on jobs in the United States over time. And they are deeply subsidized, which probably really gets to the deeper point of trade subsidies.

But, look, you make the right intellectual point. These are estimates; they are estimates by everyone. And they are a best judgment. I will tell you, the Air India numbers are right, because I was involved in pulling it down and having to do the reductions in force.

Mr. MULVANEY. And if you do scratch a little bit deeper at the Export-Import Bank numbers, what you will see is they are using formulas that use information from 2002.

If Ms. de Rugy was here, I would talk to her about the foreign components. Boeing advertises that 30 percent of the 787 is made overseas. And it is unclear how many of those 255,000 jobs, Mr. Heck, are actually jobs overseas. In fact, when the GAO asked the Export-Import Bank about that in its May report, it said that Ex-Im officials told us they had not assessed the extent to which this limitation affects the overall jobs estimate.

"Supported" versus "created" is another little twist of the language. "Supported" and "created" are not the same thing. Just because a job is supported, doesn't mean it is going away if the Export-Import Bank financing goes away at the same time.

I think it is important to recognize one thing as we deal with these things and we start using these numbers when we talk about jobs: The only reason the Export-Import Bank counts jobs is because of us. That is it. That is the only reason they count jobs, is so they can come in here and try and justify their existence.

I am not making this up myself. I am looking at the GAO report, and it says, "Export-Import officials told us they use the results of its jobs calculations for reporting purposes only. According to the Ex-Im officials, Ex-Im calculates the number of jobs supported for the transactions reviewed by the board of directors at the request of one of its board members. Ex-Im board members stated that the purpose of reporting these numbers is to give Congress a sense of the employment effects of Ex-Im activities. They do not use them for decision-making."

The only reason they are giving you the 255,000 number is because they want—excuse me—255,000 jobs is because they want to continue to exist. And at some point we have to decide which numbers are real and which numbers are fake.

And I would suggest to friends of mine on both sides of the aisle that, as between a government agency and bureaucracy that is trying to make an argument for getting more money and continuing to exist and a private sector company that is simply saying, please leave us alone so that we can compete, it is the latter that is the more reliable number. And the 255,000 is not a real number. But the 7,500 jobs that Delta lost are real, and that is what we should be focusing on.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Washington, Mr. Heck.

Mr. HECK. Thank you, Mr. Chairman.

And to clarify the record, it is 205,000 jobs for 2013. I believe it was 255,000 in 2012, as reported by the industry, actually, to the Export-Import Bank.

Mr. Anderson, I want to ask you a question to which I suspect I know the answer. Would you favor continuation of the Small Business Administration?

Mr. ANDERSON. I don't know anything about the Small Business Administration. I am a large business. I could certainly go learn about it, but I—

Mr. HECK. Please don't.

Mr. ANDERSON. —don't know. I just don't know. I have never done any studies. I have never had anything to do with the Small Business—I don't even really know what it does.

Mr. HECK. I asked because I thought I knew the answer, which I did, and I thought you would have said "yes." And I was—

Mr. ANDERSON. I can say "yes" if you want me to.

Mr. HECK. It is nice to know what kind of thought you give to your testimony here today, sir.

Mr. ANDERSON. Well, no, I am just totally—if you think that it is—

Mr. HECK. No, I—

Mr. ANDERSON. —a worthwhile program, I am happy to—

Mr. HECK. Time out. Time out.

Mr. ANDERSON. —support it.

Mr. HECK. I—

Mr. ANDERSON. I didn't come here to testify about the Small Business Administration.

Mr. HECK. Admittedly.

And I wanted to make the analogous point that the SBA, in some ways, functions as the Export-Import credit does. The SBA enjoys an enormous amount of public support and is kind of a given. And I wanted to give color to your earlier remarks that it was a reformed Ex-Im going forward you were seeking, not elimination of it. That was my only motivation.

I do want to make the point that those of you who are aggressively seeking reforms, which may or may not enable the continued existence of Ex-Im in any kind of meaningful way, are playing with fire. You are playing with fire.

I want to go back to how I ended up, in my brief time that the gentlelady from Wisconsin gave—we could wake up in 20 years and still have a duopoly in terms of airplane production in this world, but unfortunately it would be Airbus and the state of China and their C919. I don't think America would be better off for that. I think America would be worse off.

It is the broader point I seek to make, however, which is the importance of aerospace production, which is one of the important beneficiaries of the Export-Import Bank, and the domestic industrial base of this great Nation. We don't want to lose it.

We have lost really key components of our industrial base over the last several decades, and most of us have lived to regret it. But the difference is this is not one we can reconstitute very easily. And, in fact, it is not unrelated to this Nation's security. The hundreds of thousands of people who put together those great airplanes and, frankly, those national security products are a part of keeping this Nation safe.

And, again, I think we are playing with fire if we think that we can do away with the Export-Import Bank and not have that critical part of our industrial base decline. I think we are playing with fire if we think we can be as aggressive about certain kinds of reforms that would have that effect and not acknowledge it.

I was delighted to hear my friend, Mr. Campbell, indicate that he had come up with a bill. I respect him a great deal. This institution is going to miss him. Frankly, I am going to miss him. This committee is going to miss him. And I thought it was an act of considerable integrity that he accepted responsibility for the development of that which he presented today, having been just done on that side.

He knows that I talked to him on the Floor months ago and asked that our side be a party to those conversations. But we are where we are. And Mr. Campbell has taken the constructive step to put a bill on the Floor, which—or a bill on the table, which none of us have had the opportunity to read, so we know not what its impacts will be.

But here would be my point about that, and granting him credit for that work, which I know was hard: The exact number is 97. Ninety-eight days from now, the doors of the Export-Import Bank will shutter, and America will be worse off for it.

And the alternative is that we have a hearing on an actual bill that Mr. Campbell has developed and begin the give-and-take about what the path forward might be. Because, in fact, we only have 97 days.

And I don't want to wake up in 20 or 30 years, should I have the great blessing to still be around, and look back and rue that we were the ones that allowed another enormous degradation of our Nation's domestic industrial base, as we have in so many other sectors. This Nation cannot afford it. Our quality of life cannot afford it, our standard of life cannot afford it, and the health of our economy cannot afford it.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman.

Thanks to the witnesses for your patience and for your persistent testimony here today.

First, for Mr. Wilburn, I appreciate that you are a small business owner and you are an entrepreneur. You mentioned that you were "a free-market guy."

Are there other means that you could identify making your company more competitive in the global marketplace besides reauthorization of the Ex-Im Bank? For example, lowering the highest corporate tax rate in the developed world? Ending the war on domestic energy production to make sure that we have an affordable and reliable supply of industrial energy costs? Repealing Obamacare, for example? Promoting free trade? Lessening the regulatory burden on U.S. companies, which is estimated to cost the American economy $1.8 trillion annually?

Do you see some of these policies, which produce impairments to our competitiveness, as equally or even more important than reauthorization of the Ex-Im Bank to your bottom line?

Mr. WILBURN. Speaking to my bottom line, I think all these things that you mentioned need to be considered in the argument that they are going to have in the next couple of days here really.

And it is important, I think, to give you a number, if I may just diverge from the question for a moment. There were 165 jobs that we created. We audited those. We will be happy to share that with the committee. But—with our project in Brazil.

But, to your point, without the Export-Import Bank existing in a form that would allow me to compete with the ECAs of the world, for my products to get there, I can't imagine my company surviving.

But I also think, as a free-market person, that a lot of the reforms that you are talking about and a lot of the policies you are talking about need to be debated, need to be debated civilly. We don't need to use words like "crony capitalist" and insult some of my people and small business people with that. We need to get into the productive words like you just mentioned, have a discourse.

Mr. BARR. Just to conclude, you would agree, then, that there are many, many ways to make the United States and our businesses here, including yours, much more competitive independent of the Ex-Im Bank issue?

Mr. WILBURN. Absolutely.

Mr. BARR. Okay.

Let me just ask the other witnesses to comment on that, as well, just very, very briefly.

Captain MOAK. The one thing I would focus on is, it is one thing competing in a free marketplace, and it is another when our government subsidizes our competitor.

That is what we are here about. We are not here about all these other things that people are bringing in. We have somebody, our own government, government policy subsidizing someone, putting a piece of equipment on top of us. We are losing jobs. That is what we are about.

Mr. BARR. Thank you, Captain Moak.

And, Mr. Anderson, when you answer the question, I would also put something else out there for you to comment on. In response to my colleague Mr. Capuano's argument earlier in the hearing today—and I will summarize his argument: Since everybody else is doing it, we should, too. And we have heard that in some form or fashion from a number of my colleagues here today.

Is that the right attitude? That because everybody else is doing it, we should do it? And how would you respond to that?

Mr. ANDERSON. In our specific instance, it is not everybody else; it is three countries. It is England, France, and Germany, our three closest allies and trading partners. So, in terms of aircraft finance, this is—and everything else we do with those three countries, this is something that is immediately solvable with respect to financing.

On the broader question, I think the really broader question is, I don't think we are very good at negotiating trade agreements in our country. And while we all support, I think on both sides of the aisle, the free trade, what ends up happening is we all—in our industry, we don't have free-trade agreements. We have unfair-trade agreements.

And I think the biggest thing we could do as a country is make sure our trade agreements are, in reality, free-trade agreements and that U.S. companies are not put at a disadvantage.

Mr. BARR. Mr. Anderson, in my remaining time, I will note that I appreciated your comments about lost pensions at your company. In my congressional district and just outside of my congressional district, my constituents in the coal industry have not only lost their pensions, they have lost their jobs. And what the Export-Import Bank looks to do is to harmonize their policies with the Administration's job-killing policies that have put those people out of work.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga.

Mr. HUIZENGA. Thank you, Mr. Chairman. I appreciate that.

Mr. Anderson, I know you were being quizzed about the Small Business Administration. I won't ask you about the EPA, I won't ask you about NLRB, I won't ask you about a lot of other things that have been going on in the Administration. But it does strike me, after doing a little basic Internet research here, that we might be talking about the "big business administration" here, with Ex-Im.

General Electric has $656.6 billion in assets on their balance sheet, which includes a financing arm, GE Capital, with $517 billion in total assets. That makes them the eighth-largest Bank holding company in the United States. The Boeing Company, with $92.7 billion in assets on their balance sheet, with their finance arm with $3.9 billion in total assets. Caterpillar—I am familiar with heavy equipment. I own a small sand and gravel operation, and have owned Caterpillar products in the past. Their assets are $89.9 billion on their balance sheet.

I guess maybe my question is, companies—and you are very familiar with how you finance large companies. And as you are going through—and you said earlier you paid cash, or will be paying cash—I am not sure exactly how that works, if it is up front or afterwards—but you are purchasing 100 airplanes. How does financing of these large companies work?

Mr. ANDERSON. Typically, financing in the large companies work through public markets in the United States. So those big firms will go to the public bond markets. The Bank markets have really dried up after Dodd-Frank and the economic reforms. So there is still some Bank financing, but, by and large, it is both public market equity financing, public market secured financings, and public market financings.

I will note that GECAS and the Bank compete all the time. So we own a stake in a company called Aeromexico, and Aeromexico bought some Boeing airplanes. And after it was over with, General Electric was competing against the Ex-Im Bank to finance the fleet. So GE kind of has a foot in both camps. They are the largest aircraft—

Mr. HUIZENGA. Hey, if you can have your cake and eat it, too, that is a pretty good spot to be in.

Mr. ANDERSON. They are the largest aircraft financier in the world, with GECAS, and at the same time they make engines and they are a participant in Ex-Im Bank financing. But then they compete all the time against the Ex-Im Bank financing arm to see if they can get the airline business around the world.

Mr. HUIZENGA. I guess my question is, couldn't these companies find traditional financing?

And, you had put up the Emirates Air situation. I think it is a $100-billion sovereign wealth fund that they have. And the number that we have heard is 98.4 percent of all exports don't use Ex-Im financing; they are done the traditional way. That means about 1.6 percent that do, of which about a third probably could not get that kind of traditional financing.

I know, Mr. Wilburn, you might fall into that. But if I were you, frankly, sir, I would be a little concerned that you have major companies like that literally sopping up any opportunity that you have and other small business owners might have to access some of these programs. And yet you get trotted around as the showpiece of why we need to keep this, when, in fact, it is clearly going to these massive, massive companies.

I don't know if you care to comment.

Mr. WILBURN. With all due respect, nobody trots me around—

Mr. HUIZENGA. Okay.

Mr. WILBURN. —except me.

Mr. HUIZENGA. I'm sorry. I did not mean specifically you, but—

Mr. WILBURN. No, I understand that, sir, and I—

Mr. HUIZENGA. —I have a number of companies that come in.

Mr. WILBURN. I understand.

Mr. HUIZENGA. I can tell you this. They don't come in with the big companies. They come in trying—

Mr. WILBURN. I will give you my—

Mr. HUIZENGA. —to play the small.

Mr. WILBURN. I will give you my balance sheet. I am a private company. To put it in perspective, it is $5 million right now. Okay? So you are right, I am competing with billionaires. Okay?

But there is a lot in common with these billionaires that I am hearing today that encourages me. Because if I can get these types of executives to give this kind of focus to small business and say that they are willing to work and negotiate to keep to the Export-Import Bank alive, I am all for that. I want to sit down with these gentlemen again.

Mr. HUIZENGA. That is great. In my last 10 seconds, I guess I would express to you I am not concerned that is the focus of the Ex-Im.

And, Mr. Anderson, I will gently remind you that, actually, Canada is our largest—as Chair of the Inter-Parliamentary Group with Canada, I have to point that out they are our largest trading partner.

Chairman HENSARLING. Time—

Mr. HUIZENGA. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Ohio, Mr. Stivers.

Mr. STIVERS. Thank you, Mr. Chairman.

Before I begin my remarks, I would ask unanimous consent to submit a letter from PPG, which is a company that has 200 employees in my district. I would like to submit their letter for the record.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. STIVERS. Thank you.

Thank you for being here. I would like to thank all the witnesses for being here. I guess Ms. de Rugy could not stay. I am sorry to hear that.

I actually care what the panel thinks. I am not going to make a 5-minute statement. I am going to ask you some questions because I came to learn from you. And I appreciate the chairman putting this panel together.

So you have all spoken earlier. Could you please raise your hand if you could support Ex-Im Bank reauthorization with meaningful mandatory reforms? With meaningful mandatory reforms, could you support reauthorization?

Mr. ANDERSON. Provided it addresses the issues that I have laid out—

Mr. STIVERS. Sure.

Mr. ANDERSON. —and we stop—

Mr. STIVERS. You have passionately laid those out.

Mr. ANDERSON. Yes.

Mr. STIVERS. Let's assume it addresses your issues with mandatory reforms.

Could we see that again? Could you raise your hand?

Captain MOAK. Could I just say—

Mr. STIVERS. Mr. Wilburn, are you for reauthorization with—

Captain MOAK. Could I say, reforms, accountability, and compliance?

Mr. STIVERS. Sure. Okay. Reforms, accountability, and compliance.

Could you please raise your hand if you are for reauthorization of the Ex-Im Bank with reforms, accountability, and compliance is mandatory, that sticks, and that addresses the issues you—

Mr. ANDERSON. That stop wide-body financing—

Mr. STIVERS. So did everybody raise their hand? Okay.

Chairman HENSARLING. I am not sure your microphone is on, Mr. Wilburn.

Mr. STIVERS. Okay. He wants to know what the mandatory reforms are.

But you could support it—

Mr. WILBURN. The concept? Yes. There needs to be—

Mr. STIVERS. —with reforms?

So I just want to show everybody who happens to be watching that the panel unanimously—I'm sorry Ms. de Rugy could not stay. The irony is that she is from France—

Mr. ANDERSON. She would probably vote "no."

Mr. STIVERS. She might vote "no," but she didn't stay, so the panel is unanimous in supporting reauthorization with meaningful mandatory reforms.

Many of my colleagues, I think, do very well in the theoretical world, but I live in the real world. And 41 countries have export finance agencies. And, I think Mr. Sherman from California talked about unilaterally disarming. I think that is a bad idea. But I think there is a way forward here.

Mr. Anderson, you passionately argued for some meaningful reforms. And you talked about the handshake agreement between Boeing and Airbus of France, and they now agree to exclude some things and not cover certain things.

If the United States completely walked away and did not reauthorize the Ex-Im Bank, do you believe Airbus would hold firm to the handshake agreement? It is kind of like—the handshake agreement is like mutually assured destruction, right? So they each have something, and they agree not to use it. If Boeing didn't have it, do you think Airbus would stick with the handshake agreement?

Mr. ANDERSON. The commercial leader, John Leahy, at Airbus has said yes, that if the United States—and you hear this from both sides. I have heard it from Boeing, and I have heard it from Airbus: "If the other side stops using Ex-Im Bank financing, we will stop using it." And I have that from the chief commercial officer of Airbus, and I have had it from Boeing executives.

Mr. STIVERS. I hope that is right.

And I will tell you that I believe that—and I am sending a letter to the U.S. Trade Representative and trying to get some of my colleagues to support it, to ask that we immediately enter into negotiations with the OEDC and with all the countries around the world, the 41 countries that have export finance agencies to end them simultaneously.

But I think if we end ours with the hope of goodwill that they might do the same thing, that might be a little shortsighted. I am sure that Ms. de Rugy and the academic world thinks that is a great idea, but I am not sure it works in the real world.

Yes?

Captain MOAK. I just have one point of clarification—

Mr. STIVERS. Yes, Captain?

Captain MOAK. —Congressman. Thank you.

This unilateral-disarmament talking point that people use all the time that I hear, the buzz word, the reality is, this government policy here, we are arming our competitors.

Mr. STIVERS. No, I—

Captain MOAK. Right now, our competitors are—

Mr. STIVERS. I recognize the need for reform.

Captain MOAK. We need that to come out.

Mr. STIVERS. I recognize the need for reform. But if we completely walk away from the entire thing—90 percent of these transactions are small business, like our other witness, Mr. Wilburn.

And I have one last question. Did anybody read the Financial Times today?

Mr. ANDERSON. No. I was getting ready to do this.

Mr. STIVERS. Okay. I am sure you were.

So Mr. Luetkemeyer from Missouri mentioned earlier that 40 percent of our finance transactions globally were covered by the OEDC rules. This year, it is down to 34 percent.

The real risk is the rise of transactions that are not covered by the OEDC rules. That is why it is so important for us to engage in negotiations to fix this simultaneously across the world.

Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Wisconsin, Mr. Duffy.

Mr. DUFFY. Thank you, Mr. Chairman.

Listen, on our side of the aisle, we oftentimes like to talk about free markets and free enterprise, how we are big advocates of that. But oftentimes we advocate that in theory, and sometimes in practice we are not so great at it.

I think this has been a fascinating debate and conversation about Ex-Im reauthorization and, kind of, how we fall into the debate. None of us wants to see us lose American jobs. No one wants to see Ex-Im go away and Boeing see some substantial job losses. And we don't like to see the American taxpayer arm our competitors, which causes Delta to lose 7,500 jobs or more.

I was sensitive to Mr. Fincher's comments about all of us who talk about balanced budgets and cutting spending, and one of the big first things we do is we cut Ex-Im Bank, and he has to go home and explain why he has lost a thousand jobs as the one big cost-cutting measure that he has done in Congress. That is a tough one.

I think it brings us back to the budget debates we had at the start of this year, where we talked about cutting spending all over the place, but the first place we go is to cut the cost-of-living benefit increases to our retired veterans. Our veterans would all be onboard to cut spending, but if they are to say, listen, we are the first place you are going to go? You are going to cut us first? There are a lot of places you can cut. We will do our part, like we always have, but don't come to us first.

Just a comment on our debate that we always have in the House.

I appreciate Mr. Stivers' comments about the panel's commitment to—or, reserved commitment to reauthorization of Ex-Im.

Mr. Anderson, what kind of reform do you think is necessary?

And I know that, Mr. Moak, you talked about reform compliance and accountability.

But what is needed on the reform front? Not just window-dressing, what is the real reform that is necessary to make Ex-Im work and get you to buy in?

Mr. ANDERSON. Stop arming my competitors and taking my jobs away.

Mr. DUFFY. Throw me some specifics. You are advising the committee.

Mr. ANDERSON. The specifics were the ones that were ignored the last time we did this and the Bank thumbed its nose at this committee.

Mr. DUFFY. Okay.

Mr. ANDERSON. And it was very specific. We have to stop providing U.S. Government subsidies to foreign-flag, government-owned airlines that are usually subsidized on their own and have enormous creditworthy balance sheets.

Mr. DUFFY. No, no, I—you have made that point for 3 hours.

Mr. ANDERSON. Let me be very blunt about this.

Mr. DUFFY. Sure.

Mr. ANDERSON. Let's be very clear what happens with this financing. It improves the profit margins of the top 10 companies in the United States that use it all the time. Okay? That is really what it does.

Mr. DUFFY. Mr. Wilburn?

Mr. WILBURN. I have one reform that I would like to suggest—

Mr. DUFFY. Sure.

Mr. WILBURN. —to the committee and to the Ex-Im Bank. Put more focus on small business job growth. It is as simple as that. Set not some kind of specious goals but some real goals. That is what I would like to see. I would like to really see it become the Bank of small business.

Mr. DUFFY. Just, I want to go to the gentlemen's agreement because I find that fascinating, that those countries who are providing the financing—oh, I'm sorry.

Mr. Moak?

Captain MOAK. I just want to make that point. It is getting missed here because we are here, but over in Europe, British Airways, Lufthansa, and Air France want this to come down also because they can't access it. Okay? Airbus shouldn't be allowed to access ECA subsidies. They are getting—

Mr. DUFFY. Right.

Captain MOAK. —killed the same way Delta Air Lines is.

Mr. DUFFY. Well, in a sense—

Captain MOAK. So we need that reform there also. That is what is missed here.

Mr. DUFFY. And on the gentlemen's agreement, I find it interesting that the countries that provide the subsidy, if you want to call it a subsidy, are the very countries who are hurt. Where if you said, listen, we are going to allow the United States, Delta Air Lines, to say, well, listen, we are—all things being equal, I would say that Boeing makes a better plane, but if Boeing and Airbus were equal—

Mr. ANDERSON. Not always.

Mr. DUFFY. —you could say—we will debate that later—you could say, listen, I am not buying any Boeing airplanes, because I am going to go buy Airbus, and I am going to get subsidized just like the rest of the world gets subsidized.

But you don't have that option, right?

Mr. ANDERSON. Well, no, you don't get—we don't get subsidized.

Mr. DUFFY. I know you don't, because you can't get—because of the gentlemen's agreement?

Mr. ANDERSON. There is the gentlemen's agreement between—it is between Airbus and Boeing. It is the gentlemen's understanding—

Ms. DUFFY. Okay.

Mr. ANDERSON. —that Ex-Im Bank financing won't be used in the United States, England, France, Germany, or Spain, because those are home-market countries where Airbus and Boeing airplanes—it will be an interesting question when Airbus starts making them in Alabama.

Mr. DUFFY. Fair enough.

I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Indiana, Mr. Stutzman.

Mr. STUTZMAN. Thank you, Mr. Chairman.

And thank you, gentlemen, for being here today. I have enjoyed the testimony and your comments so far.

Obviously, this is something that is a big concern to a lot of us and especially those of us who want to see the private sector handle as much capacity as possible, especially when you are hearing a lot of discussion about Banks having plenty of capital, that people are looking to help.

One of the folks that I spoke with in Indiana used to be a customer of Ex-Im Bank, and because of just the volatility around it and also his particular interest in finding another solution, he was able to.

And so I guess maybe my first question would be directed to you, Mr. Wilburn, because I am a small business owner, as well. I understand the difficulties, the pressures that are on small businesses trying to make things work and trying to find new markets.

Can you tell us a little bit, what else did you look at to see if there was another replacement besides Ex-Im, whether it was financing through a bank and some sort of insurance in executing transactions, anything like that you would have looked at before Ex-Im?

Mr. WILBURN. I looked at all of those options with, primarily, my Bank, Wells Fargo, which was gracious enough to give me that working capital loan we talked about, where I had to leverage everything to support those export activities. But I am always, always constantly searching for those types of, I will call them, private solutions with Banks. And they are responsive, they will listen to me, but they don't respond with the funding.

And, again, it is not my credit that is really called into question. When I am exporting my product to those exporting countries, I am relying on their credit and their creditworthiness. And it is difficult for my Banks to get that collateral and seize it, if you know what I mean—

Mr. STUTZMAN. How long have you been in business?

Mr. WILBURN. Ten years.

Mr. STUTZMAN. Ten years. So did you see any difference before the Banking collapse? Was there better access to credit? When did you start using Ex-Im?

Mr. WILBURN. I had a partner—my partner was one of the major investment Banks that was the last—I am underneath a non-disparagement agreement, so I have to be cautious. But, yes, they went Bankrupt. I didn't. My company was strong. It cost me $11 million to unwind that and 3 years to unwind that relationship.

Mr. STUTZMAN. And that was before you started using Ex-Im?

Mr. WILBURN. Yes, absolutely.

Mr. STUTZMAN. So do you think—

Mr. WILBURN. I was funded with a $25-million revolving credit line by that particular agency.

Mr. STUTZMAN. So do you think the pressure today on Banks, whether through just the regulatory environment, Dodd-Frank, do you think that is putting more pressure on Banks and their ability to lend to small businesses and helping them in situations like yours?

Mr. WILBURN. I tried to understand it and I have tried to address it in my remarks, and I was a little clumsy at it doing my research, but all I can say is that I think there are some barriers to entry for small business guys like me. And we have to take a look at the rules and the risk profiles to make it a more level playing field for us to have access to those capital markets.

Mr. STUTZMAN. Mr. Anderson or even Captain Moak, would you have any information regarding that and just your experience around Ex-Im? And I know you are focused more on the bigger side, but smaller business, are there other opportunities and other solutions for smaller businesses to work outside?

And would you make any comments about just the difficulty with credit today and the regulatory environment in which we live?

Mr. ANDERSON. I can talk generally, that the credit environment is a much, much tighter credit environment. And with the mark-to-market rules, a lot of the Bank lending that we used to rely on, particularly in Europe, to finance airplanes is gone.

So the number of sources for large structured finance, particularly given the Basel II requirements and the mark-to-market requirements, have really tightened up credit quite a bit in our industry. And a number of sources we used to have, where you could get a mortgage on an airplane, you can still get it, it just takes what Fannie Mae requires for a home, a bigger downpayment, a better credit rating—

Mr. STUTZMAN. Yes.

Mr. ANDERSON. —a better FICO score.

Mr. STUTZMAN. And those are all the hard things with which small businesses have to deal.

Captain Moak, you wanted to make a comment?

Captain MOAK. Yes. The only thing I would add is, we are going back to 2008 with the collapse. Okay? The U.S. Congress over a few days in 2008 was able to deal with that and come out with legislation. I am confident this body can address reform in less than 90 days on this issue.

Mr. STUTZMAN. And, Mr. Chairman, if I could just make the comment, I think that we are focusing on something here that is a symptom with the regulatory environment that we live in, and we are trying to reauthorize a Bank that isn't part of the solution. We should be focusing on the—

Chairman HENSARLING. Time—

Mr. STUTZMAN. —regulatory environment that we have.

Thank you. I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

There are no other Members in the queue. So, Mr. Anderson, Captain Moak, Mr. Wilburn, we thank you for your testimony.

We will excuse the first panel at this time.

We would invite the members of our second panel to please make their way to the witness table.

The committee will come to order.

We will now turn to our second panel of witnesses, many of whom are familiar faces to this committee, so my introductions will be brief.

If staff can be instructed to shut the hearing room doors.

First, the Honorable Fred Hochberg currently serves as Chairman of the Export-Import Bank, a position he has held since 2009. The Honorable Osvaldo Gratacos currently serves as the Inspector General of the Ex-Im Bank. He has served in this capacity since 2010. Matthew Scire is the Director of Financial Markets and Community Investment at the GAO. Finally, Dr. Doug Elmendorf is the Director of the nonpartisan Congressional Budget Office.

We welcome you each to the committee today.

Without objection, your written statements will be made a part of the record.

I believe all of you, hopefully, have testified before the committee before. You know the lighting system, so I will not go into that.

Chairman Hochberg, at this time you are recognized for your testimony.

STATEMENTS OF THE HONORABLE FRED P. HOCHBERG, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. HOCHBERG. Thank you.

Chairman Hensarling, Ranking Member Waters, and committee members, thank you for inviting me to testify before you as the committee considers our reauthorization and progress that Ex-Im Bank has made in supporting U.S. jobs through exports.

Since our last reauthorization just 2 short years ago, Ex-Im has supported nearly half-a-million American jobs while generating nearly $2 billion for the taxpayers. Ex-Im Bank has met all of the reporting requirements set forth in our reauthorization bill and has implemented several other reforms. At Ex-Im Bank, we are committed to continuous improvement and effective risk management.

When I testified before this committee last June, I committed to hiring a chief risk officer before years end, and we completed that on time. Under his leadership, the Enterprise Risk Committee assesses comprehensive risk issues, reports semiannually to the Bank's audit committee, and provides me as well as our other directors with a monthly update.

We have implemented a number of other reforms making Ex-Im more transparent and accountable, including: we post in the Federal Register all transactions of $100 million or more; we reviewed, revised, and posted our economic impact procedures on our Web site; we have implemented enhanced Iran sanctions provisions; we have added a textile industry member to our advisory committee; and we have implemented portfolio stress-testing and reported that to Congress. Frankly, the list goes on and on. The longer list is included in my written testimony.

At the height of the financial crisis in 2008, our default rate was 1.1 percent. And today, in our most recent report of March of this year, which we issue to Congress as part of those reforms every 90 days, it is 0.211 percent, or less than a quarter of a percentage point.

Customers who use the Bank pay a service fee, which covers all of our reserves and operating costs. We make no grants. Money is not given away; it is loaned and repaid. And Ex-Im Bank does not engage in corporate welfare.

Since I last appeared before you, we have accomplished much in our efforts to support small businesses. In 2013, the Bank financed a record 3,413 small businesses, nearly 90 percent of Ex-Im's transactions. That amounted to about $6 billion for small business financing, of which $5.2 billion was direct.

The Bank supports tens of thousands of additional small businesses, whose goods are incorporated into larger exports. We are critical to small businesses exporting directly and indirectly across the world. These businesses are operating in an extremely competitive environment.

This morning, we are releasing Ex-Im Bank's Competitive Report. In 1999, just 15 years ago, nearly 100 percent of export credit financing globally was done within an agreed-upon framework and it was transparent. As this report shows, it is down to one-third, and it continues to drop. In other words, two-thirds of all official government support for exports today is opaque and unregulated.

Countries like China and Russia frequently engage in market-distorting financing that threatens U.S. workers and their jobs. This is deeply concerning to me and should be to every American worker. U.S. businesses are not competing against Chinese companies on a level playing field; they are competing against "China, Inc."

In 1999, official Chinese financing was almost nonexistent. Today, it is well over $100 billion, dwarfing what Ex-Im Bank does. South Korea, an economy less than one-tenth our size, now finances $100 billion, nearly 4 times the $27 billion that we refinanced last year.

Other ECAs, such as South Korea, are using the uncertainty surrounding Ex-Im's reauthorization to steal contracts. You heard that clearly on panel 1 from Steve Wilburn, about how this is harming his business.

In closing, I want to thank Inspector General Osvaldo Gratacos for his years of service at Ex-Im as he heads to new endeavors. He has helped us, without question, to run a better Bank. We have worked cooperatively with GAO and accepted all of their recommendations since the last reauthorization.

Lastly, I also want to commend the outstanding professional work of our 400-plus employees.

We live in an extremely competitive world, and the playing field is not level. I wish everyone played by the rules, but, as our competitiveness report starkly points out, they do not. The stakes could not be higher. We should not cede American jobs to China, Russia, or other countries. That is why I ask for your support in reauthorizing Ex-Im Bank for 5 years with a lending cap of $160 billion.

Thank you for your support, and I look forward to answering your questions and working with you on reauthorization.

[The prepared statement of Mr. Hochberg can be found on page 169 of the appendix.]

Chairman HENSARLING. Mr. Gratacos, we welcome your testimony now.

STATEMENT OF THE HONORABLE OSVALDO LUIS GRATACOS, INSPECTOR GENERAL, EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. GRATACOS. Good afternoon, Mr. Chairman, Ranking Member Waters, and the distinguished members of this committee.

And I thank Chairman Hochberg for his kind words.

Thank you for the invitation and opportunity to testify before you about the Office of Inspector General (OIG) and Ex-Im Bank oversight as it relates to its lending reauthorization.

Before I continue, I would like to thank the Almighty for the opportunity, and my family, and the members of the Ex-Im Bank OIG staff for their hard work.

Last year, I testified before this committee about the need for Ex-Im Bank to enhance its risk management framework. Back then, we stated that Ex-Im Bank should proactively manage the risk of its growing portfolio in line with common practices of commercial and multilateral development Banks.

Specifically, we recommended that Ex-Im Bank should establish a chief risk officer or create a risk management office with independent reporting requirements to the Chairman; assign qualified and experienced staff to that office; conduct periodic stress-testing on its entire portfolio reflecting different market industry and microeconomic scenarios; and actively monitor industry, geographic, and obligor exposure levels.

As of today, Ex-Im Bank has taken steps towards improving its risk management framework, some of them described by Chairman Hochberg in his statement. However, we think the opportunity for improvement still exists.

For example, Ex-Im Bank established and hired a CRO and restructured reporting lines to separate origination functions from risk management functions. However, the CRO was established with additional management responsibility, supervising the legal and administrative functions of the Bank, which could dilute the focus of the position on credit risk issues.

In addition, Ex-Im Bank has initiated some stress testing for its portfolio utilizing a top-down analysis of the portfolio as well as a bottom-up approach on some obligors. The results of the first stress-testing process were conveyed to Congress in the default report dated September 2013. The Bank has also established an Enterprise Risk Committee and recently provided documentation on its activities to the OIG.

Finally, Ex-Im Bank commenced the use of several qualitative factors in its re-estimate process to account for the impact of such factors in the portfolio. The application of such factors in the re-estimate process commenced in the fall of 2012 and resulted in an upward revision of its loss reserves.

Lastly, let me address some recent press reporting on employee integrity investigations. I cannot confirm or deny particular investigations or comment on specific personnel matters. What I can say is that we have a number of active investigations involving also an external participant or Ex-Im Bank, and they are being reported in the semiannual report to Congress and we have had a fully cooperative working relationship with Bank management on these matters.

Bank management employees have referred issues to us for review, and the Bank has taken employment actions based on information we have referred to them. Some of these matters are nearing conclusion, and I expect to be able to share some information on them in the coming months, while others are in early stages and may or may not be substantiated. We work closely with the Justice Department on these issues, and I hope you understand that I am not in a position to comment further at this time on these matters.

Mr. Chairman, Ranking Member Waters, and members of this committee, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have. Thank you.

[The prepared statement of Mr. Gratacos can be found on page 161 of the appendix.]

Chairman HENSARLING. Mr. Scire, you are now recognized for your testimony.

STATEMENT OF MATHEW J. SCIRE, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. SCIRE. Mr. Chairman, Ranking Member Waters, and members of the committee, thank you for the opportunity to be here today to discuss the actions Ex-Im has taken in response to recommendations we made last year.

Our reports were completed in response to the Export-Import Reauthorization Act of 2012. We reported that Ex-Im's business volume had grown dramatically in recent years and that this rapid growth posed challenges to Ex-Im. Outstanding financial commitments were about $114 billion in 2013, nearly double the level of 2008 when Ex-Im began to experience rapid growth.

Among the challenges we cited is understanding the risk of loss. This is particularly challenging for Ex-Im because of the need to anticipate losses far into the future and because of weaknesses in its data. To improve its loss modeling, the Bank added certain qualitative factors. These include minimum loss rates, global economic risk, and portfolio concentration risks, whether by region, industry, or obligor.

These should help Ex-Im better capture risks that may be different than historical experience might suggest, but we found that its technique for assessing global economic risk could be improved by considering longer-term default forecasts. We, therefore, recommended that Ex-Im consider whether it is using the best available data for adjusting loss estimates for longer-term transactions to account for global economic risk. In response, in November Ex-Im replaced its 1-year forecast with a 5-year forecast.

We also found that Ex-Im had not maintained historical data on defaults that might be used in evaluating the performance and loss potential of the current portfolio. That is, Ex-Im had not maintained records that would permit comparing the performance of a transaction with that of a like transaction at a similar age. We, therefore, recommended that Ex-Im retain point-in-time historical data on credit performance. Ex-Im has since begun retaining such data.

Ultimately, loss estimates can never be certain. For this reason, it is useful to conduct stress tests to better understand and inform the Congress of the potential outcomes of alternate scenarios. Ex-Im planned to conduct such stress tests, and we recommended that it report to the Congress their content and results. Ex-Im has since begun to include such information it its quarterly default rate reports.

Another challenge facing the Bank is understanding what to expect in terms of future activity. In this regard, we found the methods used by Ex-Im to forecast its total exposure for 2013 and 2014 had certain weaknesses. Specifically, Ex-Im had not reassessed its assumptions to reflect changing conditions or conducted a sensitivity analysis to assess and report the range of potential outcomes. We, therefore, recommended that Ex-Im do so. In response, in its 2015 budget justification Ex-Im has incorporated historical experience into the forecast and prepared a range of authorization and exposure estimates.

Another challenge facing Ex-Im is the sufficiency of its resources. We noted that the rapid growth in business volume coupled with the more modest growth in staff levels created potential operational risks for Ex-Im. And Ex-Im recognizes this risk, but it had not formally determined the level of business it can prudently manage, either agency-wide or within specific functional areas, with a given level of resources. Likewise, we reported that Ex-Im's business plan had not sufficiently assessed the adequacy of resources for meeting certain congressional mandates to support small business and renewable energy.

We recommended that Ex-Im develop benchmarks to monitor and manage workload levels and provide Congress with more information on resources associated with meeting the mandates. In response, Ex-Im hired a contractor to develop workload benchmarks and a workload modeling tool. This effort is ongoing.

Going forward, it will be important for Ex-Im to sustain a commitment to improving its understanding of factors that drive demand for its programs, the performance of its products, and the potential operational risks it may face.

This concludes my opening remarks. Thank you again for the chance to speak today. I would be glad to take any questions you may have.

[The prepared statement of Mr. Scire can be found on page 184 of the appendix.]

Chairman HENSARLING. Dr. Elmendorf, you are now recognized for your testimony.

STATEMENT OF DOUGLAS W. ELMENDORF, DIRECTOR, CONGRESSIONAL BUDGET OFFICE (CBO)

Mr. ELMENDORF. Thank you, Mr. Chairman, Ranking Member Waters, and members of the committee. I am pleased to be here to discuss CBO's estimates of the budgetary costs of the Export-Import Bank's credit programs.

I want to emphasize that CBO has not analyzed the operations of the Bank or the economic impact of its programs. Our analysis has been limited to the direct effects of the Bank on the Federal budget.

As you may know, CBO uses two different approaches to estimate the budgetary costs of Federal credit programs. One approach reflects the procedures currently used in the budget under the Federal Credit Reform Act of 1990, or FCRA. The other approach, known as fair value, reflects the market value of the government's credit assistance.

For Fiscal Years 2015 to 2024, CBO found that Ex-Im Bank's six largest credit programs would generate budgetary savings of about $14 billion under FCRA accounting but cost about $2 billion under fair-value accounting.

Both estimates are based on Ex-Im Bank's projections of cash flows for those credit programs, as reported in the Federal credit supplement to the Administration's 2015 budget. Thus, both estimates reflect the amount of lending, fees, and default rates that are expected to prevail under the current structure of the programs and the President's budget request.

The difference between the two estimates lies in the treatment of the cost of market risk, which is one component of financial risk.

Much of the risk of financial investments can be avoided by diversifying a portfolio. Market risk is the component that remains even after a portfolio has been diversified as much as possible. It arises because most investments perform relatively poorly when the economy is weak and relatively well when the economy is strong.

People value income from investments more when the economy is weak and incomes are relatively low, and so assign a higher cost to losses that occur during economic downturns. The higher cost of losses in bad times as well as lower costs in good times is captured in the cost of market risk. The government is exposed to market risk through its credit programs because when the economy is weak, borrowers default on their debts more frequently, and recoveries from defaulting borrowers are smaller. That market risk is effectively passed along to taxpayers and beneficiaries of government programs because they bear the consequences of the government's financial losses. Moreover, that risk is costly to those taxpayers and beneficiaries because they tend to value resources more highly when the economy is weak.

Under the FCRA approach to accounting for Federal credit programs, Treasury borrowing rates are used to discount expected future cash flows, that is to translate future cash flows into current dollars. That approach essentially treats future cash flows subject to market risk as having the same value as Treasury securities that promise the same average payments with no risk. This means that the market risk of Federal credit assistance is treated implicitly as having no cost to the Federal Government.

That has important consequences. For example, the cost of Federal credit programs reported in the budget is generally lower than the cost to private financial institutions for providing credit on the same terms. Also, the budgetary costs, the Federal credit programs are generally lower than those of grants for similar purposes that involve equivalent economic costs.

In addition, purchases of loans and loan guarantees at market prices appear to make money for the government and conversely sales at market prices appear to result in losses. To incorporate the cost of market risk, the fair-value approach generally entails using the discount rates on expected future cash flows that private financial institutions would use. That approach effectively uses market prices to measure the cost to the public of the lower returns on Federal loans and loan guarantees when the economy is weak and incomes are relatively low. In CBO's view, therefore, fair-value estimates provide a more comprehensive measure of the cost of Federal programs.

Some analysts have expressed concern about potential drawbacks of using the fair-value approach in Federal budgeting. They argue, for example, that fair-value estimates include costs that will not be paid directly by the Federal Government if actual cash flows turn out to match expected cash flows and that including those costs makes comparisons with some non-credit programs more difficult. These analysts note that fair-value estimates are somewhat more volatile than FCRA estimates and more complex to produce, and they worry that communicating the basis for fair-value estimates to policymakers and the public is more difficult than doing so for FCRA estimates.

Proponents of the fair-value approach respond to those concerns by arguing that decisions about spending the public's money should take into account how the public assesses financial risks as expressed through market prices; that by taking those prices into account, fair-value estimates are unbiased estimates of the expected costs of loans and loan guarantees when they are offered and that other concerns can be mitigated through established accounting practices. Thank you. I am happy to take your questions.

[The prepared statement of Dr. Elmendorf can be found on page 148 of the appendix.]

Chairman HENSARLING. The Chair now yields himself 5 minutes for questions.

Mr. Hochberg, my background is not in accounting. I have a degree in economics and a degree, a J.D., but I do know the difference between single-entry accounting and double-entry accounting. So, I just heard your latest jobs claim that seems to increase every time that I see you. I trust you did hear the testimony of the earlier panel. Is that correct?

Mr. HOCHBERG. Yes, I did.

Chairman HENSARLING. Okay. In the claims that you make, is that a net number, or is that a gross number, because we are having testimony of job loss caused by your Bank, so is the number that you posit a gross number or a net number?

Mr. HOCHBERG. It is a gross number. It is the number we use—

Chairman HENSARLING. That answered the question, Mr. Hochberg. I appreciate that. Also, I assume since we have a witness from GAO here, you are familiar with their May 2013 report that criticized the Bank for concealing methodological weaknesses in the jobs claim, including the fact that you do not distinguish between full-time, part-time and seasonal employment. You do not control for selection effects between supported firms and industries that may depart from the average. And, again, as I just posited, GAO criticized the Bank for not considering the unseen counterfactual of how many jobs would have existed without any intervention at all. Are you familiar with GAO's work regarding your jobs claim?

Mr. SCIRE. Yes, and we pointed out a number of weaknesses with the methodology and recommended that Ex-Im do more to disclose the weaknesses with the methodology, and since, they have done so.

Chairman HENSARLING. Thank you.

Dr. Elmendorf, FCRA applies—well, I have seen a report that there are roughly 10,000 Federal agencies, programs. Frankly, I have been here for a number of years, and I still can't figure out how many there are. But how many are subject to FCRA? How many programs or agencies?

Mr. ELMENDORF. I don't know what the count is, Mr. Chairman.

As you know, there are several trillion dollars of outstanding Federal loans and loan guarantees that are recorded in the budget on a FCRA basis. The exceptions to FCRA among credit programs that I am aware of are the TARP program, because Congress wrote into the law that we should do estimates of that program, adjusting for market risk, and for Fannie Mae and Freddie Mac, because that is something that is specified in law, and we do those on a fair-value basis.

Chairman HENSARLING. This is probably outside your area of expertise, and I think we had some testimony earlier today. Certainly, I have seen evidence. Doesn't almost every other private Bank or private company that is subject to GAAP use fair-value accounting?

Mr. ELMENDORF. Private financial institutions generally use fair-value accounting, yes, Mr. Chairman.

Chairman HENSARLING. Mr. Hochberg, we had a gentleman here on the earlier panel, as you well know, one of the recipients of an

Ex-Im credit guarantee. I think your latest figure is that you are supporting roughly 3,000 or 3,500 small businesses. Is that correct?

Mr. HOCHBERG. Correct.

Chairman HENSARLING. The earlier witness takes exception to your definition. We will accept the definition for the moment. I have information from the SBA; by their definition, and I don't know the definitional differences, there are roughly 30 million small businesses across America. So if I am doing the math right, you are in some way, shape or form providing credit services to roughly 1 in 10,000.

And I am still trying to figure out—I am struggling with this, Mr. Hochberg, and that is I have a number of small businesses in my district, including CATCO Catalytic Heater Company in Terrell, Texas. They export. They don't use your services. And I quoted this gentleman earlier who said, "As a small business owner who exports, I think it is outrageous that my own government puts my business and other small businesses at a competitive disadvantage through the Export-Import Bank."

I see my time is starting to run out, but I say that, Mr. Hochberg, because I think it is important that we hear from the small businesses that actually have to pay for what your Bank does and whose balance sheets you put at risk. Those voices, I believe, are underrepresented in this hearing room today. I will posit that all 3,000 or 3,500 small businesses that receive your credit services would want them extended. I would posit that, and I know that you have traveled all around the Nation. I think somewhat reminiscent of Fannie and Freddie, I have no doubt that you have come close to finding a customer in every congressional district in America today. But I do think it is important that these other voices be heard. I noticed you said that roughly 90 percent of your transactions, but isn't it roughly 18 percent of your exposure is small businesses? Is that correct, Mr. Hochberg?

Mr. HOCHBERG. Actually, this year we are in the 23, 24 percent range. We have had greater use of small business and little Banks have come back and so some of our larger—

Chairman HENSARLING. I will just say for the record that the 90 percent is fairly misleading. I see that I am out of time. The Chair now recognizes the gentlelady from New York, Mrs. Maloney, the ranking member of our Capital Markets Subcommittee.

Mrs. MALONEY. Thank you, Mr. Chairman, and welcome to all of the panelists.

Mr. Hochberg, some people on this panel today have suggested that we could let the Export-Import Bank's charter expire and that the economy would be fine, that the private sector would just step in and take over, and there would be no impact on the U.S. exporters or small businesses. Can you walk us through what the impact would be?

Mr. HOCHBERG. Thank you. Thank you for giving me an opportunity to talk about our small businesses. One, we actually do, 90 percent of our clients are small businesses; and that is small business as defined by the SBA. We don't make our own definition. You heard on panel one, Steve Wilburn of FirmGreen made a clear articulation of the loss and harm to his business and employment from even just the threat of Ex-Im not being here. We had some folks in the audience from a company that I think the chairman has sometimes cited, Jenny's Pickles, a woman from North Carolina who is exporting her food products to China, Britain, and is looking to expand to Germany and the Mideast. We provide credit insurance the way that other businesses get fire insurance or theft insurance and credit insurance she cannot obtain in the private sector. So though there are many small businesses that can't get—

Mrs. MALONEY. How do you know these businesses cannot obtain the financing in the private market?

Mr. HOCHBERG. First of all, they have to state that they needed us, and they were not able to obtain this privately. Second of all, we survey the private sector all the time, and many times, they will not make loans or insurance for smaller businesses. The good news is I will tell you the private sector has come back, and the private insurers are doing a better job than they did during the crisis, but I will also tell you that the word is out that you probably should not get insurance from the Ex-Im Bank because we may not be here after September 30th.

So brokers are telling their clients, I think we have to either get you more expensive insurance or I can't insure you because I don't know if you want to take the risk of having a policy that will have a 90-day term.

Mrs. MALONEY. You raised a point that there are people really concerned whether or not you will be there, and they are not providing the insurance. The statute gives Ex-Im the authority to facilitate an orderly liquidation if its charter expires, and a recent memo from the Congressional Research Service noted that Ex-Im would have considerable discretion in deciding how to manage this liquidation.

Mr. HOCHBERG. If the Bank is not reauthorized on September 30th, we would not make any new loans. We would not support any new businesses. I would add that small businesses in particular would probably be hit first, and we would simply hold—I don't see a reason, and I hope Congress would not want to liquidate the portfolio which implies selling it off, often at a discount, but let the loans mature to term. We have a well-performing portfolio. Liquidation is often used for a failed Bank. The only reason we would be not operating is because of a political decision not to reauthorize us, not because of a failure at the Bank.

Mrs. MALONEY. There is a lot of debate this morning about exporting planes, basically exporting Boeing. If the United States decided to stop providing any support or assistance for the export of U.S.-made planes unilaterally, what would happen? Who would stand to benefit?

Mr. HOCHBERG. I think that the makers of Airbus would be quite excited by this. They would be cheering because, frankly, it will not change the amount of airplanes coming into the United States carrying passengers. It will simply change whether it is made in the United States by Boeing and their 15,000 suppliers—6,600 are small businesses—versus being made in Toulouse, Hamburg, and other places, so I think that we have a very real competitive threat. And frankly, the threat of China is coming up. They are building a plane to compete with 737s, which is the single-aisle general commercial plane used, and that is coming on stream in the next few years.

Mrs. MALONEY. We are often criticized for not exporting enough, that we have an export deficit. Have you done any work on how much of the American export is because of the Ex-Im Bank?

Mr. HOCHBERG. The very rough cut number is around 2 percent, but that includes everything that is exported. Many things are not products, are not financed. I can give you some specifics. It may be 2 percent globally, but if we look in places in Sub-Saharan Africa, for example; in Cameroon, it is more than 55 percent of the exports. Senegal is almost 50 percent. India, it was 30 percent in the last 12 months, so there is a large percentage above the 2 percent, depending on what country you are looking at.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from California, Mr. Campbell, chairman of our Monetary Policy Subcommittee.

Mr. CAMPBELL. Thank, Mr. Chairman.

And, Dr. Elmendorf, Mr. Scire, and Mr. Gratacos—I probably butchered two out of those three names. First of all, I apologize for that.

Dr. Elmendorf, I have said your name enough over the years that I know how not to butcher it.

I hear all of your issues and agree 100 percent with the issues relative to the Bank's accounting for risk, a chief risk officer having other responsibilities, and a number of those other factors, so I would mention that the discussion draft which I released earlier today contains attempts at least to deal with all of those issues. I think I agree and believe that the Bank is not properly accounting for risk and that if there is a reauthorization, that is something we need to do.

During the remainder of my time, Mr. Hochberg, I would like to ask you a few questions about some things. You have actually requested an increase in the authorization of the Bank, even though the authorizations you are doing as you just stated, the private sector is back in the game, and the authorizations are down from what they were in the Bank a few years. Why would you want an increase in authorization then?

Mr. HOCHBERG. Congressman, thank you for your comments and interest in this. We took a look at—again, we are asking for a 5-year reauthorization. We looked at—we are compounding the increase 3 percent per annum from the $140 billion today. I took a modest increase. Exports are up close to 45 percent since 2009. So exports are up. Banks continue to tell us, due to Basel III, Dodd-Frank, and other regulations, that they have less of an appetite for small business, less of an appetite for long-term loans, so factoring in those factors, export markets, more going to developing nations, I tried to put together a prudent estimate of what we would need.

Mr. CAMPBELL. Even though that is not your experience right now?

Mr. HOCHBERG. We had a—2 years ago, we were in great need. Right now, there seems to be a slight reduction in need. I am not looking at only 6 months of making an assessment. I am trying to take a broader view. I was a businessman for 20 years. You don't look at 6 months at a time.

Mr. CAMPBELL. Okay. Got it. Let me ask you now, in the previous panel the CEO of Delta and others complained about things that were in the previous reauthorization that they are saying you are ignoring, which is the mandate to weigh adverse effects of transactions on others. What is your response to that?

Mr. HOCHBERG. I completely disagree with Mr. Anderson. Congress asked us to simply review our economic impact procedures. Those procedures state we should look at the benefits of the U.S. economy and any potential harm. We reviewed it. On top of that, instead of just reviewing it, we actually published new regulations, put them out for comment, went to the entire industry for comment and adjusted our impact procedures and put it to a vote of the board. So we complied fully, and on top of that, every transaction the Bank reviews gets reviewed for economic impact. We want to make sure the benefits outweigh any harm.

Mr. CAMPBELL. Okay. My time is limited so I want to get on to this other question. Obviously, yesterday there was some news that came out about potentially some accusations of things going on in the Bank. Now, we know that in any organization, certainly in any element of government that deals with the public, there can be corruption and there can be fraud. Guess what, that has occurred within Congress. I know that is a huge shock to everyone listening, but that has occurred here as well.

But the question I have for you is this: There is, I think, a question, and it is a good one, about you are handing out loans, guarantees, and other things to the private sector and that if people have the ability to make that not just for kickbacks but to their friends to political allies to whatever it may be, that is a bad thing. So it would seem to me that there are not enough controls, if you will, within the Ex-Im Bank to stop that sort of thing from happening. How do you judge, how do you make the decision of who gets support and who doesn't?

Mr. HOCHBERG. You mean, what companies get support?

Mr. CAMPBELL. Yes.

Mr. HOCHBERG. Well, one is what the need is. We look at the need, whether there is a need for Ex-Im Bank to be a player in that or whether the private sector does it by itself. Frequently, we don't need to engage at all. That is why close to 98 percent of exports don't need our assistance. You have a few questions, and I am trying to—

Mr. CAMPBELL. Basically, and we are running out of time, but the accusation is that some people got support from Ex-Im in exchange for kickbacks. That means somebody else probably didn't, or those weren't meritorious, or there was a competition or something going on. I am trying to determine what procedures you have in place and you are not going to have time to answer this, so maybe you can later, but what procedures you have in place to stop that sort of thing from happening because that can't happen.

Mr. HOCHBERG. I agree.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from New York, Mr. Meeks, the ranking member of our Financial Institutions Subcommittee.

Mr. MEEKS. Thank you, Mr. Chairman.

The latest trade data shows that the United States trade gap has increased to $47.2 billion in April 2014, as imports recorded the highest value on record. Purchase of automobiles, capital goods, food, and consumer goods all hit record highs. So, in the midst of record trade deficits, we are here today debating—and I can't believe this—whether or not we need to reauthorize the Ex-Im Bank. The Chinese and the Europeans and the Brazilians and the Japanese all must be looking at us and shaking their heads in complete disbelief that we are actually debating this issue, that we could actually voluntarily purposely kill American industries and hundreds of thousands of American jobs. Its unbelievable to me.

And I know when start talking about other reforms, there is always the question of uncertainty that keeps coming up, that people want to know what the rules are in play and whether or not—certainty was important. Well, here we are now in this atmosphere of uncertainty.

Chairman Hochberg, what effect is uncertainty creating for U.S. exports, if any?

Mr. HOCHBERG. Thank you, Congressman.

First of all, there is an ad in today's Politico that says, "Meet the Ex-Im Banks of China, Russia and France." They are delighting in this hearing. They are delighting in the U.S. debate. On panel one, there was a discussion of Steve Wilburn and the direct impact on his business. I heard that during the shutdown. I heard that during the potential shutdowns. We enumerate all of that in this competitiveness report. Again, two-thirds in the range of about $200 billion of export financed globally is unregulated, opaque, one-off, and causes harm to American companies.

When I am in Africa, the Chinese government offers 100 percent financing for anything you will buy, and they will give you 10, 15, 20, up to 40-year terms. So there is a direct impact on our debate here and trying to sell U.S. products, and more importantly, support jobs here in America, small business jobs as well as at large companies. So we have seen a direct impact. I hear it from companies. I hear it from their customers overseas.

One customer in Maryland during the shutdown said he lost a customer to Germany because he could not take the risk we would not be around.

Mr. MEEKS. I was listening to some of my colleagues on the other side of the aisle also, and I know at the time that we had the last reauthorization, there were certain reforms that were in there. And listening to them I would think maybe Ex-Im has not implemented any reforms. Is that true? Has Ex-Im implemented any reforms?

Mr. HOCHBERG. We have complied with every single reform and recommendation that the committee made. We have complied or are in the process of complying of with every single recommendation that GAO has made. We have agreed with each and every one of their recommendations.

Mr. MEEKS. I want to go—because you mentioned Africa twice, and you know I just had an event in New York on energizing Africa, and I want to thank Ex-IM for being there. And you talk about China, et cetera, being there, but you also just in your testimony talked about Cameroon. Can you tell us what opportunities are there for American-made goods and services on the continent of Africa?

Mr. HOCHBERG. Africa is the home to, depending on your estimate, six or seven of the fastest growing economies in the world. I just returned 2 weeks ago. There are great needs in power, transportation, water. I was with the President of Angola, who agreed to buy a billion dollars worth of locomotives and power units, so there are enormous opportunities, but we face very intense competition from China, which will provide financing for any and all exports going to Africa.

Quickly, I went to meet with Transnet that, as a result, split their order between the United States and China, and the CEO told me point blank China offered 10, 15, 20 years; what terms do you need and what rate do you need to pay, and we will make it work.

Mr. MEEKS. Let me ask this in my little time that I have left: How does the size of Ex-Im Bank, its particular mission, and the terms it is able to offer compare with other foreign export credit agencies?

Mr. HOCHBERG. China, as I mentioned, is more than 4 times our size, and that is just their Ex-Im Bank. They have two or three other policy Banks that support their exports. The Canadian Bank is about 3 times larger than the United States, and an economy somewhat smaller than the U.S., Korea, also does about 3 to 4 times more than we do. We probably have the smallest footprint of any export credit agency to the size of our economy in the world.

Mr. MEEKS. Thank you, and I see my time has just expired.

Chairman HENSARLING. Indeed, it has.

The Chair now recognizes the gentleman from Alabama, the chairman emeritus of the committee, Mr. Bachus.

Mr. BACHUS. Thank you.

Chairman Hochberg, you and I met in my office on March 27th, when we were considering the reauthorization of 2012. At that meeting, we expressed some concerns to you about transparency, accountability, and also the mandate requiring the Bank to review the economic effects of its financing to take into account, and I am reading statutory language, any serious adverse effect of any loan or guarantee on the competitive position of United States industry. And then we had some follow-up conversations as late as May 9th about Delta's concerns. We voted that bill out on May 15th, and I have never had an explanation that the sale of wide-body jets to the Emirates did not hurt U.S. airlines and their competitive position. Several times this has come up, even I think as early as 2003. Have you ever done an analysis and shared it with the Congress of that particular issue that the president of the airlines was talking about earlier?

Mr. HOCHBERG. Again, Congress asked us to review our economic impact. We not only reviewed it; we decided to revise it and to publicize it, and it is on our Web site. We also do an analysis of—

Mr. BACHUS. Is that specifically about the effect on—

Mr. HOCHBERG. We look at every aircraft, and we look at every aircraft transaction.

Mr. BACHUS. I am talking about specifically. Could you supply that specific analysis that you did? That concern was directed. It was very refined. It was to address the need to subsidize loans to the Emirates or rich countries of wide-body jets, of carriers that directly compete with American carriers on international routes. Is there an analysis of that and going back and looking at all of that?

Mr. HOCHBERG. We did an analysis. We hired an outside firm to make it unbiased of, is there an oversupply in the aircraft field globally of wide-bodies?

Mr. BACHUS. No. My question was not, were there too many wide-bodies. My question is the impact on our flag carriers. We didn't ask for a study of, were there too many wide-body jets in the world.

Mr. HOCHBERG. The Bank has had economic impact procedures for 20, 30-plus years.

Mr. BACHUS. You are telling me something I know. I am asking you something; I know you have had procedures. I know you have had economic studies. I am asking you specifically, have you responded to our request and Mr. Anderson's concerns that we discussed on two different occasions?

Mr. HOCHBERG. Then the answer to that question is yes, sir.

Mr. BACHUS. Okay. Would you supply us with those documents?

Mr. HOCHBERG. We would be happy to you supply you.

Mr. BACHUS. I would like copies of the loan-specific analysis on any sale to those countries, the effect on the flag carriers, the United States flag carriers, if you could just give me that.

Mr. HOCHBERG. We will provide that.

Mr. BACHUS. I would like to tell you something else that I am very concerned about. You heard what I said earlier. On August 2nd, I wrote a letter to you all. We, obviously, faxed it over to you because Scott responded the same day and promised us, according to his letter, that before the loan was made, they would refer it to the policy division as well as the engineering division because there were two different studies, and they would share the concern with the board prior to a vote, and they would share with us any analysis. That was never given to us but what I am saying is, you didn't do that or supply it to us before the vote. Your response to me was 2 months after the vote, which is not—our committee then couldn't respond, couldn't analyze, couldn't have any input. You didn't even advise us when the vote was going to be.

Mr. HOCHBERG. Can I answer the question?

Mr. BACHUS. Yes.

Chairman HENSARLING. Briefly.

Mr. HOCHBERG. Briefly. The board considered it. It comes to Congress. Congress has 35 days to comment before a final vote is taken by the board. Any transaction over $100 million comes to Congress for any Member to comment, and we got a number of comments on that transaction.

Mr. BACHUS. Who does it come to?

Mr. HOCHBERG. I don't know precisely how it is transmitted, but every transaction is transmitted to Congress for a 35-day review.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Mrs. McCarthy.

Mrs. MCCARTHY OF NEW YORK. Thank you, Mr. Chairman.

Chairman Hochberg, we only get 5 minutes, and I noticed that you have always been writing something down. Obviously, whether it was somebody on this panel, or I understand that you were in the back listening to the first panel, so I am going to stop talking. And any questions that you want to answer or things that you have heard that you want to give a rebuttal to, I am giving you that opportunity to do that now.

Mr. HOCHBERG. Thank you very much.

Let me try and answer one or two questions we have. We look to make sure that any benefit, any export, the benefit to the U.S. economy outweighs any harm. That is referred to as economic impact. So if we are financing the export of an airplane, we are going to make sure the dollar amount to the U.S. economy could outweigh any potential harm. We look at every transaction, not just aircraft, to make sure that we are complying with that because the last thing we want to do, the 400 people at Ex-Im Bank, is hurt the U.S. economy. We are here to support jobs, not take away jobs. That would be number one.

Two, the committee staff receives every transaction over 35 days, and the committee staff, I presume, forwards it to members of the committee who would like to review it. Sometimes we receive many comments, and sometimes no comments, but the committee has and Congress has a full 35 days to send comments back to us before any transaction is finally voted on.

There was a question about working with the inspector general. I have had a great working relationship with our inspector general. I think together we have made a better Bank. Our employees are alert to if they see something suspicious or a suspicious claim or a suspicious loan or something that doesn't look right, they work directly with the inspector general. They don't go through me. They work, whether it is in the General Counsel's Office, the CFOs Office, anybody who sees something suspicious, and I am very proud of the fact that our employees are very concerned—they care about their reputation as well. So, I am pleased with the reputation and the work we do with the IG. The article that was in yesterday's Wall Street Journal, in my opinion, is actually a good article because it says to our staff and it also says to any exporter, if you are doing any funny business, we are on to you, and we will work with it. A lot of this has changed since we have an inspector general, which is 2007. A number of the things discussed predate the inspector general. We did not have a inspector general in those early days.

Mrs. MCCARTHY OF NEW YORK. One of the things I wish you would go over one more time, is basically I know you are not looking to hurt Delta. I know you are not looking to hurt the pilots and the flight attendants, that you want them to succeed. Could you go over one more time with their arguments that you heard today on why the situation is where it is, and do you see any way to work with them to try to come to some sort of an agreement so we don't go through this every 2 years?

Mr. HOCHBERG. We fully complied with Congress' request on transparency and reforms. There were over a dozen, and we complied with each and every one of them. We have complied with everything or at least so far agreed with everything in the GAO report. Delta Airlines made an assertion that our financing of planes to Air India caused them to lay off people. If you look at the facts, they did not ground any aircraft. They have added employees since, and they even stated at the time it was not because of competition. They said we have moved this, the size and scope of Delta's operation at the Atlanta hub are best suited for the capacity of the 777-200LR in terms of cargo and passenger. So, for business reasons they moved the flight to Atlanta. It was not because of competitive issues or the Ex-Im Bank.

That was a concept they came up with 3 years later. There was nothing in their press release. They said nothing about the fact that there was a global recession in 2008. They said nothing about high jet fuel prices, the H1N1 virus, reduced demand, and a number of other things that they also talk about impacting their business.

But somehow this one route, this one route they decided was only because of Ex-Im Bank, and that doesn't comply with any of their public messages.

Mrs. MCCARTHY OF NEW YORK. Thank you.

And the other thing, too, obviously, when I came on this committee and I had to learn a lot of new things, one of the things I did even before you became the chairman was reach out to the Export-Import Bank to come into my community, bring my small businesses in to get educated, and you did come out when you came on. And I am happy to say that in my district by word of mouth, more and more businesses have been joining, and certainly we have seen the growth of the amount of money that has come into my district. And it is not mine. It is the people working. It is jobs, and that is the important thing. Thank you very much for your time.

Mr. WESTMORELAND [presiding]. The gentlelady yields back.

It just so happens to be my turn, Mr. Hochberg.

Mr. HOCHBERG. Perfect timing.

Mr. WESTMORELAND. You said you had complied with all the requests that Congress had made at the last reauthorization and you referred to Mr. Anderson in that all these things had been complied with, although there are people who were at that table evidently when these things were being looked at who say they were not complied with. Why do you think there is a difference there?

Mr. ANDERSON. Certainly. We complied with every requirement, every reform that Congress put in. We did, as I mentioned, an economic impact analysis, particularly in the aircraft field.

Mr. WESTMORELAND. How many of those did you do in the aircraft field?

Mr. HOCHBERG. We do one a year. We do a survey to determine if there is a glut in the aircraft field, which is the criteria that has been deployed by the Bank for 20, 30 years in looking at economic impact. If there is an oversupply, then any additional capacity will have an impact. If there is an undersupply—

Mr. WESTMORELAND. So how many of those impact analyses have you done on aircraft in the last 5 years?

Mr. HOCHBERG. Well, two things. We review every transaction. We do an in-depth study.

Mr. WESTMORELAND. Every transaction?

Mr. HOCHBERG. Every transaction over $10 million we review for economic impact.

Mr. WESTMORELAND. How many would that be?

Mr. HOCHBERG. Close to 3,500. We look at all of them. We don't deploy the resources to do an in-depth study on every single one. For example, Congressman, sometimes you have an airplane that is replacing an old plane. Sometimes it is an airplane that is never flying to America, so a number of those would have no impact. So we don't waste government resources chasing things that have no potential impact.

Mr. WESTMORELAND. Okay. But you have only done one analysis in the last 5 years on aircraft?

Mr. HOCHBERG. The new procedures went in, in April of 2013, so first of all, they have been extant now for 15 months. We review them all. We did an in-depth analysis on one transaction because one transaction triggered and said, this warrants further review and study because the planes are new capacity, potentially flying to American cities, and as a result, it triggered a more in-depth study. Again, if it is replacement aircraft or not flying to the United States, we would not spend the time and money and resources to do a detailed study of something that is not going to potentially have an impact. If there is a potential of an impact, we will do an in-depth study.

Mr. WESTMORELAND. Okay. If you are buying a plane from Boeing, it will still have impact on the economy, right?

Mr. HOCHBERG. Again, the analysis that has been used in every industry, not just for aircraft, is we say, what are the benefits to the U.S. economy? How much revenue is coming to the United States? What is the potential loss to the U.S. economy? And we balance them against each other. So we are always looking at that. What is the balance?

Mr. WESTMORELAND. Thank you.

Is the Bank being sued right now on any of your economic impacts?

Mr. HOCHBERG. Delta Airlines is suing us.

Mr. WESTMORELAND. They are?

Mr. HOCHBERG. Yes.

Mr. WESTMORELAND. Is that because of the case you just mentioned?

Mr. HOCHBERG. Again, they don't—we have put together economic impact procedures that are consistent with the way we do it for every industry. We are not going to pick and choose and do a special one for aircraft. We look at how we look at economic impact, as Congress has asked us to look at economic impact.

I should just add one more thing. We are the only export credit agency in the entire world that does this. No other export credit agency, no other country requires this. We are happy to do so, but I think the committee should know this is something unique to the United States.

Mr. WESTMORELAND. You have really, since 2011, stopped disclosing the yearly total of the number of aircraft exports. Why would that be?

Mr. HOCHBERG. I am unaware that we have made a change in our disclosure since 2011.

Mr. WESTMORELAND. You disclose all of them right now? Is it full disclosure of everything you do?

Mr. HOCHBERG. Everything over $100 million is in the Federal Register for a full 25 days before a final board vote.

Mr. WESTMORELAND. Above that amount?

Mr. HOCHBERG. Above $100 million.

Mr. WESTMORELAND. If it is less than that, it is just chump change?

Mr. HOCHBERG. No. Less than that would be—first of all, you can't buy a wide-body plane, the item of concern to Mr. Anderson and Delta, none of them cost less than $100 million. So, under $100 million, and the aircraft would be two and a fraction of a 737, so that is what Congress asked us to say over $100 million, we would like in the Federal Register. I can just add, this does have an impact on our competitiveness.

Mr. WESTMORELAND. I am going to lead by example and cut myself off.

The gentlelady from California is now recognized.

Ms. WATERS. I would like to go back to a discussion about how you guarantee and how you finance and how you supply support for insurance. The opposite side of the aisle has created these words to describe what you do that are absolutely not true. They talk about corporate welfare. In saying that, they are trying to lead the public to believe that you are giving away something to the corporate sector in foreign countries. They also talk about crony capitalism, as if you are somehow giving to persons who have some kind of connection with you or with Ex-Im, something that they don't deserve, and so I think we need to clear this up. We need to talk about the difference between loan guarantees and the kind of financing that you do and grants. You have made it very clear that these are not grants, but I think we need to say it in words that everybody understands and nobody can deny. And, of course, for those who are saying it, none of them can prove that there is any welfare here, but they will keep saying it, unless we keep denying their description of Ex-Im. So would you please, in your own words, Mr. Hochberg, talk about how you do this?

Mr. HOCHBERG. Thank you, Ranking Member Waters, and thank you for your support. We provide loans. Loans need to be repaid. We do not provide any grants whatsoever, and we have a very tough group of people who enforce the loan covenants and make sure that loans are paid back and paid back on time. That is how we can have a default rate of 0.21 percent, less than a quarter of a percent.

At the height of the financial crisis, the worst crisis since the Depression, it was 1.1 percent, and it keeps declining. So in terms of risk management and in terms of corporate welfare, welfare implies we are taking from someone and giving it to somebody else. We don't do that. People come to us if they need our support. Also, according to the World Trade Organization, we have to be self-sustaining. If we are self-sustaining, that is where there is no subsidy from the government because the fees we collect cover the loan loss reserves, cover our operating expenses, and for the last several years, we transfer back to the taxpayer for deficit reduction, last year over a billion dollars.

Ms. WATERS. Mr. Hochberg, do you charge interest on loans?

Mr. HOCHBERG. Most of the loans are guaranteed, therefore the Bank charges if it is a direct loan, and sometimes we do that, we borrow the money from Treasury. By law, we had a full percentage point. So if Treasury lends us the money for 2 percent, we must charge at least 3 percent. On top of that we add fees, like points on a mortgage. If we are providing "welfare," if you talk to any of our customers, they feel like they pay a lot of money for our services. None of them feel like it is welfare. They are paying "handsomely" for the privilege of borrowing.

Ms. WATERS. So is it because of the fees that you charge and interest if it is a loan that you are able to earn money, and what do you do with the money that you earn?

Mr. HOCHBERG. The money we receive, a prudent portion goes to loan loss reserves to make sure that every loan is paid off. Congress each year appropriates a certain portion of that back to the agency to run. The balance we transfer to the Treasury.

Ms. WATERS. Let me say that one more time. The balance of this money goes to the Treasury of the United States of America.

Mr. HOCHBERG. Correct. One billion 57 million dollars last October. The previous October, it was $803 million.

Ms. WATERS. So are you telling us that you actually earn money for the government that goes into the Treasury?

Mr. HOCHBERG. Correct. We earn money because we are taking in more money than it requires to run the Bank.

Ms. WATERS. So, in earning money there is no way that anybody can credibly say that you are providing welfare for corporate interests. Is that right?

Mr. HOCHBERG. That is correct.

Ms. WATERS. It is just an absolute misstatement.

Mr. HOCHBERG. It is a misstatement, as crony capitalism is a misstatement as well.

Ms. WATERS. Thank you very much. And I hope that as we go through these discussions, you will say that over and over again. We have to rob the opposite side of their ability to undermine the tremendous work that you are doing, the tremendous way that you are allowing the United States to at least get at the balance of payment and get us into the export business. If it wasn't for your 2 percent or so that you are doing, we would be out of it altogether.

I thank you.

And I yield back the balance of my time.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Oklahoma, Mr. Lucas, the chairman of the House Agriculture Committee.

Mr. LUCAS. Mr. Hochberg, are you having fun today?

Mr. HOCHBERG. I have a chance to tell the story of Ex-Im Bank, so more people will understand what we do and how we help support jobs in this country, so I enjoy doing that.

Mr. LUCAS. That is a good response. And clearly, you are having a lot of rounds pitched at you politically from a variety of directions here today.

If I could, to the whole panel, discuss for a moment with me the nature of how the rest of the world handles this situation. And if we were, indeed, to step away from the institution, would any of the other countries that we are aware of around the world drop their similar type of programs? I address this to anyone on the panel who would care to touch it. Is anyone talking about getting out of this business that does this on the planet that you interact with?

Mr. HOCHBERG. Are you asking me?

Mr. LUCAS. Any of you.

Mr. HOCHBERG. I would say when I meet with my colleagues in the G7 and the BRICs, it is the exact opposite. They are looking for a way to ramp up. They are adding staff, and frankly, unlike the Ex-Im Bank, most of them have offices around the world. I think China Ex-Im has something like 10 or 12 offices globally. We are located here in the United States. So, they are going in the opposite direction. None of them are looking to become less robust or handicap their Ex-Im Banks. They are looking to enhance them.

Mr. LUCAS. To my friends from CBO and GAO, if this institution goes away, I know you have addressed this but one more time, please, the impact on the Federal budget?

Mr. ELMENDORF. So, Congressman, under the Federal Credit Reform Act, the rules that Congress has legislated and we follow, the Export-Import Bank has a negative subsidy cost, and that is the way it is recorded in the budget and the way we include it in our budget projections.

Mr. LUCAS. Okay. So if I understand the two sets of comments, we have a situation where we are not the only people engaged in this kind of activity. It would appear we are the only people discussing not continuing to engage in this activity, and the effect of engaging or not engaging in the activity has no real impact on the Federal budget? Fair observation?

Mr. SCIRE. I think the way the Federal budget is accounted for right now, you really don't yet know. You really won't know what the costs of these programs are until more time has elapsed and the very recent books of business have had time to mature. I would point out that 11 of the cohorts that Ex-Im has done actually require subsidy according to Ex-Im and OMB's estimates based upon re-estimation. So we really won't know the full cost of these credits until they have had time to mature.

Mr. ELMENDORF. Congressman, I want to agree with that.

What I was careful to say in my comments was that under the rules that Congress has legislated and that we of course follow, the Ex-Im Bank is a negative subsidy. We also have said a number of times, including just in a recent report, that we think a more comprehensive way to measure the cost of Federal credit programs would show Ex-Im Bank as having a positive subsidy cost. That is not the way it is recorded in the budget now.

Mr. LUCAS. Thank you for that clarification.

Mr. HOCHBERG. Just so it is clear, a negative subsidy means we transfer, we make extra money we don't use, and it goes to the taxpayers to deficit reduction. That is what a negative subsidy means. So we have transferred this year over a billion dollars; last year, $800 million; and since Federal credit reform in 1992, $6.6 billion has gone from the Bank to the Treasury. If I could add one last thing, I know our time is limited. The financial crisis from 2008, we have a real-life stress test. I understand what GAO says. We have complied with everything GAO has asked for, but on top of that, we have seen the most stressful economic system and stresses on economic and Banking system the world has ever seen since the Depression, and our defaults are, again, 0.211 percent, less than a quarter of a percent. So I understand the future is uncertain, but we have just gotten through the worst 6 years the world has ever seen.

Mr. LUCAS. Absolutely, Chairman.

The question is always is in most issues, is the glass half full or half empty? What will be the impact of having a glass or not having a glass? That is a policy decision that we have to decide here, but it is a fascinating subject of discussion. The intensity that I have observed in this committee, both perspectives, is great, but whatever we do will impact business. It will impact individuals. It will impact our competitive nature around the whole planet.

And with that, I yield back to the chairman.

Chairman HENSARLING. The Chair now recognizes the gentleman from Missouri, Mr. Cleaver.

Mr. CLEAVER. Thank you, Mr. Chairman.

To the inspector general, there have been some problems, obviously, with the Ex-Im Bank, but has there been something so egregious, so monstrous, that Congress should give the Ex-Im Bank a certificate of discontinuation?

Mr. GRATACOS. Obviously, the decision of whether Ex-Im Bank is still around is for Congress to decide. All we have done since we started the office is to look at some of the issues that were apparent to Bank operation, either from the law enforcement side—we have been very active on that side—or from the operational side. We had a hearing last year talking about risk management. We have done work on dealing with customers, on the complaints we receive from customers. We look at economic impact. We looked at all those aspects of the Bank that we thought needed to be addressed, and since then, the Bank is working with us in addressing those. Some recommendations are still outstanding, but there is still some progress and even the conversation is something that 2 or 3 years ago, wasn't even on the table. So, from our perspective, we focus on the operations of the Bank.

Mr. CLEAVER. Thank you. To the GAO, if we didn't fund the Air Force, would it have an impact on the budget?

Mr. SCIRE. Of course.

Mr. CLEAVER. That simple?

Mr. SCIRE. You asked if we didn't fund the Air Force?

Mr. CLEAVER. Yes.

Mr. SCIRE. Of course, yes.

Mr. CLEAVER. What if we didn't fund toilet tissue for the Capitol?

Mr. SCIRE. That would have an impact on the budget.

Mr. CLEAVER. Okay. Thank you. So anything we don't fund would have an impact on the budget. Is that correct?

Mr. SCIRE. I am not sure it is material for this discussion, but yes.

Mr. CLEAVER. You are absolutely right. You are absolutely right. Now, let me go further.

Mr. Hochberg, do you know how many times the Ex-Im Bank has been reauthorized?

Mr. HOCHBERG. Ex-Im Bank has been reauthorized more than 16 times in its 80-year history.

Mr. CLEAVER. Sixteen times.

Mr. HOCHBERG. Correct.

Mr. CLEAVER. Would it be a surprise to you—it probably wouldn't—that most of them were unanimous votes or overwhelmingly unanimous when they went to the House Floor and to the Senate and that a significant number—I can't remember the exact number—was actually, they were actually voice-voted out of the House, and then I think they called it consent in the Senate, in the lower House—what do they call it in the lower House?

Mr. HOCHBERG. I think unanimous consent in the Senate. Unanimous consent.

Mr. CLEAVER. Unanimous consent. You would be surprised at the number of unanimous consent. So I guess the point I am making, perhaps poorly, is that, what is different now? And what I am saying is, are there some problems? I think that there are some things we can do. I think there are some tweaks that could be made. There should be some reform. I think the Delta Airlines representative brought us some things that should be considered. But my concern is that the Ex-Im Bank has been well-received by everybody over the years, and now, all of a sudden, we have this partisanism over the Bank, and I am just wondering what is it about this moment in our history that we don't think we can look at a problem and something that's not that big a problem and then make changes so that our businesses can compete for business abroad? I am frustrated over the fact that it would seem to me that there are issues that need to be addressed that can be fixed. Has there been anything that has been discussed here today that can't be dealt with if we sat down and worked?

Mr. HOCHBERG. Congressman, I am a businessman. I came to this after 20 years in the private sector. We are constantly, and our team is looking for better ways to operate the Bank, address reforms and issues brought up by Congress so we can do a better job in managing risk and also serving exporters. And lastly, I would just add that it was President Reagan who signed a 6-year extension of the Ex-Im Bank, so a full 6-year reauthorization.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. McHenry, chairman of our Oversight and Investigations Subcommittee.

Mr. MCHENRY. I wanted to ask you about The Wall Street Journal story from June 23rd about the employees being under investigation for accepting kickbacks and improperly steering contracts to favored firms. Is there an internal investigation conducted by the Ex-Im Bank on these matters separate from the investigation by the Office of Inspector General?

Mr. HOCHBERG. Let me just begin by saying, frankly, I am outraged by the number—

Mr. MCHENRY. I appreciate that. You have answered this question before about how you are outraged, but is there an investigation by the Ex-Im Bank separate from the Office of Inspector General?

Mr. HOCHBERG. Most of those investigations are transferred over to the inspector general when they reach a certain point, so they are under the jurisdiction of the inspector general at this point.

Mr. MCHENRY. At this point. No further investigation from your staff?

Mr. HOCHBERG. They are turned over—at this level of seriousness, they are turned over to the inspector general.

Mr. MCHENRY. And so the status of an investigation would be closed there but opened at the OIG?

Mr. HOCHBERG. Well, it is not closed. It is an open issue. But it is—

Mr. MCHENRY. But if you referred it to them because of the seriousness, then you are done with the investigation, correct?

Mr. HOCHBERG. We are waiting to hear what the Inspector General says. That may recommend other actions we take, either with the employee or in a procedural manner.

Mr. MCHENRY. I understand. Okay. So as a result of this, have you consulted with the General Counsel's Office about these reported incidents of fraud, waste, and abuse?

Mr. HOCHBERG. Let me just make one statement. All of these infractions, all of these individuals you are referring to were all referred to the Inspector General by our employees. Our employees said, "There is something suspicious here. I need the Inspector General to look at that." So these were all internally generated and sent to the Inspector General by our own employees, who said, "I don't like what I see here. This doesn't look right."

Mr. MCHENRY. Yes, I am asking about you.

Mr. HOCHBERG. Then I am not sure I understand the question.

Mr. MCHENRY. Okay. Fantastic.

So have you consulted the Ethics Office about these matters?

Mr. HOCHBERG. Matters have been handled by our General Counsel and the Inspector General, as is proper, so that they are helped—

Mr. MCHENRY. And the General Counsel referred that over to the Office of Inspector General?

Mr. HOCHBERG. On some of them, they may have been turned over by another employee. They don't have to go through a particular channel. Any employee can refer a matter to the Inspector General.

Mr. MCHENRY. Okay. Let me ask you a separate question. Is there an Office of Ethics at the Ex-Im Bank?

Mr. HOCHBERG. An Office of Ethics? Yes, in the General Counsel's Office, there is an Office of Ethics and Compliance. I know of two—I think there are two to four attorneys in the administrative law area that—

Mr. MCHENRY. And they report to? Who do they—

Mr. HOCHBERG. They report to the General Counsel.

Mr. MCHENRY. Yes. Okay. Other ethics offices actually report directly to the head of the operation, in other parts of government. Would you support that?

Mr. HOCHBERG. We have a Chief Risk Officer that this committee asked, that the Inspector General recommended, and I committed to. The Chief Risk Officer has reporting to him—it is more broader than just credit risk. It looks at all of it.

Mr. MCHENRY. I understand. I just asked you a simple question. So, I will just move on.

Mr. HOCHBERG. The Chief Risk Officer reports to me. And he is in charge of—

Mr. MCHENRY. Yes, I understand. I asked about the Ethics Office, not about the risk office. So—

Mr. HOCHBERG. Ethics is part of that.

Mr. MCHENRY. I understand, but I am talking about a direct report.

I will move on because I understand you don't want to answer those questions I have been asking. So I am going to ask another question. Are you aware of any criminal investigation about the actions that were brought to light in The Wall Street Journal report?

Mr. HOCHBERG. These matters, I think, are better answered by the Inspector General since they are an ongoing investigation. I don't want to invade people's privacy—

Mr. MCHENRY. Are you aware of a criminal investigation about these matters?

Mr. HOCHBERG. I am aware that the Inspector General is conducting an investigation.

Mr. MCHENRY. Are you aware of if there is a criminal investigation about this matter?

Mr. HOCHBERG. I am aware of the investigation. I still feel the question would be better answered, so I don't invade anyone's privacy, by the Inspector General, who is at the table. I just don't—

Mr. MCHENRY. I understand.

Mr. HOCHBERG. I don't want to make a misstatement.

Mr. MCHENRY. I understand. In terms of meetings with the Office of the Inspector General, that is much easier to do. And so, I am just trying to ask you a few questions. Mr. Chairman, I am just trying to get to the bottom of this.

If I can ask you a question about the Florida construction company at the center of The Wall Street Journal story, have you had any contact or dealings with them personally?

Mr. HOCHBERG. Oh, no.

Mr. MCHENRY. Okay.

Mr. HOCHBERG. Absolutely not.

Mr. MCHENRY. All right. Thank you.

And, Mr. Chairman, I yield back. Confounded, I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Florida, Mr. Murphy, for 5 minutes.

Mr. MURPHY. Thank you, Mr. Chairman.

And thank you all for appearing before us today.

Chairman Hochberg, thank you. It is good to see you. Thank you for your steadfast promotion of American jobs and American manufacturing in our country.

As a small business owner myself, I understand that one of the most important things those small business folks need is access to capital and financing. Last year alone, Export-Import Bank financing supported over 200,000 jobs, 90 percent of which supported small businesses.

If the United States unilaterally disarms the export financing world and allows Ex-Im to lapse, what kind of economic impact could it have on American manufacturing, on our job creators, on our exporters selling goods that are stamped proudly, "Made in America" all around the world—and so many of which have relied on this Export-Import Bank?

Mr. HOCHBERG. On the first panel, we had Steve Wilburn, who gave specific testimony how just the threat of Ex-Im Bank not being here in September has already impacted the awarding of a $57-million contract to his company that would support a lot of jobs. The smaller transaction of $48 million supported 165 jobs. This would obviously be more; it is even a larger transaction.

We heard small businesses at the time of the shutdown, just even the threat of a shutdown, were losing sales because of potential we would not be there.

Small businesses rely on us very deeply. It is 90 percent of our customers, 90 percent of the clients. And, frequently, they do not have another option. They frequently have very few options. I ran a small business. It is hard to get credit in general, and it is even harder for a small business.

Lastly, many of the small businesses are part of the supply chain. So I know we focus on small businesses, direct exporters, but they are part of the Boeing supply chain, they are part of SpaceX, where Congresswoman Waters is, in her district. There is a large supply chain. A manufacturer like Boeing or GE, people like to talk about, but they don't make 100 percent of what they do. Their supply chain is full of small businesses that would also be impacted immediately.

Mr. MURPHY. Thank you.

As a fiscal conservative myself, I view all government spending with a skeptical eye. But one of the things I say frequently is that it isn't this body's role to create jobs; rather, it is our role to create an environment that is conducive to job growth. And you develop that environment through stability and certainty. Not by shutting down the government, or threatening to go over fiscal cliffs and sequesters and not by putting things like the Ex-Im Bank at risk.

Can you talk about some of that uncertainty, and if 200,000 jobs were supported last year, what that could potentially mean for these jobs in the future?

Mr. HOCHBERG. It is obviously hard to be precise. I am thinking positively, that we are going to reauthorize the Bank and do it on time. But let's be very clear—205,000 jobs in the past year, well over a million jobs over the last 5 years, just under 1.2 million, were supported by our exports. That is because we filled the gap the private sector could not fill or didn't to meet the competition. So those are all at risk.

When someone gets a loan from us, they have to state why they need the loan from us, or the guarantee or insurance, why can't they get it in the private sector. I would rather the private sector do everything. We are there when the private sector can't or won't.

Mr. MURPHY. To that point, I feel like I am in an alternate universe here. It just doesn't make any sense.

Can you talk about how on the international scene, this has affected what some of our competitors globally are doing, what some other countries are doing? And could you address whether you think our global competitors' export Banks are going to step in to help American manufacturers.

Mr. HOCHBERG. As I said, there is an ad in today's Politico that talks about the ex-im Banks of China, Russia, and France. And there are 57—there are 60 countries that all have an export Bank. They all would gleefully take sales from the United States and support more jobs in their communities. They are delighted to do that. They are looking forward to doing that.

As I mentioned, China does more than 4 times the amount of financing for its exports than we do. We have a far more modest, much more careful, much more proscribed—

Mr. MURPHY. So, if anything, some could argue we should be expanding the Export-Import Bank.

Mr. HOCHBERG. Yes, I would agree with that.

Mr. MURPHY. If you really care about jobs and American manufacturing—

Mr. HOCHBERG. If you really care about jobs and you want to make sure we beat the competition. And, frankly, one way to get to the competition is to meet them toe to toe, head to head, over and over again and indicate we are not going to back down unless they play by the rules.

Mr. MURPHY. It would be one thing if not a single other country in the world had the equivalent of the Export-Import Bank. But they do, and, in fact, they are bigger. We don't live in that universe, so we might as well live in this reality, compete, and give our employees the best opportunity they can have.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from California, Mr. Royce, chairman of the House Foreign Affairs Committee.

Mr. ROYCE. Thank you, Mr. Chairman, very much.

Mr. Hochberg, a stated goal of Ex-Im Bank is to provide export credit assistance to serve customers who are unable to obtain financing through the commercial markets.

What policies and procedures does the Bank have in place to ensure that it is limiting its assistance to these customers and not crowding out opportunities for private capital markets? And does Ex-Im make any kind of formal analysis of what kind of private capital would enter markets in its absence?

Mr. HOCHBERG. Each application must state unequivocally why they are looking for our support and why they can't find it in the private sector. That is a requirement in reviewing a loan application, whether it is lack of financing, meeting the competition. Sometimes Banks have limits on what they will do in certain industries or certain countries. That is where we step in.

Sub-Saharan Africa is a good example of that. We did a lot of loans in the Philippines. I have a list here. In Cameroon, I think I mentioned earlier, over half the exports that went to Cameroon, for example, we financed. Why? It is very hard to get any Bank to step forward.

In places like Western Europe, we do very little business, because the banks are able to do that. In Japan, we hardly do any business, because there is a well-defined banking system.

Mr. ROYCE. Let me ask Mr. Scire; let me ask the GAO.

Is Ex-Im doing enough to ensure that companies are going out into the private market and not finding capital before coming to the Bank?

Mr. SCIRE. So I think that gets into, sort of, the underwriting and what they are doing in terms of looking at eligibility and the analysis that is done there. And we have work under way right now that is looking at that, but that work is not yet complete.

I would point out that we had made some recommendations back in 2007. And this is just to clarify a point. Although Ex-Im has been very cooperative and has agreed with our recommendations, not all have yet been implemented. And so there are some recommendations we made in 2007, which look at some of this economic impact, that it is still working on.

Mr. ROYCE. Okay.

Let me ask, also, in terms of the numbers and what numbers are right, both sides of this debate are claiming numbers that support their case, based on different accounting methodologies. So the Bank claims estimates that it made $1.6 billion in revenues for taxpayers since 2008. Yet, as you know, and as has been cited here today, the CBO reported on May 22nd that if Ex-Im used the fair-value accounting method, it would be budgeted as a $200-million cost to the taxpayers each year.

Dr. Elmendorf, can you explain the large gap in numbers between these assessments? And, in your response, can you touch on what kind of risk assumptions you use, in terms of losses, when you apply this fair-value methodology? Do you look at historical experience and commercial Bank experience? And do you factor in loss reserves and capital? Maybe a quick explanation of how you do this?

Mr. ELMENDORF. Yes, Congressman.

When the government makes a loan or makes a loan guarantee, either through Ex-Im Bank or some other credit program, the ultimate budgetary effects of that are not known. Many loans, most loans are repaid. Some loans are not repaid or are repaid in part. Sometimes, some money is recovered. The ultimate budgetary effects aren't known until after the fact.

So, last year Ex-Im turned over some amount of money to the Federal Treasury. That is certainly true.

When we give the Congress cost estimates, we are trying to give you a sense of what will happen going forward under a certain program from a certain program from a certain bit of financial assistance, and those estimates are operating in a world of great uncertainty. What the fair-value methodology does is to capture in the estimate not only the expected level of default and recoveries but the variation around that expectation, and to recognize how possible outcomes are—

Mr. ROYCE. Let me put it another way. What I would be interested in is the risk-analysis framework that is employed in accounting by the private sector creditors.

Mr. ELMENDORF. Right.

Mr. ROYCE. If you did that—

Mr. ELMENDORF. So private sector creditors take account of this market risk and put a price on it because the risk is costly to—

Mr. ROYCE. In your opinion, if you did that, would it be a $200-million cost to the taxpayers or would it be a—

Mr. ELMENDORF. Yes, Congressman. When we applied that methodology to the Ex-Im Bank's projections of the size of the credit programs they will run, of the default rates and recovery rates and so on, taking the same set of underlying cash flows that appeared in the credit supplement to the President's budget and that we use in our standard FCRA accounting, when we use those same underlying cash flows but apply this cost for market risk, then the Ex-Im Bank's programs are costly, by our estimate, to the tune of $200 million a year, as you said.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

In this morning's hearing, the airlines, with the chairman of Delta Air Lines and the Pilots Association, made some very, very salient points.

Now, I think this: We have to the move the Ex-Im Bank forward. It helps small businesses. It creates jobs. But I believe we can do this as well as address those concerns.

So, Mr. Hochberg, I know that you know exactly what they are, but from what the testimony said this morning, the chairman of Delta Air Lines, Mr. Anderson, and the head of the Pilots Association, Mr. Moak, both made these points: that unless there is a level playing field in the exercise of one particular aspect of what you do, which is the financing of these wide-body aircraft, that puts our airline industry in the United States at a competitive disadvantage with foreign airlines who are able to get these wide-body aircraft flying these international routes that are very, very profitable.

So you can see the concerns that Delta Air Lines has and the pilots and the airline industry have. Because, quite honestly, unless we do something to address this—and if the Ex-Im Bank is being used in an unfair way to subsidize, for example, the airlines in India, the other airlines that have been brought up, where they get subsidized by their government, then they turn around and they get subsidized by you, they are able to get those planes cheaper, then they can reduce their ticket prices, and that makes it very uncompetitive.

So what I want to do is, and as I mentioned to the chairman, find a way that perhaps we can come up with some language as we move forward with this, within the 90 days that we have, that can address that concern. It doesn't seem that this is mutually exclusive.

Can you help us with that and give me a little guidance on how we will be able to move this forward, while at the same time addressing the concerns of Delta Air Lines?

Mr. HOCHBERG. I will do my best.

One, let me just—I have to say, we don't subsidize. People pay us a fee, and, as a result, they are essentially paying for our guarantee so they can borrow money through a bank. And we are totally self-funding and self-sustaining. So there is not a subsidy going from us to anybody else. I just need to state that.

Two, in 2011, without Congress asking us, we raised the fees multilaterally across the world, made it more expensive to borrow money from us to buy aircraft, in particular. Today, foreign carriers all pay more than a comparable U.S. carrier would pay for the same airplane. So, they are already paying a premium. What Delta Air Lines is unhappy about is—they are paying a premium; they think they should pay an even bigger premium. They are paying more; they would like them to pay a lot more.

So, one, we just need to understand the facts. We all can have different opinions, but there are the facts—

Mr. SCOTT. But Delta Air Lines does not take any money from the Ex-Im Bank, but these foreign countries do.

Mr. HOCHBERG. We look at a—that is correct. Because the need is—the United States has the best financial markets, the most liquid, creative financial markets. So U.S. carriers can borrow at far lower rates than any foreign carrier buying the same airplane.

Mr. SCOTT. Well, here is what—

Mr. HOCHBERG. So there isn't an advantage going to the foreign carriers is what I am trying to say.

Mr. SCOTT. Yes, but here is—granted.

It is sort of like we are at a stalemate here, and what we have to do is try to lean in to one another and to try to find out where we can give here. Because there is absolutely no way that we can move forward with the progression of the Ex-Im Bank if you have this salient cry from an unlevel playing field for one of our most significant, important industries worldwide.

Isn't there something we can do, even if it is a trigger, even if it is an amount, even if it means curtailing certain routes that the competition can't take?

Mr. HOCHBERG. For 3 years, we have been asking Delta precisely what they would like, and they have not given us a precise recommendation.

Mr. SCOTT. Hopefully, we will get that recommendation, and an amendment that can address this, too, as we move forward.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Tennessee, Mr. Fincher.

Mr. FINCHER. Thank you, Mr. Chairman.

Mr. Hochberg and the rest of the witnesses, I appreciate you being here.

A lot has been talked about today with Delta Air Lines, and I was looking over something where Delta had used the credit export agencies of Brazil and Canada to purchase hundreds of aircraft made in those countries.

Is that true, Mr. Hochberg?

Mr. HOCHBERG. Yes, to the best of my knowledge.

Mr. FINCHER. So why would they be—and to their credit, they are for reforms, but extending the reauthorization of the Bank. But what would be to the advantage of Delta to borrow the money from those countries and not use ours? The products?

Mr. HOCHBERG. Yes. The United States is not really in the business of making what are called regional jets, those small, somewhat uncomfortable, narrow jets that hold 50 to 75 people that a lot of us fly on. So, we don't make those. They are really manufactured today largely in Brazil and Canada. Japan is coming up on stream, Russia and China—

Mr. FINCHER. But it is the principle of the thing. If you are against it, you would be against it, all of it.

Mr. HOCHBERG. Correct.

Mr. FINCHER. But they—

Mr. HOCHBERG. They avail themselves of, it is estimated, between $3 billion and $4 billion worth of export credits from Brazil and Canada.

Mr. FINCHER. Again, I used this, this morning. The U.S. economy shrank at a steep 2.9 percent rate in quarter one. The Commerce Department says the first-quarter contraction was even more severe than the 1-percent annual decline it estimated a month ago. Another major factor was a bigger trade deficit than initially estimated.

I did not support reauthorization last time because we did not make the reforms I think were necessary. I have a book of reforms now that we have been working on.

Something that we tend to do in Congress—and now we are in primary election season. So things are happening. We saw elections last night, and elections will be next week. And elections have consequences when we forget who we work for. If I forget my district back at home in Tennessee, then when I go back there, the elections will have consequences.

My district, the number of jobs supported—and I know the gentleman from South Carolina had problems with numbers a few minutes ago—but 1,000-plus jobs in my district, 5,000-plus in my State. Now, that is who I work for, the Eighth Congressional District of Tennessee.

This is not about big business or small business. Look, we want the country to grow and flourish. We want to hopefully have the environment and the private sector where they don't need the government and don't need Washington. But, at the same time, I am looking at the debt clock. It is unbelievable. But this is a program, under the current guidelines, that is not costing; it is actually returning money back. We need to reform it.

I heard former Chairman Bachus, a few minutes ago, talk about sending a letter to you guys and not getting a response in a timely manner. I think that is unacceptable. I think we have do a better job of being accountable to your customers.

But to just, because it doesn't look right or I don't get everything I want—my wife and my little girl were going to be here today, but she is out doing something else. And I was thinking, I have been married 23 years, which is a long time. I don't get everything I want at home. I am sure not going to get everything I want up here. It is just not going to happen. But my job—

Mr. HOCHBERG. I hope you do better at home.

Mr. FINCHER. Yes, I will have to do better at home.

My job is not—I am a farmer. And I came to Washington 3½ years ago, and I promised my constituents, the folks in my district—because I received farm subsidies before I was elected. And I promised them that we needed a better way. We needed to reform the farm bill. This is just an example. We reformed the farm bill, more reforms than there had been in I don't know how many years.

We did away with the farm subsidy program. We took many steps in the right direction.

Was it perfect? No. I have voted over 2,400 times since I have been here, and none of the bills have been perfect. But did I vote "no" and say, it is not everything I want so I am just not going to do anything? No. That would be irresponsible on my part.

My part is to do the best I can for my district and support an investment that creates 1,000 jobs in my district. And that is what this is about. With reforms. Without reforms, I can't support it. But, hopefully, we can reform it and move it forward.

So, with that, I yield back, Mr. Chairman. Thank you.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from California, Mr. Sherman.

Mr. SHERMAN. Mr. Hochberg, I hope that as you administer Ex-Im in the future—and I do think you have a future—you will focus especially on small businesses and focus on new products. Because the future—we have been trying to maintain a wage rate way beyond the average wage rate in the world, and the only way we are going to do that is by making things here that they don't make elsewhere.

Now, a lot of this debate is between those who think we should focus on Ayn Rand's books on libertarianism and the purity of that versus the practicality. The practicality is Germany has more than 3 times the exports per person as we do in the United States. Germany has an export credit authority, or agency, that is roughly 3 times the size of ours compared to the size of our economy. Obviously, Germany is a somewhat smaller country. And while we have a declining manufacturing sector and a huge trade deficit, they have outstanding manufacturing jobs and a huge trade surplus. So the practicality side leads toward us also having an export credit agency.

So the question is on purity. I want to point out to this committee that the Ex-Im Bank has a little sister. It is called OPIC. It is also a U.S.-sponsored export credit authority. It comes under the jurisdiction of the Foreign Affairs Committee. We reauthorized them on the Floor of the House of Representatives under a bill written by my good friend, Chairman Royce of the Foreign Affairs Committee. Yes, that good friend. One hundred and six Republicans voted for that bill.

So if you are torn and you think, well, the Ex-Im Bank is good practicality but I have to preserve my ideological purity, if you are one of those 106 Republicans who voted for the Electrify Africa Act, which had the OPIC reauthorization in it, you have already lost your ideological purity. So, come with us and be practical.

As to ideological purity, as to the gentleman from Tennessee, I think, who has just left, pointed out, Delta Air Lines has no ideological purity, nor do I expect them to have it. They are practical. They bought Canadian aircraft and they got financing from the Canadian agency that is analogous to Ex-Im Bank.

One thing that is practical about Ex-Im Bank is that you are scheduled to make, what, $14 billion over the next 10 years? Do I have that right, Mr. Hochberg?

Mr. HOCHBERG. That is the CBO estimate, yes.

Mr. SHERMAN. That is the CBO estimate. Okay. Do you have a different estimate?

Mr. HOCHBERG. I don't make estimates to 10 years. We simply made a projection, a budget proposal for 2015, and they took those numbers and projected them out 10 years.

Mr. SHERMAN. Okay. And so, we have to live under the benevolent tyranny of CBO, and if they say we lose $14 billion, then we have to adjust those debt clocks and announce to the country that we are increasing the national debt by $14 billion, or we have to wait for the chairman of this committee to join me in a pro-revenue bill. And that would take a long, long wait.

But it is argued that fair-value accounting, which is not the law—every time somebody wants to increase the national debt by a proposal, they say, "Well, just change the accounting, and then I am not increasing the national debt." I have heard this all the time. Dynamic scoring. Now, it is fair-value accounting.

And I want to make sure I understand this. Fair-value accounting would mean for Pizza Hut that we don't see whether they made money or lost money; we see whether they would have lost money if they had to pay as much to borrow money as the local pizzeria, which would be a very strange thing. The investors in Pizza Hut would be very surprised to find out that their company had lost money.

Do I have that right, Mr. Hochberg?

Mr. ELMENDORF. Congressman, that is not the way I would describe Pizza Hut's use of fair-value accounting.

Mr. SHERMAN. Pizza Hut is prohibited from using fair-market accounting, thank God, because—

Chairman HENSARLING. The time of the gentleman has expired.

Mr. SHERMAN. —it would be a phony way to report to shareholders.

Chairman HENSARLING. The Chair now recognizes the gentleman from South Carolina, Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman.

We have heard a lot of talk today in the last 5½ hours about reforms and making a better Bank. So, let's look at that a little bit.

Mr. Hochberg, you were here a year ago, and, at that time, I asked you about the Inspector General's report that said you had had some problems, that you were not routinely reporting the performance of your sub-portfolios relating to the small business, Sub-Saharan Africa, and renewable energy mandates. I found out from the IG's Office today that you still haven't fixed that one.

I also said a year ago that it looked like you had trouble, according to the IG's Office, with a lack of due diligence and asset monitoring efforts conducted by lenders, specifically the ones who have a history of defaulted transactions. Even though there is an expectation that such efforts are taken, Ex-Im Bank does not require participating lenders to conduct due diligence or asset monitoring of their investigations. I found out from the IG's Office this morning that you haven't done that one either.

There is a list of 78 different things that the various reports since 2010 have asked you to do, 78 things either the IG or the GAO has asked the Export-Import Bank to do. The IG has been able to verify that you have done and fixed 33 of those 78. As to

36 of them, either the IG can't verify that you have fixed them, they say that you are working on it, or they say that they know for a fact you haven't started on them yet. There are 9 of the 78 that they say your responses are unresponsive and they don't even count you as trying to fix things.

You are required by law—12 U.S.C. 635(b)(1)(B): "In authorizing any loan or guarantee, the board of directors shall take into account any serious adverse effect of such loan or guarantee on the competitive position of United States industry, the availability of materials which are in short supply, and employment in the United States."

We heard this morning that you have done that one time—one time in 2001, when it comes to helping Boeing sell aircraft overseas. That was with, I think, Aeroflot in 2001. And staff tells me now that you have conducted a grand total of 24 of those reports, as required by law, over the last 17,000 export-import transactions.

In 2012, we asked for some reforms. In 2012, this body asked the Export-Import Bank for some reforms, one of which was, "The Secretary of the Treasury shall initiate and pursue negotiations with other major exporting countries, including members of the Organization for Economic Cooperation and Development and non-OECD members, to substantially reduce, with the ultimate goal of eliminating subsidized export financing programs and other forms of export subsidies. That was, I think, almost 2 years ago. You all have managed to set a meeting.

The Administration recently sent over its proposed reforms, I guess. They call it a reauthorization. I don't know if we would call it a reform. It essentially says that you want more money; you want to change the way you count losses; you want to eliminate the need for producing stuff in the Federal Register regarding notice, lowering the accountability and transparency.

And—and I wish the gentleman who was here from the previous panel, small businesses—you want to be able to count towards your small business quota small businesses that sell to big businesses. So forget about the pickles, forget about the guy's green energy. Unless you are selling to one of the big guys, you don't get to count under the President's proposed reforms, which I guess you participated in, because it is under your signature.

I look at all of that against a political environment where this Administration has regularly shown that they don't really care about following the law very much. They certainly haven't followed it on health care. They are not following it on immigration. They don't seem to be following it on how they are supposed to keep the emails over at the IRS.

So it makes me wonder, for everybody here who says, listen, that is great, let's pass some reforms, that would be wonderful. Before you run to the reform bandwagon, I encourage you to ask some questions to make sure that before we do that, let's first see if the Bank can actually reform itself under the existing laws that we have already passed. Let's see if maybe the Bank can make the suggested reforms that the IG and the GAO have suggested. And let's maybe make sure that this Administration might actually be interested in enforcing a reform bill if we pass it. Until then, I suggest to you that the time is way, way too early for talking about reforms of this Bank.

With that, I yield back the balance of my time.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Illinois, Mr. Hultgren.

Mr. HULTGREN. Thank you, Mr. Chairman.

And thank you all for being here.

First, Mr. Chairman, I would ask for unanimous consent that my full statement be inserted into the record.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. HULTGREN. Thank you.

I really would like to thank the panelists. It has been a long day, I know, but this is an important discussion. And I know, as many of my colleagues, we just want to get information, we want to know the truth, we want to do the right thing.

As I mentioned in my opening remarks, I think Congress should take a hard look at the current structure of the Export-Import Bank. But, also, I hear from my own district's businesses that tell me that they rely on the Bank to ensure that their exports reach their customers. So before Congress abolishes the Export-Import Bank without a reasonable exit strategy, I think we really, first, need to explore viable reforms for the Bank.

This leads me to my first question, and I will address it to Chairman Hochberg.

The Bank's role in providing export credit assistance is to serve markets and customers that are unable to obtain financing through commercial markets. What policies and procedures does the Bank have in place to ensure that it is limiting its assistance to these customers and not crowding out opportunities for private capital markets?

Mr. HOCHBERG. Congressman, thank you for giving me a chance to talk a little bit about that.

First of all, 98 percent of the transactions at Ex-Im Bank, we work with a private sector bank to either make the loan, guarantee the loan, or arrange the loan. So we are doing that with 98 percent of the transactions.

Furthermore, every application needs to state unequivocally why they are coming to us and why they can't do this in the private sector. That is a requirement for us to be making a loan. It is called—the term that is used is "additionality," what additional value are we providing.

And that is one reason, quite frankly, our loan portfolio hasn't grown as much in the last 2 years; there has been less need for us of late. I don't know if that will continue, but, of late, there has been a little bit less need. And that is a good sign. That is a good sign that Banks are making more loans and they are also dealing more with small businesses.

Mr. HULTGREN. I would address my next question to the Inspector General, if I may.

Your office regularly engages with private sector stakeholders to obtain input on the Bank's operations. I wonder, in your opinion, is the Bank effectively limiting itself to markets and customers not being served by private lenders? What steps could the Bank take to better mitigate the risk that it is crowding out private capital markets, and that the Export-Import Bank is the lender of last resort, not the lender of choice?

Mr. GRATACOS. Thanks for the question.

The Bank has a requirement in the charter to only offer financing for three situations. One of them is another ECA competition, a lack of financing in the market, or additionality.

So the requirement that Chairman Hochberg is talking about is a requirement that any transaction that goes through the system has to have a declaration, to some extent almost like a certification, saying, the reason why we come is because of "X."

Now, whether or not that is verified is another story. We did a report on the direct loan program, and we highlighted that sometimes in the loan documents, we couldn't find documentation backing up that statement.

That is the extent of what we are looking to do. We haven't really gotten into whether or not marketing strategies of the Bank across the country meet the charter requirement. We haven't gotten that far. But as focused on the direct loan program, we did address some of those questions.

Mr. HULTGREN. Chairman Hochberg, back to you.

Mr. HOCHBERG. Yes, I would just add, it is required in the loan application. So the applicant needs to certify that their financial records are accurate as presented, that everything they state is accurate as presented.

So I would—we do an audit periodically, but I have to take an assumption, if an applicant is signing an application for a loan guarantee from the Federal Government, that they are not—that a corporate officer is not committing fraud in doing so. So they have to state unequivocally why they are coming to us.

Mr. HULTGREN. Let me move on. I only have a little bit more time.

The current risk management function of the Bank is fragmented and neither addresses the totality of enterprise risk nor how risks may be interrelated.

Given the Bank's recent risk trends, including the increased authority to extend credit from $100 billion to $140 billion, what additional procedures are you putting in place to ensure a central risk management structure?

Mr. HOCHBERG. We, at the recommendation of the IG, and I stated, a year ago we added the position of a Chief Risk Officer. I work closely with the Inspector General that the Chief Risk Officer and the underwriting are two entirely separate reporting structures, both reporting to me.

And the Chief Risk Officer looks not only at credit risk but employee risk, reputational risk, legal, IT, hacking—the entire risk portfolio. There has an Enterprise Risk Committee, and there are two senior career people who report up to the—

Mr. HULTGREN. My time has expired. I yield back. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

There are votes currently on the Floor. The committee will recess until approximately 4:45 p.m.

The committee stands in recess.

[recess].

Chairman HENSARLING. The committee will come to order.

My apologies to the witnesses. Votes do happen. I hope you understand.

The Chair now recognizes the gentleman from Wisconsin, Mr. Duffy.

Mr. DUFFY. Thank you, Mr. Chairman.

And I appreciate the witnesses waiting as we voted.

I was looking at a recent article that quoted a study which basically said that 42 percent of Ex-Im Bank employees agreed with the statement, "My organization's leaders maintain high standards of honesty and integrity." Only 42 percent of Bank employees agreed with that.

And I know, as, I think, what Mr. McHenry brought up earlier, just yesterday in The Wall Street Journal, we had an article about the four Ex-Im Bank employees who are under investigation.

This obviously breeds some concern and actually makes sense as to why only 42 percent think the organization's leaders have honesty and integrity as values.

Mr. Hochberg, I want to just follow up on a question that Mr. McHenry asked.

Have any of those four had referrals for criminal investigations?

Mr. HOCHBERG. I am going to need to defer again to the Inspector General because these are all in his hands at this point.

Mr. DUFFY. I know, but I am asking you.

Mr. HOCHBERG. I can't comment on it. I referred these to the Inspector General.

Mr. DUFFY. You don't—do you not know?

Mr. HOCHBERG. They are under his jurisdiction.

Mr. DUFFY. Do you know?

Mr. HOCHBERG. I am not—

Mr. DUFFY. I am asking: Do you know if they have been referred?

Mr. HOCHBERG. If they—do I—

Mr. DUFFY. Do you know if they have been referred for prosecution?

Mr. HOCHBERG. For prosecution, I—to my knowledge, they are in the investigation stage.

Mr. DUFFY. Okay. Were the four employees referenced in that article placed on leave?

Mr. HOCHBERG. I can't comment. Two of our—

Mr. DUFFY. You can comment on whether or not they were placed on leave. We all know they are under investigation.

Mr. HOCHBERG. Two of them have already left the Bank.

Mr. DUFFY. Okay. And so the two that didn't leave, are they still drawing a paycheck?

Mr. HOCHBERG. There is an investigation going—I am not allowed—I am told by counsel and by the IG that I am not allowed to comment on this.

Mr. DUFFY. On whether or not they are drawing a paycheck?

Mr. HOCHBERG. I am told I am not allowed to comment on that.

Mr. DUFFY. Okay.

Mr. HOCHBERG. I am not trying to evade you. I am just told by counsel I can't comment on that.

Mr. DUFFY. Listen, if you haven't picked up on it, there is a little bit of concern about whether we should reauthorize the Ex-Im Bank.

I know some have presented it as an institution that should have a little halo on top that sparkles and it provides great job opportunity throughout the country and it is a pristinely run organization, you know, sunshine, roses, tulips, it is a beautiful thing.

Some of our concerns and some of the concerns that you might have heard from Delta earlier today are concerns that I imagine don't surprise you.

We have asked that you do an economic impact analysis on your activities, and we have heard testimony that you have 17,000 authorizations. You have only done an economic impact analysis on 24 of them.

Do you wonder why we sit back in surprise and ask, "Why do we want to reauthorize an institution that can't even follow our directions from Congress?"

Mr. HOCHBERG. Congressman, we do an economic impact review of every transaction. Not every transaction warrants a full, in-depth, full-blown, several-month economic—

Mr. DUFFY. Out of 17,000—do you agree with that number? Out of 17,000 authorizations, you only did 24?

Mr. HOCHBERG. I don't know where the 17,000 comes from, so I can't comment on that.

Mr. DUFFY. Do you agree you have only done 24?

Mr. HOCHBERG. I don't have the precise number at my fingertips of how many we have done. I can say the following. If you would like to know the process, from a process point of view, Congressman, we do an economic impact analysis when—when on the surface it says there is more to investigate here.

Mr. DUFFY. It is my understanding that the chairman has been given a large amount of discretion on whether this Bank is reauthorized or not.

And I think it would behoove you if you just fully leveled with us, are fully straightforward with us, you don't dance on questions, you don't hedge, but honesty and being forthright might get you to get a few of us to buy into significant reforms and reauthorize.

But when you come in and you dance on us and hedge, that makes me say, "Listen, I am just going to get more of the same." Because if I vote for reform, I don't trust that you are going to do it. I don't.

I hear a lot of folks tell me that this has no economic consequence to the taxpayer. It helps job growth. It doesn't have an impact on the taxpayer.

Do you agree with that, the Ex-Im Bank?

Mr. HOCHBERG. No.

Mr. DUFFY. Thank you.

Because you know that from 1982 to 1988, on average, we bailed out Ex-Im about $330 million a year and then, from 1992 to 1996, it cost the taxpayer almost $10 billion.

So this is not cost-free to the taxpayer, necessarily. Correct?

Mr. HOCHBERG. If I can respond to that?

Mr. DUFFY. Sure.

Mr. HOCHBERG. A transfer was made because Federal credit reform in 9 billion—

Mr. DUFFY. Oh. So you are going to give me excuses? Listen—

Mr. HOCHBERG. No. 1996. And then we returned—

Mr. DUFFY. My time is almost up.

Mr. HOCHBERG. —9.6. So, actually, we--

Mr. DUFFY. You are not convincing me—

Mr. HOCHBERG. —returned more money than we received.

Mr. DUFFY. —that I should vote for reforms and reauthorization. You have not convinced me here today. I would like you to convince me, but that takes honesty—

Mr. HOCHBERG. You have not given me—

Mr. DUFFY. —and forthrightness—

Mr. HOCHBERG. —a chance to answer the question.

Mr. DUFFY. —with this committee.

And I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Washington, Mr. Heck.

Mr. HECK. Thank you, Mr. Chairman.

Before I begin and use my time, I ask unanimous consent to submit for the record three statements of support from external organizations, most notably including a statement of the U.S. Chamber of Commerce, along with a statement by the U.S. Chamber of Commerce in support of H.R. 4950, the bill I introduced last night, with 201 signatures and sponsors.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. HECK. Thank you.

Mr. Hochberg, how many audits have you had of the Bank since reauthorization?

Mr. HOCHBERG. My recollection is that GAO has done nine; they can probably confirm that.

Mr. HECK. They were all completed?

Mr. HOCHBERG. To my knowledge, seven have been fully completed and two are in process.

Mr. HECK. Mr. Chairman, at this time I would ask unanimous consent to submit for the record a list of all of the requirements and reforms as included in the Reauthorization Act and their status as well.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. HECK. Thank you, sir.

Mr. Hochberg, there is a lot of conversation here today around what reform should be pursued with respect to the funding or financing of wide-body aircraft.

At no point during the many hours we were here today, did I actually hear a specific proposal from Delta Air Lines, although I thought what I was interpreting was, “Let’s just prohibit them.”

If we were to do that, what, in your opinion, would happen in the marketplace, especially with respect to other ECAs?

Mr. HOCHBERG. My concern would be, unless it is multilateral and done with the Airbus countries as well, we would be unilaterally disarming and putting the sale of Boeing aircraft and the thousands upon thousands of jobs that are generated from that manufacturer at risk.

It is as though the Honda dealer offers full financing and the Toyota dealer says cash only. It will be a tilt towards that vendor that provides financing.

So if we were to prohibit—if Congress were to prohibit wide-body financing, it would open up that market to Airbus and the competition would still exist for U.S. carriers because the only difference would be foreign carriers would be flying more Airbus planes versus a mixed fleet.

Mr. HECK. In the last 2 minutes that I have, I am going to ask you to stop, breathe, and then paint a picture.

There have been lots of kind of surface projections made about what happens if we wake up on October 1st and your doors are shuttered.

I would like you, as a long-time former businessperson, the former acting administrator of the Small Business Administration, and as the president of the Export-Import Bank, to look forward, not just October 1st and 2nd.

What is the long-term consequence to America's manufacturing base? What happens to our economy? What happens to our position in the world? Paint the picture for us, please, Mr. Hochberg.

Mr. HOCHBERG. I will paint the picture and I would actually include something that is frequently overlooked, Congressman, and that is foreign companies that are looking to invest in this country to make products for the U.S. market.

But all of them have said to me, "When we move here, it is also to export from the United States." And on—several of them have said, "We would not be opening new manufacturing facilities in the United States if there was no possibility of Ex-Im support for our exports. That would be too risky, to actually attract U.S. manufacturing here."

First Solar, a company that does solar panels, manufactures in the United States and in Malaysia. He said that without the Ex-Im Bank, labor costing pretty much the same, the United States actually has higher taxes, but without Ex-Im Bank, he would probably shift more manufacturing to Malaysia.

So I think that we will see some irrevocable changes if that happens. The threat of it is enough to make manufacturers think twice.

If this is going to be an—on again, off again continually, it is hard as a businessman—I was a businessman—to make 5- and 10-year investments when there is so much uncertainty.

Mr. HECK. In the very brief amount of time that I have left, I am fascinated to know how you have accomplished such a low default rate and such a low loss rate. Can you express that in 25 seconds? How do you get that?

Mr. HOCHBERG. First of all, 80 percent of the transactions we have on our books are either collateralized, we actually have security in the actual asset, or are guaranteed by a sovereign nation. So we have a very high degree of collateralization and security.

We do a good job of underwriting, and we do an excellent job at what I would call asset management, actually following up on credits and making sure people are current and stay current.

Mr. HECK. Thank you.

I yield back the balance of my time.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, chairman of our Capital Markets Subcommittee.

Mr. GARRETT. I would defer if you have another Member first.

Chairman HENSARLING. In that case, the Chair will recognize the gentleman from Kentucky, Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman.

Chairman Hochberg, I appreciate you coming to my office and talking to me about a month ago, and I think you know what my principal concerns are with reauthorization of Ex-Im Bank.

There has been a lot of talk today about jobs. And I would like to talk a lot about jobs and, in particular, the job situation in Kentucky and the Obama Administration's climate policies, carbon policies, and the impact that those policies have had on jobs, particularly in eastern Kentucky.

And, as you may recall, on December the 3rd, I sent you a letter expressing my concerns about the supplemental guidelines for high carbon intensity projects.

These are guidelines that your Bank adopted which explicitly provide that your Bank will not provide support for exports for high carbon intensity plants.

And your Bank defines a high carbon intensity plant as any plant that uses coal as a source of fuel for the generation of power or the production of heat.

My Home State of Kentucky is the third largest coal-producing State in the country. We have lost over 7,000 coal jobs in eastern Kentucky over the last 2 years as a direct result of the regulatory assault of this Administration.

We are talking about jobs. You want to talk about jobs. My dismay is that, on December 19th, in response to that letter, you said that the revisions and the adoption of these guidelines was for the purpose of harmonizing Ex-Im Bank with the Administration's climate change policies.

My question to you is: Why on earth, if you are about creating jobs—why are you aligning yourself with a job-killing agenda?

Mr. HOCHBERG. Congressman, we had time to meet in your office. And since 1992, Ex-Im Bank has had to take into account the creditworthiness of an export as well as the environmental impact.

That was put in by Congress 22 years ago. We have had an environmental criteria for all exports since 1992. This is not a newfangled policy.

Mr. BARR. I would just submit that, if this is really about jobs, then Ex-Im would not have issued or adopted these guidelines.

You say in your letter, that you have reviewed this extensively with the Administration. And I want to know who in the Administration did you work with in adopting these guidelines? And I finally want to know whether or not Ex-Im, in order to be reauthorized, would consider abandoning this Bank's participation in the war on coal?

Mr. HOCHBERG. We are active in the export of coal-mining equipment. We are active in the export of coal. One of our largest exporters in the State of Pennsylvania is a company called Xcoal. These regulations only apply to a coal-fired power plant.

Mr. BARR. Well, I understand that.

Let me reclaim my time really quickly.

I would just submit, also, if the Administration is concerned about the environmental impacts, then what you are doing by discriminating against coal-fired power projects is you are excluding U.S. technology from the opportunity that these projects will be funded, but they will be funded by China.

And so, if you are interested in supporting environmentally-sensitive policies, then support U.S. technology to build coal-fired power plants and deliver hundreds of millions of people from energy poverty across the globe.

In my remaining time, I want to share a story from a constituent. When we talked in my office, you gave me the example of a small business in my district that benefitted from Ex-Im financing. And you said, "Reach out to them, LectroDryer." We did.

John McPhearson—I know this man—a small businessman, and he did access financing from Ex-Im. But this is what he told my staff on the phone yesterday, "We reached the point where someone was working full-time to make sure the reporting documents were filled out so that we could continue to receive our line of credit. You simply can't take a company of only 70 employees and dedicate one employee entirely to filling out this kind of paperwork. If the Export-Import Bank went away, it wouldn't make any difference to me."

This was the company that you told me benefitted from the Bank.

"We have seen no difference in sales since we stopped working with Ex-Im Bank. The reason we stopped working with Ex-Im was the cost and the complexity."

Do you have a response to that?

Mr. HOCHBERG. Congressman, we are asked by this committee continually to do a better job of risk management, a better job of oversight.

So I am trying to find a balance between supporting jobs and doing the proper job of oversight. I hope to get it right. If we get tilted one direction, we need to adjust that.

Mr. BARR. Thank you.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, chairman of our Capital Markets Subcommittee.

Mr. GARRETT. Thank you, Mr. Chairman, again. And, once again, Mr. Chairman, thank you for your interest in promoting job creation in this country and holding a very timely hearing.

This committee is very familiar with government lending programs and very familiar with government lending programs that have gone belly up, including Fannie and Freddie, the National Flood Insurance, and FHA in the sense that—you know their numbers.

As such, I have come to believe that over time, when proponents of government lending programs tout that they actually make money for the Federal Government, I tend to remember the old adage that there is no such thing as a free lunch.

So we have to look at it a little bit deeper than the talking points that we hear sometimes on the panel.

According to the CBO—Congressional Budget Office—over the next 10 years, Ex-Im's 6 largest programs will generate $14 billion in the government's standard accounting framework.

However, when CBO applies the private sector's accounting method—and, if you were here before, that issue was discussed with Mr. Anderson in some detail. And I appreciate Mr. Anderson actually having a comprehensive understanding of that as opposed to some of the members of this committee.

However, when the CBO applies the private sector's standards of this program to it, CBO projects the Bank is projected to lose about $2 billion. So between $14 billion and $2 billion—and I can do the math in my head right here even though it is late in the day—is a $16-billion swing, and that suggests there is a lot of downside uncertainty when it comes to Ex-Im.

I will start with you, Mr. Hochberg.

Do you believe that the current government accounting standards truly and honestly and fully account for the risk to the taxpayers of the Bank's lending programs?

Mr. HOCHBERG. I do, Congressman. I can—the difference between—to my understanding, of fair value and the analysis CBO did in that swing assumes one large giant assumption that I believe is not true.

Mr. GARRETT. Okay. So that is—

Mr. HOCHBERG. And that is we would not adjust our fees, would not—we could adjust our fees to compensate. If there was a different accounting system that was adopted by the U.S. Government, we could adjust our fees accordingly to make sure that we were at a break-even or cost no subsidy.

Mr. GARRETT. I don't know that is the only difference and—on their appraisal of it.

Dr. Elmendorf, can you elaborate on this, since you have been there.

Mr. ELMENDORF. Also, Congressman, the estimates that we have done, the numbers of which you describe correctly, take the structure of the programs as they currently are.

So they take the fees as they currently stand. They take Ex-Im Bank's projections of default rates and recovery rates and so on.

If the programs were to change, then we would end up possibly with different estimates of their cost. We have just done an estimate based on the way the programs stand today and the numbers in the President's budget request for 2014.

Mr. GARRETT. So when they talk about the fees changing, those fees are changing on what? On current loans or on future loans, Dr. Elmendorf?

Mr. ELMENDORF. So from our point of view, we have taken the fees that are currently in place.

If Ex-Im Bank were to charge different fees, then we would have to see how that affected not just the direct payments for the fees, but, also, how it would affect the composition of the borrowing that would occur from Ex-Im Bank.

So we have to look at the whole changed structure of those programs.

Mr. GARRETT. Seeing that we have legislation to this point, would you commit to evaluating your loan portfolio on a fair value basis?

Mr. HOCHBERG. We follow the Federal Credit Reform Act. If CBO wants to do a study on that, we would work with them on doing a—

Mr. GARRETT. I am not asking for a study. I am just asking that you do your books as other agencies do, as the CBO does their analysis, on a fair value basis.

Mr. HOCHBERG. Right now I am required—because Congress has—the law of the land is the Federal Credit Reform Act that was passed in 1990. So that is how we keep our books in accordance.

I was in business. You don't pick and choose your accounting system. That is the accounting system of the U.S. Government. It is the accounting system that we comply with when we do our annual audit and work with the IG on that. It is our—

Mr. GARRETT. That is a "no."

Mr. HOCHBERG. We don't pick and choose.

Mr. GARRETT. Mr. Chairman, I think you wanted additional time?

Chairman HENSARLING. Yes.

Mr. GARRETT. If not—

Chairman HENSARLING. I will take the 30 seconds here.

Mr. Hochberg, you have used some rather apocalyptic language regarding what would happen if Ex-Im was not reauthorized.

Again, just for the record—I believe you said it already—but isn't it true that 98.4 percent of U.S. exports are financed without your Bank? Is that correct?

Mr. HOCHBERG. That is correct.

Chairman HENSARLING. Is it also correct that only 5 percent of all transactions of Ex-Im are to meet countervailing subsidies?

Mr. HOCHBERG. I'm not sure I understand the question, sir.

Chairman HENSARLING. It is from your records: 5 percent of the transactions of the Bank—you classify these—are made in order to meet other subsidies.

It is in your competitiveness report. Do I need to cite the page?

Mr. HOCHBERG. I can't remember or recall if it is 5 percent. But one of the criteria is meeting foreign competition from other export credit agencies. In 2013, it was 38 percent. I am just looking at my records here, in 2013.

Chairman HENSARLING. That is dollar volume. Correct?

Mr. HOCHBERG. That was transactions by purpose. It was on a transaction basis.

Chairman HENSARLING. That is on a transaction basis, 38 percent. Okay.

The time of the gentleman has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, vice chairman of our Monetary Policy Subcommittee.

Mr. HUIZENGA. Mr. Chairman, actually, I will yield some of my time to you if you want to continue that line of questioning. As I believe that is a line that needs to be explored, I will yield some time back to you.

Chairman HENSARLING. I thank the gentleman for yielding.

So, Mr. Hochberg, we have heard a lot, and I think you yourself have used the phrase, "unilateral disarmament."

And so, again, if we have over 98 percent of all U.S. exports not being financed—again my reading of your report, and I will try to get the page number, was that it was 5 percent of transactions, roughly a third of dollar volume, are there to so-called level the playing field. All in all, it is a fairly small percentage of all U.S. exports.

You also said that the Bank extends credit based on need and where they cannot find it in the private sector—I don't want to put words in your mouth. I don't have the transcript in front of me. I think you said that.

So GE, Boeing, based on their balance sheets, can they not find credit in the private sector? Is that your opinion?

Mr. HOCHBERG. It is not GE or Boeing. It is their customer. So in the Boeing case, to use that example, I just was in Africa. It is—Kenya Airways or Ethiopian Airways, which are good customers, but don't necessarily—

Chairman HENSARLING. So the size of their balance sheets wouldn't allow them to extend credit to their customer. Is that what you are saying?

Mr. HOCHBERG. They are a manufacturing company. They are not a Bank. And their job is to manufacture and put money into R&D.

Chairman HENSARLING. He doesn't have GE Capital? Boeing doesn't have a finance arm? Are they not financing transactions?

Mr. HOCHBERG. Not to the extent that—of the global requirements. And, again—

Chairman HENSARLING. What is a global requirement?

Mr. HOCHBERG. Well, to meet all their export needs. They do it—frankly, sometimes—

Chairman HENSARLING. What is an expert need?

Mr. HOCHBERG. I'm sorry?

Chairman HENSARLING. What is an export need?

Mr. HOCHBERG. What I am trying to say, Mr. Chairman, is that sometimes Boeing will do it when they say, "You know what? This credit is too poor. We are not even going to present that to Ex-Im Bank." So we do that.

And the other thing we have to remember is we have Airbus, as an example, because we are talking about Boeing, that fully funds their export credit agencies, particularly in Britain, Germany, and France, don't have the criteria we have in terms of—

Chairman HENSARLING. GE Capital has half a trillion dollars in total assets. Boeing apparently has $92 billion in assets. And yet, they have a need that apparently you have to fill.

So you are telling me again some of the largest companies in America can't finance their customers' desire for their products. Correct?

Mr. HOCHBERG. They cannot provide—they are not in the position to provide 12-year financing or 10- or 14-year financing.

Chairman HENSARLING. I wonder what they are doing with that half-a-trillion-dollar balance sheet?

Mr. Hochberg, a couple of different times you have talked about government shutdown, and rightfully said, "I believe this is something that is harmful to the economy, I assume something to be avoided."

Did you talk about the government shutdown earlier today?

Mr. HOCHBERG. I talked about it in terms of what the impact was on exports and small businesses that we work with.

Chairman HENSARLING. And my takeaway from your answer was detrimental. Is that correct?

Mr. HOCHBERG. That is correct.

Chairman HENSARLING. Okay. So if Congress decided to send the President a clean continuing resolution and he refused to sign that because it did not reauthorize the Ex-Im Bank, and the Administration threatened a government shutdown, would you counsel the Administration publicly not to do that?

Mr. HOCHBERG. I am not in a position to make recommendations on that, sir. My job is to manage the Bank and to determine—

Chairman HENSARLING. You just said in your earlier testimony that shutdown is something that you thought was pretty negative to the economy.

So the Ex-Im Bank would be something that would be extraneous potentially attached to a clean reauthorization to keep the government open.

You have had a lot of opinions on a lot of other matters. You have no opinion on this matter?

Mr. HOCHBERG. What I referred to, sir, was that the threat of a shutdown—the threat of not reauthorizing the Bank or I am simply reporting what I heard when I spoke to exporters and their customers—

Chairman HENSARLING. So do you have no opinion on the matter, or do you refuse to share your opinion?

Mr. HOCHBERG. I haven't given it any thought, sir.

Chairman HENSARLING. Fascinating.

Mr. HUIZENGA. I will reclaim my 3 seconds, Mr. Chairman.

The exact quote, as I wrote it down earlier, is that, "We are there when the private sector can't or won't." And the question mark I wrote for myself after that was, "Really? It doesn't always seem to be that is the case."

So, with that, I yield back. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Indiana, Mr. Messer.

Mr. MESSER. Thank you, Mr. Chairman.

I yield my time back to you, the Chair, to continue your inquiry.

Chairman HENSARLING. I thank the gentleman for yielding.

Again, Chairman Hochberg, I would have you take a look at Figure B-1 of the Ex-Im Bank transactions by purpose from your 2012 competitiveness report, page 149, where you list the financing due to the fact that, "No private sector financing was available," and that which says "meet competition."

As I do the math by number of transactions, it is about 5 percent. So—

Mr. HOCHBERG. Would you repeat the page number?

Chairman HENSARLING. —I would have you take a look at that particular report.

Mr. HOCHBERG. I have 2013 here. I did not bring 2012 because we issued this and set this up last night.

Chairman HENSARLING. Well, thank you. But we just got 2013 yesterday. So this is the latest data that we have. Again, whatever the proper number is, it appears to be a somewhat smaller number.

Let's talk again about the so-called level playing field. Listening to some of those who are on the other side of the debate, you would think the only way one could be competitive is to take taxpayer money and subsidize Fortune 50 companies.

Dr. Elmendorf, regrettably, we are going to drag you back into all of this.

But I believe the latest—CBO's February budget and economic outlook said that the Affordable Care Act, also known as Obamacare, would reduce the number of full-time employees over the 10-year budget window by 2½ million.

I assume CBO still stands by that report?

Mr. ELMENDORF. I think that was our projection for near the end of the budget window, Mr. Chairman. And, yes, we stand by those estimates.

Chairman HENSARLING. Okay. Perhaps one way we could make our manufacturers and our exporters more competitive would be to repeal Obamacare.

Now, here is something else that makes people competitive: wages. Some of our competitors have a higher wage scale. Some of them have a lower wage scale.

The President has called for increasing the Federal minimum wage. According to a February CBO report, that could reduce employment by half a million, but it could be as high as 1 million. That, again, is according to a February CBO report.

Dr. Elmendorf, does CBO stand by that report?

Mr. ELMENDORF. Yes, Mr. Chairman.

Chairman HENSARLING. Okay. I think, if I remember right, just about every Democrat on this committee cosponsored the reduction in jobs of a half a million. Perhaps they might want to rethink that to help make our manufacturers a bit more competitive.

We have the top five proposed rules that are coming down the pike, most of which is coming from EPA: Tier 3 emission standards, with a $35-billion impact on the economy, efficiency standards for motors, 11.7.

We have the highest corporate tax rate of any industrialized nation in the world, yet my friends on the other side of the aisle, the only way they can think to somehow make us more competitive is to take taxpayer money in subsidized large companies.

In the time that is remaining, Mr. Hochberg, here is another question that is somewhat disturbing to me: It appears that you are taking taxpayer money and loaning it or guaranteeing the credit to some nation-states that, according to Human Rights Watch, are some of the worst violators of human rights.

The Democratic Republic of Congo, where the Human Rights Watch has said, "Government authorities have sought to silence dissent with threats, violence, and arbitrary arrest against human rights activists."

Freedom From Torture, another human rights group, calls it the rape capital of the world.

And, yet, on behalf of the American taxpayer, apparently, you have extended one of the state-owned enterprises a line of credit.

You have also extended lines of credit to Russia, now that Ukraine's peninsula, the Crimea, has been absorbed.

Sierra Leone, Human Rights Watch, "The government of Sierra Leone and the mining company that is the country's largest employer have undermined villagers' access to food, and prevented workers from challenging abusive practices."

United Arab Emirates continue to crack down on freedom of expression and association.

Okay. What private companies do with their money is one thing. What you do with taxpayer money is something else.

Why are you taking taxpayer money and consistently loaning it to nation-states that are some of the worst human rights abusers on the planet?

Mr. HOCHBERG. Mr. Chairman, the example you cited in the Congo is from the 1980s. It is over 30 years ago. We—

Chairman HENSARLING. My data says 2012.

Mr. HOCHBERG. For every transaction, the State Department gives a clearance of human rights conditions, and we don't make a transaction if the State Department has an objection on a human rights basis. So that is current practice.

I can't talk about what happened in the 1980s. I can talk about currently. The State Department gives us a clearance on every transaction from a human rights point of view that the board considers.

Chairman HENSARLING. Mr. Hochberg, I might say it is time to start showing a little bit of independent judgment in this matter, just one man's opinion.

The gentleman from Indiana's time has expired.

There are no other Members in the queue. So I would like to thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

The hearing is adjourned.

[Whereupon, at 5:25 p.m., the hearing was adjourned.]

APPENDIX

June 25, 2014

TESTIMONY OF RICHARD H. ANDERSON
CHIEF EXECUTIVE OFFICER
DELTA AIR LINES

BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE

JUNE 25, 2014

INTRODUCTION

Chairman Hensarling, Ranking Member Waters, and members of the Committee, I want to thank you on behalf of the nearly 80,000 employees of Delta Air Lines for the opportunity to provide testimony about the need for substantial reform of the Export-Import Bank of the United States. I am here to testify about Delta's experience with the Bank, and in particular the harms caused to U.S. airlines by the Bank's widebody financing; but I first want to emphasize how much Delta and our employees appreciate the Committee's use of its valuable and limited time to examine the important issues raised by the Bank's financing practices.

President Franklin D. Roosevelt established the Export-Import Bank in 1934, when America was pulling itself out of the Great Depression. Worldwide capital markets as we know them today did not exist. Without the help of the U.S. government, foreign purchasers primarily operated on a local scale. The aviation industry was in its infancy, with fewer than 250 commercial planes in operation in the United States. The most advanced passenger aircraft at that time – Douglas Aircraft Company's DC-3 – had only 21 seats and took 15 hours to travel from New York to San Francisco. Today, the world is very different. We live in a global economy; foreign airlines now significantly compete with U.S. airlines on a global scale and have access to robust capital markets. The conditions that gave rise to the Bank's formation have long since passed.

Delta and other U.S. airlines have been raising concerns for some time about the Bank's use of billions of dollars in Treasury-backed loan guarantees to support foreign airlines' purchase of widebody aircraft. Many of those airlines are themselves owned or heavily subsidized by foreign governments. Emirates, for example, is owned by Dubai and receives benefits from that ownership that make it an extraordinarily strong competitor. The credit markets are well aware that Emirates is backed by Dubai's ruling family; it is not subject to corporate or income taxes; and it is not subject to a wide range of fees and excise taxes in the United Arab Emirates that are imposed on U.S. airlines in their home jurisdiction – fees and taxes that together make up over 20% of the average ticket price that U.S. airlines must charge for a domestic flight.

Yet Emirates is backed not only by *its* government, but also by our own. Delta has prepared an analysis, presented as part of my testimony today, that illustrates how the Bank's loan guarantees save Emirates as much as about $20 million in financing costs per plane under the Bank's current fee structure – and Emirates likely actually saved even more than that under the Bank's prior fee structure, which was in place when Emirates acquired the majority of its fleet. Although the Bank's and Emirates's lack of transparency makes it impossible to know the full magnitude of the Bank's subsidy to Emirates, that $20 million per-plane advantage alone suggests that Emirates is essentially getting a *free* additional widebody plane for every eight new planes it buys. That kind of deal is simply not available to airlines that must rely on market financing.

The Bank's subsidies have gone too far, and it is time for reform. We have proposed five measures that would help to reduce the Bank's impact on U.S. airlines. *First*, the Bank should be prohibited from financing widebody aircraft to airlines that are owned by foreign states, supported by foreign states, or creditworthy in their own right. Those airlines do not need U.S. government subsidies. *Second*, the Bank should be required to be completely transparent in its widebody aircraft financing – it is committing public money and it should do so in an open and accountable manner. *Third*, the Bank should be required to conduct a full economic impact analysis of every widebody aircraft transaction that it finances, to ensure that any harm to U.S. airlines and our employees is properly taken into account. *Fourth*, as part of that economic analysis, the Bank should be required to give affected parties (including Delta and other U.S. airlines) enough information and time that they can comment on the transaction; to consider those comments in its decision; and to provide a public, reasoned justification if it chooses to go ahead with the transaction after concerns have been raised. *Fifth*, and finally, Congress should reaffirm the directive it gave in 2012 that the Treasury negotiate with its European counterparts to eliminate widebody aircraft financing. Previous efforts to reduce the subsidies from export credit financing have not been enough, and the United States should lead the way to embrace market principles and eliminate government subsidies in this highly competitive industry.

THE STATE OF THE AIRLINE INDUSTRY

Delta is proud to be part of a group of U.S. airlines that are among the most innovative companies in the world. The product of more than 30 years of fierce competition in a deregulated market, U.S. airlines are capable of winning any fair competitive fight. But the competitive fight for international passengers is not fair. Instead, that fight is heavily tilted in favor of foreign airlines receiving government subsidies, both from those airlines' home governments, and – amazingly – from our own.

Traditionally, the U.S. government has fostered a policy of discouraging state-subsidized competition in the international aviation marketplace. By securing Open Skies Agreements with well over 100 nations, the U.S. government has replaced the highly regulated regimes of the past in which foreign governments, to the detriment of consumers and commerce, restricted entry and service levels to protect national flag carriers.

The Airline Deregulation Act of 1978 set the framework for those international Open Skies Agreements. That legislation recognized the importance of a level playing field by emphasizing the need for

> maximum reliance on *competitive market forces* and on actual and potential competition (A) to provide the needed air transportation system, and (B) to encourage efficient and well-managed carriers to earn adequate profits and to attract capital.[1]

That policy of maximum reliance on competitive market forces is still part of the government's core legislative mandates for air transportation policy today.[2] Likewise, the Department of Transportation has historically pursued Open Skies Agreements that reflect a policy of

[1] The Airline Deregulation Act of 1978, Pub. L. No. 95-504, § 3, 92 Stat. 1705, 1706 (emphasis added).
[2] *See* 49 U.S.C. § 40101(a)(6).

"[e]nsur[ing] that competition is fair and the playing field is level by eliminating marketplace distortions, such as government subsidies" and an understanding that "national governments [that] continue to give their national airlines financial aid . . . . distort competition and deprive the aviation system and consumers of the benefits that greater cost efficiency and lower prices would encourage."[3]

Allowing U.S. airlines to compete in international markets free of government distortions is also consistent with the current Administration's policy to minimize the benefits afforded to and the impact of state-owned enterprises across international trade. Through the Trans-Pacific Partnership negotiations, for example, the Obama Administration has sought to achieve competitive neutrality, or an environment in which state-owned enterprises receive no competitive advantages beyond those enjoyed by private sector companies.[4] Past administrations have similarly acknowledged and attempted to minimize the impact of state owned enterprises as part of the U.S. government's free trade agreements.[5]

In spite of our government's stated goal to foster open markets free of state subsidized competition, U.S. airlines today face that very competition from our own government in the form of Ex-Im loan guarantees – subsidies that are both massive and unnecessary. The following chart shows the combined scope of that subsidy across the world's largest 20 state owned or supported airlines:

LARGEST 20 STATE OWNED OR SUPPORTED AIRLINES

International Widebody Capacity Rank (2013)	Airline	Ex-Im Funding
1	Emirates Airline	✓
6	Singapore Airlines	✓
11	Thai Airways International	✓
12	Qatar Airways	
17	Etihad Airways	✓
18	Japan Airlines International	✓
21	Turkish Airlines	✓
23	Air China	✓
24	Malaysian Airlines	
28	Saudi Arabian Airlines	
29	Aeroflot Russian Airlines	✓
31	China Eastern Airlines	
32	South African Airways	✓
33	Air New Zealand	✓
36	China Southern Airlines	✓
37	Air India	✓
38	TAP Portugal	
40	Finnair	
43	Ethiopian Airlines	✓
44	Pakistan International Airlines	✓

[3] *Statement of United States International Air Transportation Policy*, 60 Fed. Reg. 21,841, 21,843-44 (1995).
[4] *See* Congressional Research Service, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress* 46 (2013).
[5] *See, e.g.*, USTR, *United States-Singapore Free Trade Agreement*, ch. 12 (May 2003).

U.S. GOVERNMENT SUPPORT TO FOREIGN AIRLINES

For many foreign airlines, the U.S. government, through Ex-Im Bank, provides a significant subsidy. Over the past five years, an astonishing 47% of the Bank's total financial exposure has been devoted to air transportation.[6]

TOP AIRLINE RECIPIENTS OF EX-IM FINANCING 2000-2013

Rank	Airline	Ex-Im Financing (Millions)
1	Ryanair	$6,033
2	Air India	$5,216
3	Korean Air	$4,502
4	LATAM	$4,270
5	Emirates	$3,922
6	Cathay Pacific Airways	$3,258
7	Turkish Airlines	$2,900
8	Ethiopian Airlines	$2,282
9	Air China	$2,131
10	WestJet Airlines	$1,936
11	KLM Royal Dutch Airlines	$1,769
12	Virgin Australia	$1,705
13	Jet Airways Ltd.	$1,433
14	Asiana Airlines	$1,379
15	Copa Airlines	$1,336
16	Etihad Airways	$1,294
17	Lion Air	$1,124
18	Qantas Airways Ltd.	$851
19	Egyptair	$408
20	China Southern Airlines	$337

Most of those foreign airlines are creditworthy and do not need U.S. government support to finance their aircraft purchases on the private market; but the foreign airlines that receive Bank subsidies compete head-to-head with U.S. airlines on hundreds of international routes to and from the United States. A study commissioned and submitted to the U.S. Treasury Department by Delta in 2012 found that 90% of widebody aircraft financed with export credit in 2011 went to foreign airlines with medium- and low-risk credit ratings, all of which had a history of using private markets to finance aircraft purchases. The Bank uses the full faith and credit of the United States to make those foreign airlines stronger, healthier competitors – to the detriment of U.S. companies and their employees.

THE HARM TO U.S. AIRLINES AND OUR EMPLOYEES IS REAL

Ex-Im provides a tangible competitive advantage to foreign carriers. We have prepared an illustration of the difference between the financing available to Emirates Airline on the market

[6] 2013 Annual Report, *Export Import Bank of the United States*, at 50 (Exhibit 8) ("Ex-Im 2013Annual Report"), *available at* http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.

and the financing that it receives when it is supported by Ex-Im. Emirates is the world's largest operator of both the Boeing 777 (135 aircraft with 150 more on order) and the Airbus A380 (47 aircraft with 12 more on order). As of March 2014, Emirates had $4.5 billion in cash on hand;[7] last year, it generated an operating profit of $1.2 billion.[8] Despite Emirates's ability to leverage its strong financial position to obtain private-market financing, in the transaction described below we estimate that Ex-Im support under Ex-Im's current fee structure would have saved Emirates approximately 250 basis points by financing its aircraft with Ex-Im guarantees. Based on a $120 million loan with a 12-year term, that makes a difference of more than $20 million in cost-of-capital savings per aircraft.

EX-IM SUBSIDIES BENEFIT FOREIGN CARRIERS; HARM U.S. AIRLINES

In 2012, Emirates conducted both Ex-Im-backed and market-based (EETC) financings. The benefits of using Ex-Im support are highlighted in the chart below.

	Emirates **Ex-Im Financing (June 2012)**	Emirates **Market Financing* (June 2012)**
Type and Number	2 Boeing 777s	4 Airbus A380s
Coupon	2.00%[1]	5.48%[2]
Loan-to-Value	80%[3]	66%
Loan-to-Value Price Adjustment	0%	.69%[4]
Annualized Ex-Im Fees	1.41%[5]	0%
Total Annual Rate	$\boxed{3.41\%}$	$\boxed{6.17\%}$

EMIRATES WILL SEE SAVINGS OF $20.3M PER PLANE BY USING EX-IM AT THESE RATES.

*EETC through a lessor to fund four A380 aircraft. See Emirates's May 8, 2014 earnings release.

1. 2.00% is actual rate from 6/18/12 Ex-Im bond. Average life was 6.12 years, similar to the EETC of 5.7. In July 2012 Emirates issued another Ex-Im bond at 1.55% coupon, but with a shorter average life of 4.93 years (which based on yield curve would be expected to be lower rate).
2. 5.48% is blended average coupon of the A/B tranches as priced on 6/21/12. The issuer of the EETC was "Doric Nimrod Air Finance Alpha" but the credit was Emirates's. Avg. life 5.7 years.
3. Assumes 80% LTV, maximum allowed for a Risk Category 1 credit.
4. The adjustment to the total annual rate to reflect the loan-to-value ratio is an estimate derived from a regression analysis (using information about other public transactions) of the rate that would have been required to obtain market financing with an 80% ratio.
5. 141 bps is average quarterly MPR for Risk Category 1 credit from the beginning of the 2011 ASU up to and including the July 2012 quarter.

Our estimate of roughly $20 million in savings is based on two actual transactions that took place in June 2012: one in which Emirates financed 2 Boeing planes with Ex-Im's help, and one in which Emirates financed 4 Airbus planes on the open market. We know the terms of the market financing because those were publicly disclosed. We know some, but not all, of the terms for the Bank-guaranteed financing and have used those where available. We have also made an adjustment to the market rate to reflect the fact that with Bank support, Emirates was eligible for a higher loan-to-value ratio (80%) without having to pay the premium that would have been

[7] The Emirates Group Annual Report: 2013-2014, at 4 ("Emirates 2013-14 Annual Report"), *available at* http://www.theemiratesgroup.com/system/aspx/download.aspx?id=tcm:409-1644932.
[8] *Id.*

necessary in the private markets. We note, however, that neither the Bank nor Emirates disclosed the actual loan-to-value ratio for the June 2012 transaction.[9]

The actual fees that Emirates paid the Bank itself were also not disclosed. For our illustration, we have estimated the fees under the terms of the 2011 Aircraft Sector Understanding ("ASU"). The 2011 ASU is a new agreement reached by the Organization for Economic Cooperation and Development that replaced an earlier 2007 ASU. It sets forth increased risk-based fees export credit agencies ("ECAs") are to charge, largely beginning in January 2013, in an effort to neutralize the effect of export credit. Because the 2011 ASU did not come into effect until January 2013, the subsidy Emirates *actually* received in its 2012 Ex-Im financing was almost certainly substantially larger. As our analysis shows, however, even taking the 2011 ASU fees into account, Ex-Im provides airlines like Emirates with substantial savings.

When viewed across its entire fleet, a multi-million dollar per-plane subsidy gives Emirates a significant competitive advantage. As of March 2014, Emirates operated 217 aircraft – 134 Boeing 777s, 2 Boeing 747s, and the rest Airbus.[10] Of those aircraft, Emirates purchased 51 Boeing 777s itself.[11] Emirates has publicly stated that the airline uses Ex-Im financing for 12% of its *entire fleet*,[12] which means that it used Ex-Im financing for about 26 – more than half – of the 51 Boeing 777s the airline purchased.

In addition, looking at purchased planes alone does not tell the full story. Emirates also operates 85 *leased* Boeing widebody aircraft.[13] It is common for leasing companies – even though they are themselves usually creditworthy and able to obtain financing from private sources – to receive Ex-Im loan guarantees for aircraft which they intend to lease to foreign airlines such as Emirates. Emirates does not disclose information about how its lessors finance the aircraft leased to Emirates, and does not include these aircraft in its export credit percentages. It is possible that the actual percentage of Emirates's Boeing fleet that has received Ex-Im financing is as high as 80%, including both owned and leased aircraft. We cannot give a number with certainty, but it is at least fair to say that the total number of Ex-Im financed planes operated by Emirates is significantly more than the 12% number that Emirates presents to the public. Further, because leasing companies compete with one another for Emirates's business, it is also fair to assume that all or nearly all of the Bank's subsidy is passed through to Emirates in the form of reduced payments on the aircraft it leases.

At the outer bound, if the full $20.3 million subsidy from our illustration is representative of Emirates's savings for all of its Bank-financed aircraft (purchased and leased) and if all of Emirates's leased Boeing planes are Bank-financed, Emirates may be receiving a total subsidy on all its Bank-backed Boeing aircraft of up to *$188.7 million* per year. To put that in

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[9] The adjustment to reflect the loan-to-value ratio is an estimate derived from a regression analysis (using information about other public transactions) of the rate that would have been required to obtain market financing with an 80% ratio.
[10] *Id.* at 56.
[11] *Id.*
[12] Emirates Airline, *Airlines and subsidy: our position* at 14 (2012), *available at* http://www.emirates.com/english/images/airlines%20and%20subsidy%20-%20our%20position%20new_tcm233-845771.pdf.
[13] Emirates 2013-14 Annual Report at 56.

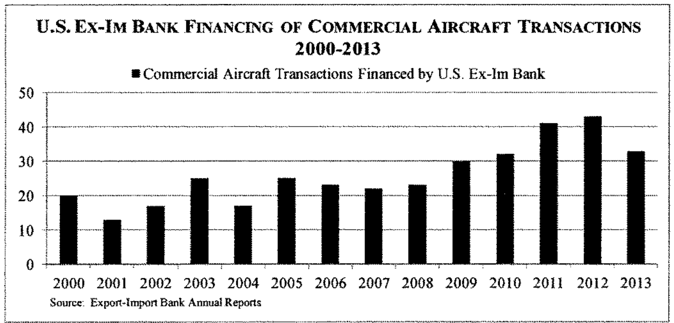
perspective, it means one free plane a year based on the savings in financing costs alone. If we make the more conservative assumption that half of Emirates's leased fleet is Ex-Im financed, Emirates still saves roughly *$116 million* per year – more than two free planes every three years. Further, because Emirates financed most of its fleet under the earlier, lower 2007 ASU fees, our estimates based on the 2011 ASU likely significantly *understate* Emirates's actual savings.

Emirates can devote a substantial portion of its Ex-Im sponsored savings to enhance its competitive position vis-à-vis U.S. carriers. For example, Emirates recently introduced service between New York's John F. Kennedy Airport and Milan, quickly surpassing the capacity of existing service providers on that route. As of mid-2013, before Emirates introduced this route, three U.S. carriers (Delta, United, and American) and Italy's flag carrier (Alitalia) offered service between New York and Milan. Emirates started non-stop service in November 2013, using a Boeing 777-300ER – a substantially larger aircraft than the aircraft used by the existing airlines – and offering more seats on this route than did any other airline. By April of this year, total capacity on the New York to Milan route was up 62%, based largely if not entirely on Emirates's Bank-backed entry. In short, the Bank has fueled Emirates's expansion, providing nearly $2.5 billion in loan guarantees to the state-owned airline since 2009, including one guarantee in 2013 for nearly $500 million and another in January of this year for likely well over $100 million. The Bank has issued these guarantees without regard to the impact of Emirates's international expansion on U.S. airlines and our employees.

Emirates is not the only beneficiary of Ex-Im's largesse. Since July 2012, the date after which Congress required the Bank to begin telling the public about the type of export at issue in its largest transactions, we estimate that the Bank has approved about 30 applications for widebody financing, many of which benefit our competitors. Etihad Airways has received nearly $1.3 billion from the Bank since 2009. This year, the Bank approved an approximately $1.6 billion loan guarantee to Aeroflot, the Russian-owned airline, through the Russian-owned leasing company VEB Leasing. And in September 2011, the Bank approved $3.4 billion to Air India to support that airline's purchase of 30 new widebody aircraft. Air India provides an especially revealing example of the Bank's disregard of the adverse impact its financial guarantees impose on U.S. airlines. Only two years earlier, Air India had used separate guarantees to secure below-market financing for the purchase of Boeing 777s and deploy them between JFK and Mumbai, in direct, head-to-head competition with Delta at significantly reduced ticket prices. Delta had no choice but to exit that market. I personally presented this problem to the Bank following the Bank's September 2011 deal, but my concerns fell on deaf ears. With its latest round of Ex-Im guarantees, Air India continues to take delivery of subsidized widebodies to this day.[14]

The Bank has claimed that the 2011 ASU is enough to solve the problem, but that is not the case. The Bank's activity in the aircraft market has not slowed since the 2011 ASU went into effect on January 1, 2013. Although the Bank's historical data shows a spike in transactions before that date – which likely reflected foreign airlines wanting to benefit from the old rates – the Bank since that time has approved 40 aircraft transactions,[15] on pace with its activity in prior years.

[14] *See* Boeing Orders & Deliveries, User Defined Reports, http://active.boeing.com/commercial/orders/index.cfm?content=userdefinedselection.cfm&pageid=m15527 (last visited June 19, 2014).
[15] *See* Ex-Im 2013 Annual Report; Export-Import Bank Meeting Minutes, *available at* http://www.exim.gov/newsandevents/boardmeetings/board/ (last visited June 20, 2014).



Such strong continued demand for Ex-Im financing alone demonstrates that a significant gap continues to exist between market and Ex-Im supported rates – otherwise, foreign airlines would have no reason to come to the Bank so often.

THE BANK IGNORES ITS STATUTORY OBLIGATIONS TO CONSIDER ECONOMIC IMPACT

Congress has long recognized that the Bank's activities can do more harm than good. In 1968, Congress required the Bank's Board of Directors to "take into account the possible adverse effects [of the Bank's loans and guarantees] upon the United States economy."[16] Since then, Congress has made numerous changes to the Bank's charter, but has always required the Bank to weigh the effects of its financing on the competitive position of American industries.

Indeed, the particular effects of the Bank's financing on U.S. airlines and our employees have featured in Congressional debates for nearly forty years, dating back to 1975, when the Senate Committee on Banking, Housing, and Urban Affairs received data from the airline industry about a $383 million loan to a "major competitor of U.S. airlines in the Pacific[]" that reduced its cost to purchase aircraft by "more than $7 million."[17] Responding to those and other concerns, Congress strengthened the Bank's mandate to consider economic impact, requiring the Bank to "take into account any serious adverse effect of [any] loan or guarantee on the competitive position of United States industry . . . and employment in the United States."[18]

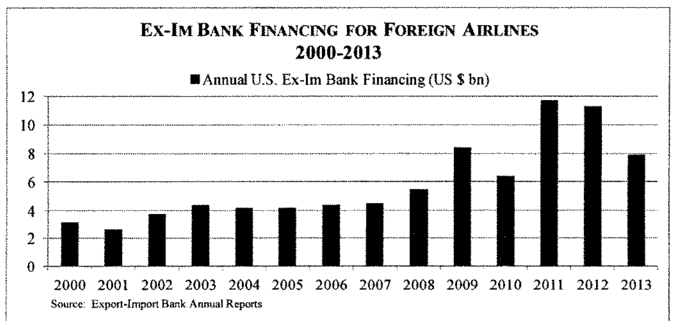
That requirement remains in force today, and it is supported by two additional provisions that Congress added later. Section 635a-2 requires the Bank to "insure that full consideration is given to the extent to which any loan or financial guarantee is likely to have an adverse effect on industries . . . and employment in the United States, either by reducing demand for goods produced in the United States or by increasing imports to the United States."[19] Finally, Section 635(e)(1) specifically prohibits the Bank from providing loans or financial guarantees for establishing or expanding the production of any commodity for export by another country if "the

[16] Export-Import Bank Act Amendments of 1968, Pub. L. No. 90-267, § 1(b), 82 Stat. 47, 47.
[17] S. Rep. No. 93-1097, at 7 & n. 1
[18] 12 U.S.C. § 635(b)(1)(B).
[19] *Id.* § 635a-2.

extension of such credit or guarantee will cause substantial injury to United States producers of the same, similar, or competing commodity."[20]

When it comes to widebody aircraft transactions, the Bank has consistently ignored those mandates. Indeed, the harm that the Bank has caused to U.S. airlines is only recently coming to light, and the full extent of that harm is still unknown. Delta became directly involved in this controversy in 2011, when we began working with the Air Transport Association of America ("ATA"; now Airlines for America) to challenge the Bank's support of its $3.4 billion transaction with Air India to support the airline's purchase of 30 Boeing widebody aircraft. Those guarantees allowed Air India – a foreign competitor known for aggressively competing with U.S. airlines – to purchase 30 Boeing aircraft, including 27 state-of-the-art Dreamliner aircraft.[21]

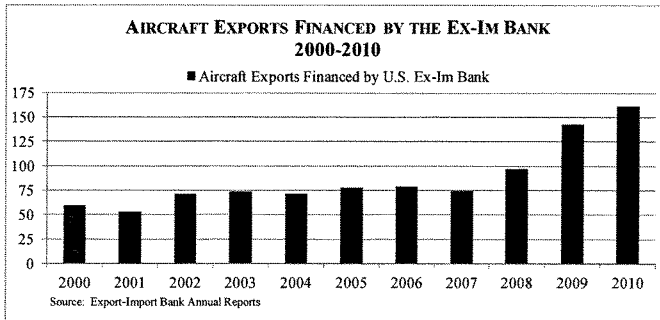
ATA, Delta, and the Air Line Pilots Association International ("ALPA") asked the Bank to rethink its massive support for Air India and consider the harm that transaction would do to U.S. airlines and our employees, but the Bank refused, and we filed a challenge to that action in federal court.[22] In the course of that action, we discovered that, since at least 2001, the Bank had been conducting *no* analysis of the adverse economic impact of its aircraft financing on U.S. airlines and our employees – the very requirement Congress enacted to force the Bank to review injury to U.S. airlines – while at the same time approving nearly $80 billion in loan guarantees to foreign airlines for the purchase of Boeing aircraft.[23] As the chart below shows, from 2000 to 2013, the Bank sent billions of dollars in guarantees to foreign airlines every year, peaking in 2011 at a staggering $11.7 billion. In no case did the Bank provide meaningful consideration to whether any of these commitments would harm U.S. airlines or our employees.



As further shown in the next chart below, those billions of dollars in government-subsidized loans helped foreign competitors like Emirates purchase over 950 new aircraft, at cheaper rates

[20] *Id.* § 635(e)(1).
[21] *Air Transportation Association of America, Inc. v. Export-Import Bank of the United States*, No. 11-2024, Dkt. No. 1, at ¶ 31 (D.D.C. Nov. 16, 2011) ("*ATA*").
[22] *See id.*
[23] Export-Import Bank Annual Reports, 2001-2013 ("Ex-Im Annual Reports"), *available at* http://www.exim.gov/about/library/reports/annualreports/.

than would otherwise have been possible.[24] To put that number in perspective, in 2011, only 721 widebody Boeing aircraft were in service in the *entire* U.S. air transportation industry (including 262 planes used for cargo, not passenger, service).[25]



In a notable series of transactions over the course of 2012 and 2013, the Bank authorized roughly $2.2 billion in loan guarantees to help five foreign airlines – including Emirates and Etihad, two state owned airlines that count among the fastest growing in the world – purchase numerous aircraft, again without providing any meaningful consideration of their impact on U.S. airlines.[26]

If the committee has any doubt about the Bank's refusal to analyze adverse economic impact, simply consider the Bank's recent admission, in response to a question from the Senate Banking Committee, that from May 2009 until February 2014 – a period covering thousands of transactions – it conducted detailed economic impact analyses for only 24 transactions and only a single one for an airline transaction (involving Aeroflot), which the Bank ultimately approved. Fortunately, the Bank's procedures received their first real scrutiny in over a decade when Congress, in the Export-Import Bank Reauthorization Act of 2012, instructed the Bank to "develop and make publicly available methodological guidelines to be used by the Bank in conducting economic impact analyses or similar studies."[27]

Forced back to the drawing board by the 2012 Reauthorization Act, the Bank put out new proposed economic impact procedures for public comment in September 2012, made them final in November 2012, and began applying them to transactions in April 2013.[28] Those rules are a colossal disappointment that disregard both the letter and the spirit of Congress's directions to the Bank in the 2012 Reauthorization Act. Instead of simply exempting all aircraft transactions

[24] We do not know how many of those 950 Bank-financed planes were widebody aircraft because the Bank did not disclose which of those financings were widebody aircraft and which were narrowbody. We also cannot give even total aircraft figures for 2011 or for later years, because in 2011 the Bank stopped making this minimal disclosure and currently does not disclose in its annual reports the total number of aircraft exports financed.
[25] *See Delta Air Lines, Inc. v. Export-Import Bank of the United States*, No. 13-424, Dkt. No. 39-2, at 1801 (D.D.C. Mar. 2, 2014) ("*Delta III*").
[26] *Delta III*, Dkt. No. 31-1, at 5-6.
[27] Export-Import Bank Reauthorization Act of 2012, Pub. L. No. 112-122, § 12(a), 126 Stat. 350, 357 ("2012 Reauthorization Act").
[28] 77 Fed. Reg. 59,397 (Sept. 27, 2012).

from any meaningful economic impact analysis as it had done since at least 2001, the Bank has now adopted a series of screens that – without *technically* excluding aircraft transactions from *all* economic review – function in the vast majority of cases to allow the Bank to approve guarantees without ever having to give serious consideration to their effects on U.S. airlines.

To give just one example, the Bank has adopted a policy of refusing to consider economic impact where a foreign airline represents that it will not use the *specific* planes financed by the Bank to compete *directly* with U.S. airlines on direct or one-stop, same-plane routes. Of course, everyone who has ever taken an international plane flight knows that this is a completely unrealistic view of the way airlines actually compete. Consider a simple example. Delta serves Dubai from Dallas via our hub in Atlanta. Emirates, on the other hand, offers a direct flight to Dubai from Dallas. In the Bank's view, Emirates and Delta do not compete at all for passengers between Dubai and Dallas because Emirates flies directly while Delta uses a connection. That is absurd. No industry experience is needed to know that Emirates can and does take passengers from Delta by offering direct routes using Bank-subsidized planes – all that is needed is common sense, or one look at any booking website on the Internet that displays both direct and connecting flights right next to each other.

OTHER AVENUES FOR CHANGING THE BANK'S POLICIES HAVE FAILED

Other efforts to move the Bank away from its policy of automatic support for foreign airlines have been similarly unsuccessful. For example, in the 2012 Reauthorization Act, Congress specifically instructed the Secretary of the Treasury to engage in negotiations "with all countries that finance air carrier aircraft with funds from a state-sponsored entity, to substantially reduce, with the ultimate goal of eliminating, aircraft export credit financing."[29] Delta fully agrees that negotiation to reduce aircraft subsidies is an excellent goal. An even playing field benefits everyone, and frees taxpayers from having to subsidize a race to the bottom between the Bank and the European export credit agencies.

Yet, despite Congress's unambiguous mandate to the Treasury, negotiations have not even commenced.[30] Still worse, the Administration has accepted the Bank's position that the fees *currently* charged for export credit financing of aircraft under the 2011 ASU – which were already in place *before* Congress directed the Treasury to engage in negotiations – will sufficiently discourage airlines from using the Bank to obtain subsidies.[31] As I've already explained, the behavior of foreign airlines tells a different story. If the Bank's financing did not advantage foreign airlines, they would not seek it out. But in fiscal years 2012 and 2013 – the first two full years after the ASU came into effect – the Bank authorized 75 commercial aircraft guarantees with a total value of more than *$19 billion*.[32] Moreover, by Delta's calculations, even accounting for the fees charged under the ASU, if U.S. airlines had access to the Bank's financing rates, their last eight aircraft financings comparable to those done by the Bank would

[29] 2012 Reauthorization Act § 11(a), 126 Stat. 357.
[30] *See* Treasury Report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives on Export Credit Negotiations, at 1-2 (Nov. 2012) ("Nov. 2012 Treasury Report").
[31] *Id.* at 3-4. The Bank has also repeated this point many times. *See, e.g.*, Response One at 15-16.
[32] These calculations come from the Bank's annual reports, which may be accessed at http://www.exim.gov/about/library/reports/annualreports/.

have been almost $12.5 million less expensive on average. One particular transaction would have been over $70 million less expensive.

The Bank has likewise given short shrift to the requirements of the 2012 Reauthorization Act that were intended to ensure greater transparency and reliability in its transactions. For example, the Bank is now required to publish "a brief non-proprietary description of the purposes of the transaction[,] . . . the anticipated use of any item being exported, . . . [and] the identit[y] of the obligor."[33] Yet in cases where the Bank gives a loan guarantee to a lessor or other party to purchase a widebody aircraft that will then be leased to a foreign airline, the Bank refuses to disclose the identity of the foreign airline that will actually *use* the plane, making it virtually impossible to evaluate the competitive effect of the transaction. Similarly, the Bank is required to "provide to a commenter on [an] application" a "non-confidential summary of the facts found and conclusions reached in any detailed analysis . . . with respect to the loan or guarantee." But by construing the statute not to require a "detailed" analysis, the Bank has rendered this requirement a dead letter. Every time we have requested such a summary, the Bank has replied with a form letter stating only that it did not carry out a detailed economic impact analysis.

THE BANK'S COUNTERARGUMENTS ARE MISLEADING

In trying to justify its aircraft financing program, the Bank has made numerous inaccurate and misleading arguments. Consider its argument that its financing supports jobs here at home. Delta knows firsthand that the Bank's statements on this front are unreliable.

The Bank has repeatedly touted two deals it financed involving Delta TechOps and the Brazilian airline GOL, asserting that these guarantees "support[] an estimated 400 jobs at Delta TechOps, according to Ex-Im Bank's jobs-calculation methodology"[34] – which GAO has criticized.[35] Contrary to the Bank's public pronouncements, however, that financing did not support, much less create, a single job at Delta TechOps. The guarantees helped GOL to issue cheap debt in 2012, ostensibly to pay the costs of a Delta TechOps contract to provide maintenance service for GOL's narrowbody aircraft engines. The truth is that the contract was signed in 2010 and the Bank's support arrived only after the contract had been finalized, the work was underway, and payments were being made. If the Bank is willing to publicize a deal where it is so wrong on the facts, it raises the question of what the Bank is doing in the vast majority of transactions as to which it discloses little if any information. Worse, the Bank reported to Congress that the reason it approved these two guarantees was to "overcome maturity or other limitations in private-sector financing."[36] That statement is misleading (if not outright false) because it implies that GOL

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[33] 2012 Reauthorization Act § 9(a), 126 Stat. 355.
[34] Export-Import Bank of the United States, *GOL Issues $41 Million Ex-Im Bank-Guaranteed Bond for Services Exported by Delta TechOps, MRO Division of Delta Air Lines* (Mar. 25, 2014), *available at* http://www.exim.gov /newsandevents/releases/2014/GOL-Issues-41-Million-Ex-Im-Bank-Guaranteed-Bond-for-Services-Exported-by-Delta-TechOps-MRO-Division-of-Delta-Air-Lines.cfm.
[35] United States Government Accountability Office, *Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency* (May 2013), *available at* http://www.gao.gov/assets/660 /654804.pdf
[36] Export-Import Bank of the United States, *FY 2013 Long-Term Loans and Guarantee Authorizations*, at 32 (2013), *available at* http://www.exim.gov/about/library/reports/annualreports/2013/FY2013-long-term-guarantees-auth.pdf; Export-Import Bank of the United States, *FY 2012 Loans and Long-Term Guarantee Authorizations*, at 34 (2013), *available at* http://exim.gov/about/library/reports/annualreports/2012/files/exim_2012annualreport.pdf.

needed help to pay its bills or that Delta would have lost the deal without the Bank's support. In fact, the contract was signed in 2010 for a five-year term, and was being fully performed, without GOL's needing, seeking, or receiving Ex-Im support. Although the Ex-Im guarantees were nominally related to the 2010 TechOps contract, their actual effect was to provide GOL with low-cost working capital in 2012 and beyond. The Bank's statutory justification and motive to provide financing for a contract that was already in place, was proceeding in a normal commercial manner, and did not involve competition from a subsidized foreign competitor is not apparent to us.

Such misrepresentations are common currency with the Bank. To give a different illustration, the Bank has tried to deflect attention from its consistent support for foreign competitors by pointing to Delta's use of Brazilian and Canadian export financing. But this financing supports the purchase of *regional* jets used for purely short-haul routes. Our competitors on these routes are other American carriers, all of whom have equal access to the same kinds of financing. That level playing field has nothing in common with the Bank's unqualified support for our foreign competitors – support no American carrier has access to.

Also incorrect is the Bank's oft-repeated claim that if it does not support foreign airlines' purchases of Boeing aircraft, those sales will go to Airbus.[37] Many of these foreign airlines have committed to buying U.S.-made planes through private financing. Emirates is again a good example. According to Emirates's own figures, roughly half (25 of 51) of its purchased Boeing planes were privately financed[38] through a diverse range of sources, ranging from conventional bond offerings to Islamic financing.[39] Emirates, like many other airlines, has shown a strong commitment to Boeing – it placed the largest-ever civil aircraft order with Boeing this past November,[40] but recently canceled a multibillion-dollar order for 70 aircraft with Airbus.[41] Boeing itself has expressed confidence that foreign airlines will continue to buy its aircraft and "could find alternative funding sources" absent the Bank's financing.[42]

PROPOSED 2014 EX-IM REFORM

Congress should take the opportunity presented by the need to reauthorize the Bank to substantially and effectively reform the Bank's practice of financing our competitors. Delta and others have proposed five amendments that will ensure U.S. airlines and our employees are not put at a further competitive disadvantage through U.S. government subsidies to foreign airlines.

First, Congress should prohibit the Bank from financing widebody aircraft to creditworthy or state owned or supported airlines. These airlines can obtain financing on the private market and

[37] *See, e.g.*, *Delta Air Lines, Inc. v. Export-Import Bank of the United States*, 14-42, Dkt. No. 14-1, at 41-42 (D.D.C. Apr. 11, 2014).
[38] Emirates Airline, *Airlines and subsidy: our position*, at 14.
[39] *See* Airfinance Journal, *Treasury team of the year 2012: Emirates* (May 10, 2013).
[40] Emirates Airline, *Emirates announces largest-ever aircraft order* (Nov. 17, 2013), *available at* http://www.emirates.com/english/about/news/news_detail.aspx?article=1443077.
[41] Nicola Clark, *Emirates Cancels Major Order From Airbus*, N. Y. Times (June 11, 2014), *available at* http://www.nytimes.com/2014/06/12/business/international/emirates-cancels-major-order-from-airbus.html?_r=0.
[42] Doug Cameron, *Boeing Cites Jitters Over Airplane Financing From Ex-Im Bank*, Wall St. J. (Aug. 7, 2013), *available at* http://online.wsj.com/news/articles/SB10001424127887323477604578654180186390150.

therefore do not need subsidies from our government to do so. Although Boeing and the Bank claim that airlines prohibited from tapping Ex-Im for widebody purchases would purchase those aircraft from Airbus with European ECA support instead of from Boeing, we have yet to see any data to substantiate that claim. Indeed, the Bank's position that the Bank's subsidies are necessary to help Boeing prevail cannot be reconciled with its simultaneous assertion that under the 2011 ASU its rates do not provide an advantage over private financing. In any event, any jobs actually created or supported by the Bank's widebody guarantees to creditworthy or state owned or supported airlines are not more valuable than the pilot, flight attendant, and other jobs created by U.S. carriers flying international routes. The U.S. government should not be picking winners and losers in this complicated market, especially where many of these particular airlines already receive substantial benefits from their own governments.

Second, Congress should require the Bank to be 100% transparent in its widebody financings. Currently, the Bank is not required to – and routinely does not – disclose significant details about its widebody transactions, such as the number of widebody aircraft it plans to finance or the routes on which those aircraft will be deployed. In some cases, such as where the applicant is a leasing or similar shell company, the Bank does not disclose the expected end user of the widebody aircraft at all. As recently as the 1990s, by contrast, the Bank's annual reports disclosed the number and type of aircraft in its annual reports.[43] No sound reason exists to allow the Bank to keep confidential the details of its commitment of public funds.

Third, Congress should require the Bank to conduct a detailed economic impact analysis in *all* transactions involving widebody aircraft, and should prohibit the Bank's current practice of "screening" such transactions from review without giving them a serious, hard look. That practice is illustrated by the Bank's recent acknowledgment that, from May 2009 to February 2014, the Bank conducted only *one* detailed economic impact analysis for an aircraft transaction,[44] even though the Bank's annual reports and meeting minutes show that during that same time period it approved *173* transactions for the export of Boeing aircraft.[45] Further, we know from the Bank's prior practice that it also did not conduct *any* detailed economic impact analyses of aircraft from 2001 to 2009, even though during that same time period it approved 160 transactions for the export of Boeing aircraft. One out of 333 is not a credible attempt by the Bank to fulfill its statutory mandate.

Fourth, Congress should require the Bank, as part of its economic analysis of each widebody transaction, to give U.S. airlines and other interested parties enough information and time to comment on each transaction; to consider those comments in its decisionmaking process; and to provide a public, reasoned justification if it chooses to go ahead with a transaction after concerns are raised. As we have noted, the Bank has so far interpreted the notice-and-comment requirements of the 2012 Reauthorization Act so narrowly as to make them a dead letter. Congress should make clear that those requirements must be important and meaningful. Because the Bank has demonstrated a consistent unwillingness even to examine the strong evidence that

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[43] *See, e.g.*, 1999 Annual Report, *Export Import Bank of the United States*, at 20-27, *available at* http://www.exim.gov/about/library/reports/annualreports/1999.cfm.
[44] Responses to Questions for the Honorable Fred Hochberg, Chairman and President, Export-Import Bank of the United States, from Senator Toomey, at 29 (questions dated Jan. 28, 2014).
[45] *See* Ex-Im 2009-2013 Annual Reports; Agendas & Minutes of the Meetings of the Board of Directors (October 2013-February 2014), *available at* http://www.exim.gov/newsandevents/boardmeetings/board/.

its widebody transactions are hurting U.S. airlines and our employees, legislation is needed that requires the Bank to take that evidence seriously and to live up to its responsibility to refrain from using U.S. taxpayer dollars to create a net negative impact on U.S. companies and our employees.

Fifth, Congress should reaffirm the requirement in the 2012 Reauthorization Act that the U.S. government negotiate with European export credit agencies to eliminate widebody financing altogether.[46] In response to the 2012 Reauthorization Act, the U.S. Department of Treasury reported to Congress that it "will be in a position to further refine the ASU so that [ECA widebody financing] complements the commercial markets without crowding them out."[47] In light of the analysis presented in this testimony, it is clear that the 2011 ASU is insufficient. ECAs continue to provide a substantial benefit to our competitors unlike anything found on the private markets. Earlier in my testimony I referred to the U.S. government's long-standing policy to eliminate the effect of state subsidies on international competition and trade. If that policy is to have any meaning in the market for international air travel, the U.S. government must address the substantial adverse impact ECA subsidies continue to have on U.S. airlines.

CONCLUSION

Thank you for holding a hearing on this important issue and for giving me the opportunity to explain the need for reform at the Export-Import Bank. Delta believes that the changes we have proposed would help fulfill the U.S. policy of minimizing the influence of state-sponsored competition, allowing airlines to succeed in the international marketplace based on their competitive merit rather than relying on government subsidies. I look forward to answering any questions you may have.

[46] *See* 2012 Reauthorization Act § 11(a), 126 Stat 357.
[47] Nov. 2012 Treasury Report at 4.

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TESTIMONY

TESTIMONY ON THE US EXPORT-IMPORT BANK

BY VERONIQUE DE RUGY

House Committee on Financial Services

June 25, 2014

INTRODUCTION

In gathering to discuss the past and uncertain future of the US Export-Import Bank, we have a rare opportunity to reconsider the assumptions, mission, and activities of the federal government's official export credit corporation ahead of the reauthorization vote. In order to make the best decision, however, policymakers must know all the facts.

Before delving into the weeds of export credit finance, there are two fundamental realities to keep in mind.

First, export promotion programs, like Ex-Im finance, are not critical to US exports. Second, the Bank's mission is inherently contradictory.

First, Ex-Im yields a minuscule influence on US exports. At most, Ex-Im can claim to influence roughly 2 percent of both the value of total US exports and the total number of export-related jobs.[1] Since the Bank's methodologies have been criticized by the General Accounting Office and its own inspector general, the Bank's true influence is likely smaller.

Second, Ex-Im's mission refutes itself. The Bank's charter instructs administrators to extend assistance to projects that cannot find financing in private markets; these projects must also provide a reasonable chance of repayment. If a project cannot find private finance, it is probably too risky to repay the borrowed funds. But if a project has a good chance of repayment, it should easily find private finance. Any single project the Bank finances cannot meet both conditions of its charter.

This tension results in a bifurcation of the Bank's portfolio: profit-generating projects, like those involving Boeing, make up for losses in other areas. Ex-Im supporters likewise can either argue that (1) the Bank makes strong profits for the Treasury, or (2) the Bank provides needed but risky finance to important export opportunities. But if the Bank is making profits, that is an argument for privatization. If the Bank is suffering losses, that is an argument for shutting it down. Neither scenario supports federal government involvement.

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1. Veronique de Rugy, "Jobs and Export Value in Perspective: Ex-Im-Backed Projects Constitute Tiny Portion of Total US Exports," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) June 24, 2014.

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With these heavy caveats in place, I will now contribute to this conversation by providing contextual information about the Bank's history, processes, and portfolio, adapted from a forthcoming Mercatus Research paper on the Bank that I coauthored with the Mercatus Center's Andrea Castillo.

I will then consider the claims made by both Ex-Im supporters and critics. Specifically, I will examine the validity of arguments that the Export-Import Bank

1. plays a critical role in promoting US exports;
2. maintains or creates US jobs;
3. substantially benefits small business;
4. levels the playing field for US companies that compete against foreign companies that receive benefits from their countries' export credit agencies; and
5. is a good deal for taxpayers.

I conclude that a close examination of its activities and outcomes shows that the Export-Import Bank does not meet the standards of its own criteria, and the facts do not support these popular arguments for the continued activities of the Bank.

EX-IM BANK BASICS

The Export-Import Bank has evolved since it was created in 1934 by President Franklin Delano Roosevelt. While its original purpose was to provide immediate trade financing with the Soviet Union, the Bank's focus shifted throughout the years, gradually changing from post-WWII reconstruction tool, to development bank for impoverished nations, to foreign policy tool, and eventually to export-promotion corporation.[2] Ex-Im's mission today is to "aid in financing and to facilitate exports of goods and services, imports, and the exchange of commodities and services" between the United States and foreign countries and "in so doing, to contribute to the employment of United States workers" as described in the current charter that was last amended in 2012.[3]

This 116-page document contains guidelines and proscriptions for the many pet programs that have developed in its 80-year history, including instructions regarding small business lending, green energy projects, engagement with sub-Saharan Africa, and prohibitions against aiding "Marxist-Leninist countries" or financing "defense articles."

The main tools[4] provided to the Bank to achieve these ends are[5] (1) loan guarantees, (2) working capital guarantees, (3) direct loans, and (4) export credit insurance.

Through loan guarantees, which presently constitute the largest portion of Ex-Im financing, the Ex-Im Bank assumes the majority of the repayment risk of the foreign buyer's debt obligations. The Working Capital Guarantee program guarantees short-term working capital loans made to qualified US exporters, through which the Ex-Im Bank assumes almost all the risk to lenders, which are usually commercial banks. The Ex-Im Bank's direct loan program provides loans directly to foreign buyers of US exports; if the foreign borrower defaults, the Ex-Im

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2. John H. Boyd, "Eximbank Lending: A Federal Program That Costs Too Much," *Federal Reserve Bank of Minneapolis Quarterly Review* 6 (1982): 1–17.
3. Ex-Im Bank, "The Charter of the Export-Import Bank of the United States," updated August 30, 2012, http://www.exim.gov/about/whoweare/charterbylaws/upload/Updated_2012_EXIM_Charter_August_2012_Final.pdf.
4. The Bank also engages in a number of special financing programs dedicated to boosting exports in a particular industry, like its aircraft finance program, or providing an unusual financial technique, like "project finance" plans for long-term infrastructure projects.
5. For a detailed overview of Ex-Im products, see Shayerah Ilias, "Export-Import Bank: Background and Legislative Issues," *Congressional Research Service Report No. R42472* (Congressional Research Service: Washington, DC) April 2, 2012.

Bank will be responsible for the total value of the outstanding principal and interest on the loan. Finally, the Ex-Im Bank's export credit insurance program issues insurance policies to US exporters, often small businesses, which provide credit to the exporter's foreign buyer.

The Export-Import Bank's gradually expanding mission and authority produced a large but little-known federal corporation whose activities far exceed its original purpose.

Total Ex-Im authorizations, or the total amount of funding that the Bank commits to finance a higher total value of exports, increased from $12.37 billion in FY 2007 to $35.73 billion in FY 2012 before dropping a bit to $27.2 billion in FY 2013. The Bank claims that this $27 billion in authorizations supported $37.4 billion worth of US exports worldwide during the same year.[6] These amounts, however, significantly understate the financial risk that the Bank, and therefore taxpayers, are exposed to.

The total amount of exposure—defined by the Bank as "authorized outstanding and undisbursed principal balance of loans, guarantees, and insurance" plus "unrecovered balances of payments made on claims . . . under the export guarantee and insurance programs"[7]—has grown consistently over time. Total Ex-Im Bank exposure grew from $57.42 billion in 2007 to $113.83 billion in 2013—without ever dropping, even when the corresponding level of authorizations dropped.

What benefits do US taxpayers receive from the Export-Import Bank's many activities? Do they outweigh their costs? I now turn to the five most popular claims made by supporters of the Ex-Im Bank.

Claim 1: The Export-Import Bank promotes exports

This claim has two branches: that the Ex-Im Bank improves the trade balance by filling an important "financing gap" in supporting US exports, and that it supports a significant share of exports. Neither has merit.

Some high-value projects go unfunded, the argument runs, because unusual or untenable investment risks scare off private financiers. The federal government should step in and fund the projects that the private market rejects. Without this federally provided export finance, US exports would be significantly dampened.

The assumptions behind this argument are inherently flawed because private investors are not likely to leave value on the table. It is proper that high-risk projects should not always find financing. Prohibitively high risk rates serve as a signal that investment funds could be more effectively spent elsewhere. As a CBO report on the Export-Import Bank notes, "The mere absence of a loan offer from the private market at terms desired by the borrower does not prove that capital markets are imperfect. Many borrowers are too risky or too small to finance their credit needs in bond markets and must instead go to banks; some borrowers are so risky that even banks will not lend them the amounts they desire."[8]

Instead of making the difficult case that the Bank should subsidize losing projects, Ex-Im supporters prefer to use euphemistic language about "financing gaps" and "leveling the playing field." Nothing changes the fact, however, that these projects failed to attract private capital because their profit opportunities did not warrant investment.

Second, the data do not bear out the claims that the Export-Import Bank supports a substantial portion of US exports.

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6. *Annual Report 2013*, Export-Import Bank of the United States (Export-Import Bank of the United States: Washington, DC) April 2014, http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.
7. Ibid.
8. Heywood Fleisig and Catharine Hill, "The Benefits and Costs of the Export-Import Bank Loan Subsidy Program," *Congressional Budget Office Report* (Congressional Budget Office: Washington, DC) 1981, http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/113xx/doc11311/1981_03_export.pdf.

Export data from the Census and the Export-Import Bank from 2000 to 2010 show that Ex-Im-backed activity accounts for approximately 2 percent of all US exports during that time.[9] The same is true when looking at any individual year. In 2012, for instance, total US exports were $2.2 trillion, while the estimated export value of Ex-Im activity was about $50 billion, or around 2.2 percent of activity. What's more, it is possible that the private market could better employ these funds to support the same or even a higher level of exports. In 2013, for instance, the total value of all US exports increased, while the total value of Ex-Im-backed exports decreased. There are no grounds to claim that Ex-Im activity is critical to US exports.

It is has long been known that export credit corporations cannot substantially influence broader national trade outcomes. The GAO stated back in 1992 that "export promotion programs cannot produce a substantial change in the US trade balance, because a country's trade balance is largely determined by the underlying competitiveness of US industry and by the macroeconomic policies of the United States and its trading partners."[10]

Reforming the broader macroeconomic policies that are more likely to harm our trade position will help our exports far more than anything the Ex-Im Bank could do.[11] The United States maintains the highest national statutory corporate tax rates among all OECD nations, with an average rate of 35 percent.[12] Once state rates are added to this federal average, the number bumps up to 39.2 percent. The rate remains relatively high, even after corporations lower their effective tax burdens with tax credits for the share of the taxes paid to foreign governments or by keeping their foreign revenue abroad. Reforming our punishing corporate tax rate would be one easy and feasible policy change that would pack a powerful punch[13] without distorting markets and exposing taxpayers to risk, as the Export-Import Bank does.

Claim 2: The Export-Import Bank maintains and creates jobs

Supporters of federal programs often point to tangible outcomes, like the number of jobs created through federal spending, to justify their existence. Immediate employment effects are easily seen and therefore provide a potent shield against claims of ineffectiveness or waste. However, as the French economist Frédéric Bastiat first astutely pointed out over 150 years ago, good economists and students of public policy must also consider the *unseen* effects of government interventions to accurately perform a cost-benefit analysis.[14]

The Export-Import Bank is keen to trumpet the seen effects of its interventions. A February 2014 press release is typical, claiming that in the last year, the "Bank approved more than $27 billion in total authorizations to support an estimated $37.4 billion in US export sales and approximately 205,000 American jobs in communities across the country."[15]

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9. Veronique de Rugy, "Jobs and Export Value in Perspective: Ex-Im-Backed Projects Constitute Tiny Portion of Total US Exports," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) June 24, 2014.
10. Allan I. Mendelowitz, "Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness," *Government Accountability Office Report No. GAO/NSIAD-92-49* (Government Accountability Office: Washington, DC) January 1992, http://www.gao.gov/assets/220/215530.pdf.
11. Veronique de Rugy, "The Right Way to Help Exporters: Kill Ex-Im, Reform the Corporate Income Tax," *The Corner Blog at National Review Online*, April 30, 2014, http://www.nationalreview.com/corner/376826/right-way-help-exporters-kill-ex-im-reform-corporate-income-tax-veronique-de-rugy.
12. Veronique de Rugy, "Updated: Corporate Income Tax Rates in the OECD," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) April 1, 2014.
13. Jason Fichtner, "Increasing America's Competitiveness by Lowering the Corporate Tax Rate and Simplifying the Tax Code," *Testimony before the Senate Committee on Finance*, January 31, 2014, http://mercatus.org/publication/increasing-america-s-competitiveness-lowering-corporate-tax-rate-and-simplifying-tax.
14. Frédéric Bastiat, *Selected Essays on Political Economy*, trans. Seymour Cain (Irvington-on-Hudson, NY: The Foundation for Economic Education, Inc.) 1995. Library of Economics and Liberty [Online] available from http://www.econlib.org/library/Bastiat/basEss1.html; accessed 20 June 2014.
15. Lawton King, "U.S. Exports Support a Record 11.3 Million Jobs in 2013," *Press Release*, February 24, 2014. http://www.exim.gov/newsandevents/releases/2014/US-Exports-Support-Support-a-Record-11-Million-Jobs-in-2013.cfm.

This job creation claim is correct in the narrowest of senses. Indeed, it is hard to imagine how a government program could spend billions of dollars without yielding *some* kind of immediate gross employment effect. In the case of the Export-Import Bank, lending money to a foreign company to buy US products that it otherwise would not have purchased will necessarily increase the US firm's revenue above what it would have earned without government assistance. This will, in turn, expand the company and create new jobs in the short term. This statement amounts to little else than an admission that taxpayers funds were, indeed, spent.

Even if we take the Ex-Im Bank jobs claim at face value, the Bank influences a negligible number of export jobs. Since there were 11.3 million total export-related jobs in the United States in 2013, that means that the 205,000 jobs that Ex-Im claims to have created or supported represent only 1.8 percent of total export-related jobs. This is consistent with the small share of exports supported by Ex-Im.

Furthermore, this claim only represents the "seen" side of the story. To get a complete picture of the true economic effects of the Export-Import Bank's interventions, we must consider what would have happened if the Export-Import Bank did not spend money in this way. Would American citizens have spent their own funds in a more productive manner than their government did after taxing and distributing funds to the corporations that they chose? Might those decisions have created even more jobs than the ones for which the Export-Import Bank claims credit? There are a few reasons to think this could be the case.

First, foreign companies that receive Ex-Im financing are not necessarily purchasing *more* goods from US firms, but often simply buying different *kinds* of goods. Ex-Im interventions shift resources away from unsubsidized projects and toward artificially cheaper projects that the Bank subsidizes. Many of the jobs the Bank claims to "create" are in reality redirected from unsubsidized firms. The Export-Import Bank disadvantages employees of unsubsidized companies for the benefit of employees of subsidized companies.

This creates a cascading effect. A government-subsidized company becomes an artificially safe asset that attracts more private capital than it would have if simply judged on its merits. Capital therefore becomes less available to unsubsidized projects that might have had higher probabilities of success. This only amplifies the downward pressure on job creation for unsubsidized firms.

Financiers, in other words, are unseen beneficiaries of Ex-Im activity as they have access to artificially protected and inexpensive investment opportunities. Under the loan guarantee system, lenders can extend large, extremely low-risk loans to subsidized projects since the government assumes the risks of 85 percent of the loan value. Lenders can collect handsome fees from borrowers and enjoys the value of an interest rate on 100 percent of the value of the loan. These risky profits are privatized to political allies while any risk of losses is socialized to the American public.

These unfortunate consequences have long been known to Washington. A Congressional Budget Office (CBO) report from 1981 explains that under normal economic conditions "subsidized loans to exporters will increase employment in export industries, but this increase will occur at the expense of non-subsidized industries: the subsidy to one industry appears on other industries' books as increased costs and decreased profits."[16]

These increased costs and decreased profits take place through different channels. First, nonprivileged exporters lose when their competitors get help, and so do non-exporters. Second, anyone who competes with the privileged foreign buyers loses market share. Third, consumers trying to buy the good whose demand is artificially high must pay a higher price. Finally, as previously mentioned, anyone trying to obtain capital loses since lenders are likely to prioritize demand for capital from borrowers with a government guarantee independently of the merits of the project.

16. Heywood Fleisig and Catharine Hill, 'The Benefits and Costs of the Export-Import Bank Loan Subsidy Program,' Congressional Budget Office Report (Congressional Budget Office: Washington, DC) 1981,http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/113xx/doc11311/1981_03_export.pdf.

This argument forms the basis of a suit by Delta Airlines employees against the Export-Import Bank.[17] The plaintiffs in the suit allege that the Bank's lack of proper economic analysis results in a portfolio that disproportionately favors mega-manufacturer Boeing and puts other US corporations and employees at a competitive disadvantage.

Indeed, Ex-Im did not earn its nickname, "Boeing's Bank," for nothing: an astounding 66 percent of the Bank's portfolio of loan guarantees was awarded to Boeing during FY 2013.[18] A spokesman for Delta Airlines argues that the Bank "does not consider or address the harm Ex-Im financings for widebody aircraft do to US airlines and their employees."[19] The Bank's newly published guidelines exempt at least 85 percent of aircraft-related deals from thorough economic analysis.

In that sense, the 205,000 jobs claimed by the Bank are not net-new jobs, as they do not incorporate the negative dynamic secondary effects that intervention often creates. From the perspective of Delta Airlines employees, these 205,000 jobs come at the expense of their own livelihoods. In fact, the real question is, Does the Bank create more jobs than it destroys or redirects? Given Ex-Im's lax commitment[20] to detailed economic analyses of all transactions, the Bank is in a poor position to answer.

Moreover, there is no reason to believe the Bank's assumption that these 205,000 jobs could not have existed without its intervention. Indeed, from 2012 to 2013 the total number of export-related jobs in the United States *increased* while the total number of Ex-Im-backed export jobs simultaneously *decreased*.[21] If Ex-Im assistance were critical to maintaining robust export employment, we would not expect to observe this divergence.

As we will see later, despite the talk about "financing gaps," most of the loan value backed by the Bank benefits large and well-established companies[22] that have ample alternative financing options.[23] Even small businesses that receive support were often profitable well before Ex-Im operatives came knocking.[24]

Washington has long known about the Bank's tendency to favor familiar firms. President Reagan's former Office of Management and Budget (OMB) director, David Stockman, had more than a few run-ins with the Export-Import Bank and its well-connected corporate beneficiaries as he tried to retire or reform the Bank in the early 1980s. In his words, the idea that export subsidies will create jobs or increase GDP is yet another example of "the single-entry-bookkeeping mentality that has larded the federal budget" with so many subsidies and payments to special interests.[25] Despite its economic illiteracy, it is, for some, a powerful argument to maintain the status quo.

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17. "Delta sues Ex-Im Bank over loan guarantees for foreign airlines," Reuters, April 4, 2013, http://www.reuters.com/article/2013/04/04/us-delta-eximbank-lawsuit-idUSBRE93305B20130404.
18. Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank," Mercatus Center Chart Series (Mercatus Center at George Mason University: Arlington, VA) April 29, 2014.
19. Delta Air Lines, "Delta Issues Statement on Export-Import Bank," PR Newswire Press Release, April 8, 2014, http://www.marketwatch.com/story/delta-issues-statement-on-export-import-bank-2014-04-08.
20. In the Bank's most recent annual report following the GAO job methodology criticisms, for instance, the Bank does provide details about the flaws in their calculations, but they bury this information several pages into the report and far away from the dataset that it qualifies. See *Annual Report 2013*, Export-Import Bank of the United States (Export-Import Bank of the United States: Washington, DC) April 2014, http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.
21. Veronique de Rugy, "Jobs and Export Value in Perspective: Ex-Im-Backed Projects Constitute Tiny Portion of Total US Exports," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) June 24, 2014.
22. Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) April 29, 2014.
23. A managing director of Boeing's finance arm, for instance, told the Wall Street Journal that he was "confident the company could find alternative funding sources for customers that wouldn't require it to boost its support of aircraft sales." See Doug Cameron, "Boeing Cites Jitters Over Airplane Financing From Ex-Im Bank," *Wall Street Journal*, August 7, 2013, http://online.wsj.com/news/articles/SB10001424127887323477604578654180186390150.
24. Katerine Rosario, "Export-Import Bank: A Microcosm of Washington's Cronyism," *The Forge Blog*, April 1, 2014, http://heritageaction.com/2014/04/export-import-bank-microcosm-of-washingtons-cronyism/.
25. David Stockman, *The Triumph of Politics: Why the Reagan Revolution Failed* (Harper & Row: New York City, NY) 1986.

Last but not least, the federal government's own GAO finds that the Bank's job calculation method leaves much to be desired. A May 2013 report criticized the Bank for concealing the many methodological weaknesses that underlie its attractive "205,000 jobs" number.[26] The GAO reports that Ex-Im extrapolates its numbers from the Bureau of Labor Statistic data product that measures how much of the output (revenue) of an industry goes into the input (production) of another industry and its employment equivalent. There are many limitations to this methodology such as the fact that it does not distinguish between full-time, part-time, and seasonal employment, thus painting a rosier, but inaccurate, picture.

Additionally, Ex-Im does not control for selection effects wherein Ex-Im-supported firms or industries may differ from the "average" firms or industries that the Bank purports to similarly benefit. Finally, and most critically, GAO criticized the Bank for not considering the unseen counterfactual of how many jobs would have existed without any intervention at all. Putting all these weaknesses together, the Bank's pretty "205,000 jobs" number is far from a true reflection of sound economic analysis and transparent data methods.

If the Export-Import Bank truly believes that it provides substantial benefits to US employment, it should not fear implementing the GAO's suggested improvements. In its response to the report, the Bank committed to discussing the assumptions and shortcomings of its jobs calculation methodology more explicitly in its FY 2013 report. However, the Bank continues to use the old jobs calculation methodology that the GAO criticized, with all its attendant shortcomings.[27]

All this evidence suggests that the Export-Import Bank is not "pro jobs," per se, but rather "pro jobs for certain corporations."

Claim 3: The Export-Import Bank supports small businesses

The Export-Import Bank frequently boasts of its outreach and support to small businesses, but these claims are very misleading. The Bank selectively emphasizes portfolio numbers to overstate small business activities, employs an extraordinarily expansive definition of the term "small business," and disperses the majority of its largesse to large, established corporations.

In May 2014, Ex-Im released the results of its Small Business Customer Survey to great fanfare.[28] Of the 2,100 small business customers that responded, the Bank reports that 95 percent would recommend Ex-Im to another exporter, 64 percent reported that their companies' revenues increased over the past five years, and another 64 percent believed that Ex-Im had helped to expand their exports over the past five years.[29] Strikingly, nearly 45 percent of respondents either strongly agreed or agreed that they would be just fine without Ex-Im.

Ex-Im's FY 2013 Annual Report states that "the Bank approved a record 3,413 transactions, or 89 percent, for small businesses."[30]

26. "Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency," *Government Accountability Office Report* No. 13-446 (Government Accountability Office: Washington, DC) May 23, 2013, http://www.gao.gov/products/GAO-13-446.

27. *Annual Report 2013*, Export-Import Bank of the United States (Export-Import Bank of the United States: Washington, DC) April 2014, http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.

28. Steve Horning, "Ex-Im Bank Releases Results of Small Business Customer Survey," *Press Release*, May 19, 2014, http://www.exim.gov/newsandevents/releases/2014/Ex-Im-Bank-Releases-Results-of-Small-Business-Customer-Survey.cfm.

29. "The Export-Import Bank of the United States Small Business Exporter Customer Survey," *Summary Results* (Export-Import Bank of the United States: Washington, DC) May 15, 2014, http://www.exim.gov/about/library/reports/otherreports/upload/2014-Small-Business-Survey-Results-For-Publishing.pdf/.

30. *Annual Report 2013*, Export-Import Bank of the United States (Export-Import Bank of the United States: Washington, DC) April 2014, http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.

This statement is curiously incomplete. It is true that 89 percent of the total number of deals involved firms that fit the Bank's definition of a "small business." However, when you look at the total *amounts* that the Bank distributes, the picture is decidedly different. During FY 2013, for instance, only $5.2 billion of the $27.3 billion in total authorization amounts, or 19 percent, was designated as "small business" activity on the Ex-Im Bank's annual report.[31] This is concerning, as the Bank's own charter mandates that no less than 20 percent of total authority for each fiscal year be directly made available to small business concerns.[32]

Additionally, the Bank employs a rather unconventional definition of "small business." While the term invokes images of mom-and-pop stores and enterprising startups, Ex-Im's definition is considerably more expansive than that of the Small Business Administration (SBA). With few exceptions, the SBA sets its "small business" threshold at firms with fewer than 500 employees and no more than $7 million in average annual receipts—criteria much stricter than the Bank's. Ex-Im's definition of "small" includes manufacturing and wholesale firms that employ anywhere from 500 to 1,500 workers,[33] general construction firms that earn anywhere between $13.5 million and $17 million a year, and in other sectors, firms with annual revenues of up to $21.5 million.[34] Other government institutions, like the Federal Reserve, adhere to the SBA's definitions,[35] which raises the question of why the Ex-Im Bank in particular found it necessary to create its own standards.

According to the Bank's data for FY 2013, much of its direct and indirect subsidies benefit giant manufacturers and well-connected exporters. For instance, America's number one exporter, the Boeing Corporation, received roughly 66 percent of the value of all loan guarantees last year. The Bank reports that Boeing was designated primary exporter for 55 deals, valued at roughly $8.3 billion in total assistance. This means that upwards of 30 percent of the value of all Export-Import Bank assistance in 2013 directly benefited the Boeing Corporation. Additionally, the top 10 exporter beneficiaries of Ex-Im assistance—among whom we find General Electric, Dow Chemical, Bechtel, Caterpillar, and John Deere—received a combined total of roughly 75 percent of the value of total assistance last year.[36]

The Export-Import Bank may proudly publicize the small business deals that it brokers, but the Bank's own financial statements clearly show that big business is its main business.

Claim 4: The Export-Import Bank levels the playing field for US exporters competing with foreign corporations subsidized by their own governments

Another popular argument is that the Export-Import Bank is necessary to counteract the competitive disadvantages posed by the export credit agencies of foreign nations. Since foreign firms enjoy the benefits of their own national export subsidy organizations, the argument goes, US firms would struggle to compete internationally if our federal government did not provide similar aid. The US Export-Import Bank is a necessary, although perhaps unfortunate, weapon in this international export subsidy arms race.

Few would disagree that it would be much preferable if US exporters only had to compete on price and quality against unsubsidized foreign companies. However, the fact that other countries choose to engage in bad economic policy does not immediately justify the United States following suit. This argument might hold water if (1) a sub-

31. Ibid.
32. Sec. 2(b)(1)(E)(v), *Ex-Im Charter*, Ex-Im Bank, http://www.exim.gov/about/whoweare/charterbylaws/upload/Updated_2012_EXIM_Charter_August_2012_Final.pdf.
33. "Small Business Defined," Export-Import Bank of the United States, accessed June 20, 2014, http://www.exim.gov/smallbusiness/policies/Small-Business-Defined.cfm.
34. Ibid.
35. "Summary of Size Standards by Industry Sector," Small Business Administration, accessed June 20, 2014, http://www.sba.gov/content/summary-size-standards-industry-sector.
36. Veronique de Rugy, "The Biggest Beneficiaries of the Ex-Im Bank," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) April 29, 2014, http://mercatus.org/publication/biggest-beneficiaries-ex-im-bank.

stantial portion of the Export-Import Bank's portfolio is indeed dedicated to counteracting the effect of foreign export credit agencies; (2) a substantial portion of total US exports depend on Ex-Im assistance to successfully compete on a global scale; and (3) engaging in suboptimal policies because other countries do so makes economic sense.

If the Export-Import Bank were truly a critical tool in counteracting the activities of foreign export credit agencies, the bulk of the Bank's portfolio should to be dedicated to this purpose—which is not the case.

For a long time, the Bank did not specify the exact purpose of each transaction in its reports, so it was difficult to determine how much of its portfolio was dedicated to which goals. However, Congress recently obliged the Bank to provide more explanations for certain portfolio transactions as a condition of its most recent reauthorization in 2012.[37] While the Bank does not provide justifications for all transactions in its portfolio, the Bank's current charter now compels Ex-Im to at least provide explanations in broad categories for all loans and long-term loan guarantees in its annual report.

According to the Bank's 2013 Annual Report,[38] only $12.2 billion of the $37.4 billion portfolio—that is, less than one-third—was dedicated to counteracting competitive disadvantages wrought by foreign export credit agencies.[39]

What's more, the United States is far from a victim in the world of export credit subsidies. A recent CRS report on the Ex-Im Bank shows that the United States is actually the largest export credit subsidizer among G-7 nations. Ex-Im's $31.3 billion in medium- and long-term loan assistance constituted 42.4 percent of the total assistance given by G-7 nations in 2013.[40] Only China exceeded the United States in loan assistance last year, with a reported $45 billion in assistance. The data show that Ex-Im assistance is globally aggressive, and not defensive, in nature.

Additionally, much of this financing goes to large corporations that are unlikely to be incontrovertibly harmed by foreign export credit agencies. For instance, roughly 66 percent of the value designated to "meet competition from a foreign, officially sponsored export-credit agency" went to the Boeing Corporation, whose own financial director publicly admitted it could "find alternative funding sources"[41] without the Export-Import Bank.

And, as previously mentioned, if export subsidies were truly so critical to competing abroad, then we would expect far more than 2 percent of total US exports to receive Ex-Im assistance. Yet somehow, the other 98 percent of unassisted US exports thrive and successfully compete in the global marketplace.

Subsidies may seem like a good deal for those benefiting from them.[42] In the case of Ex-Im, the list includes the private lender who gets to collect high fees and extend a loan at very low cost, the foreign company that receives the loan guarantee, the domestic company whose goods are purchased with the borrowed money, Ex-Im bureaucrats, and the politicians who defend the Bank in exchange for financial support from other Ex-Im beneficiaries.

However, in most cases, economists have found that subsidies end up being a bad deal for everyone, including the so-called beneficiaries.[43] The unseen costs of export subsidies negatively impact normal Americans, unsubsidized

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37. Export-Import Reauthorization Act of 2012, H.R. 2072, 113th Cong. (2012), http://www.gpo.gov/fdsys/pkg/BILLS-112hr2072enr/pdf/BILLS-112hr2072enr.pdf.
38. *Annual Report 2013*, Export-Import Bank of the United States (Export-Import Bank of the United States: Washington, DC) April 2014, http://www.exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf.
39. Veronique de Rugy, "Key Argument for Export-Import Bank Invalid," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) June 11, 2014, http://mercatus.org/publication/key-argument-export-import-bank-invalid.
40. Veronique de Rugy, "Key Argument for Export-Import Bank Invalid," *Mercatus Center Chart Series* (Mercatus Center at George Mason University: Arlington, VA) June 11, 2014, http://mercatus.org/publication/key-argument-export-import-bank-invalid.
41. Doug Cameron, "Boeing Cites Jitters Over Airplane Financing From Ex-Im Bank," *Wall Street Journal*, August 7, 2013, http://online.wsj.com/news/articles/SB10001424127887323477604578654180186390150.
42. Matthew Mitchell, "The Pathology of Privilege: The Economic Consequences of Government Favoritism," *Mercatus Research* (Mercatus Center at George Mason University: Arlington, VA) 2012, http://mercatus.org/sites/default/files/Mitchell-Pathology-March-2014.pdf.
43. Arvind Panagariya, "Evaluating the Case for Export Subsidies," *World Bank Policy Research Working Paper* (World Bank: Washington, DC)

businesses, and even subsidized businesses in a number of unpleasant ways. As mentioned before, subsidies can trigger waves of malinvestment by encouraging companies to make marginal investments in a subsidized activity without regard to its true opportunity costs, or by encouraging consumers to buy a subsidized good without accounting for its true cost. Tax revenues are siphoned from productive businesses and their employees and directed to others with political clout. In addition, subsidies hurt consumers since they usually artificially increase the price of the subsidized good.

Subsidies also trigger wasteful spending for political favors.[44] Not only do subsidized industries use domestic tax dollars to make a profit, the existence of subsidies creates incentives to use resources for lobbying rather than productive investment. Economist William Baumol described how this "unproductive entrepreneurship" saps an economy of its engines of growth.[45] Entrepreneurs and businesspeople have an incentive to procure government subsidies to stay afloat, which wastes more time and resources through the deadweight loss of unproductive lobbying spending.[46]

Ironically, subsidies also damage recipients in the long run by dulling their competitive edge.[47] Subsidized businesses often grow complacent and lazy because they know they can rely on government assistance. When markets change and pressures mount, subsidized industries find that they simply cannot keep up—so they come to Congress for a bailout.

Most importantly, subsidizing exports actually harms US consumers and helps foreign consumers. Indeed, this is one of the selling points of Ex-Im programs.[48] When foreign export agencies subsidize their exporters, they actually help US consumers at the expense of their own citizens. In subsidizing our own exports in response to foreign subsidies, the Export-Import Bank actually hurts US consumers more.

Little has changed since Adam Smith astutely observed more than two centuries ago in the *Wealth of Nations* that "if a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage."[49] This logic holds whether or not foreign countries are producing goods more cheaply because of competition or subsidies: American consumers win either way. When governments use national wealth to subsidize the artificially cheap consumption of foreign nations, on the other hand, domestic citizens lose and foreign consumers win.

The fact that others engage in an activity is never *prima facie* evidence that one should do the same. Despite the apparent fashion of export subsidies, the economics is clear that these policies harm national consumption in exchange for tiny, short-term benefits to a few connected companies. Supporters of the Export-Import Bank should heed the sage question posed by their mothers: "If China and Russia and Japan and Germany jumped off a bridge, would you do it too?"

2000, http://elibrary.worldbank.org/doi/book/10.1596/1813-9450-2276.

44. See Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies and Theft," *Western Economic Journal* 5 (1967): 224–232; Richard Posner, "The Social Cost of Monopoly and Regulation," *Journal of Political Economy* 83 (1975): 807–827; Anne Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (1974): 291–303..

45. William J. Baumol, "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Political Economy* 98 (1990): 893–921.

46. Matthew Mitchell, "The Pathology of Privilege: The Economic Consequences of Government Favoritism," *Mercatus Research* (Mercatus Center at George Mason University: Arlington, VA) 2012, http://mercatus.org/sites/default/files/Mitchell-Pathology-March-2014.pdf.

47. Harvey Leibenstein, "Allocative Efficiency vs. 'X-Efficiency,'" *American Economic Review*56, no. 3 (June 1966): 392–415.

48. Ex-Im administrators often implicitly acknowledge this bias towards foreign consumption in their press statements. For instance, current Ex-Im Chairman Fred Hochberg recently remarked, "Sending our exports abroad is critical to creating jobs here at home. And the Export-Import Bank is a critical link in that chain, connecting America's small businesses to the 95% of the world's customers that live outside our borders." See Lawton King, "U.S. Exports Reach $192.5 Billion in January," *Press Release*, March 4, 2014, http://www.exim.gov/newsandevents /releases/2014/US-Exports-Reach-192-Billion-in-January.cfm.

49. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan, (London: Methuen & Co., Ltd.) 1904. Library of Economics and Liberty [Online] available from http://www.econlib.org/library/Smith/smWN13.html; accessed 20 June 2014.

Claim 5: The Export-Import Bank is a good deal for taxpayers

Defenders of the Export-Import Bank often point out that the agency does not cost anything to taxpayers; in fact, they argue, the Bank actually generates profits for the US Treasury.[50] In FY 2013, for example, Ex-Im claimed to return over $1 billion in profits to the Treasury.[51] Regardless of whether the federal government should or must operate an export-credit agency, the fact that the Export-Import Bank reports profits to the government is enough of a reason for many to support it.

If this is indeed the case that the Bank makes robust profits, then it contradicts the claim that its activities do not compete with private capital because it is correcting a market failure (i.e., the absence of private capital) and that it takes a conservative approach to lending and finance. The reality, however, is not as straightforward. One part of the Bank's activities (aircraft) is indeed profitable while others aren't and are being subsidized. In other words, it is likely that none of the transactions financed by the Ex-Im Bank actually meet the Bank's dual criteria.

Let me illustrate this point with an example. The large commercial aircraft guarantee program does generate a lot of cash flow. Let's say that on average, Ex-Im authorizes $10 billion in large aircraft guarantees. Under rules established in the 2011 Aircraft Sector Understanding (ASU)[52] among OECD nations, Ex-Im must collect exposure fees up-front at the issuance of the guarantee.[53] Let's say on average, those fees amount to 10 percent of the guarantee. Then for any given year in recent history, the large aircraft guarantee program collects approximately $1 billion in fees per year. According to Ex-Im's financial statements, its operating costs are relatively small, roughly $100 million a year. In other words, if Ex-Im makes money, it is exclusively due to its aircraft portfolio. The rest of its portfolio must be losing money, but the Bank's creative accounting obscures the effects.

That means that profitable Bank projects, like its healthy aircraft portfolio, should have no problem finding private financing. This portion of the Bank's activities should be privatized. On the other hand, if the private sector won't finance the other activities offered by the Bank, the money-losing activities, it is a signal that taxpayers shouldn't be exposed to the risk, either.

Furthermore, even if the Bank were profitable today, we could not rely on the Bank to earn profits for American taxpayers for years to come. The Bank ran a deficit several years in a row in the 1980s and was reported to have considered requesting a $3 billion bailout in 1987.[54] This could happen again.

Financial projections are only as sound as the methodologies employed to produce them. Many have been skeptical of the Bank's risk analyses, default assumptions, and accounting methods for years, as Heritage regulatory fellow Diane Katz notes.[55] Some of the most vociferous criticisms have come from within the Export-Import Bank itself, as well as from the GAO and CBO. The errors that these criticisms reveal undercut Ex-Im supporters' claims of profitability and sustainability and in fact reveal that the Bank exposes taxpayers to the risk of "severe portfolio losses," in the words of the Bank's own inspector general.[56]

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50. Christopher Matthews, "The Federal Agency That Makes $1 Billion for Taxpayers and the Fight to Abolish It," *Time*, October 24, 2013, http://business.time.com/2013/10/24/the-federal-agency-that-makes-1-billion-for-taxpayers-and-the-fight-to-abolish-it/.
51. Jamie Radice, "Ex-Im Bank Announces More Than $1 Billion in Revenues Generated For Taxpayers in FY 2013," Press Release, October 23, 2013, http://www.exim.gov/newsandevents/releases/2013/Numbers-Release.cfm.
52. Dean N. Gerber, "The 2011 Aircraft Sector Understanding: Calming Turbulent Skies," *The Air & Space Lawyer* 24 (2011): 1, 14–17, 23.
53. Current rates can be found at the OECD website, see: "2011 ASU: Quarterly Update of MRS and of Resulting MPR – Q2/2014," Organisation for Economic Co-operation and Development, accessed June 20, 2014, http://www.oecd.org/tad/xcred/(4-2014-MRS-en)%20updates%20of%20MRS_website-en-Q2-2014.pdf.
54. Clyde H. Farnsworth, "U.S. Export Bank Seeks $3 Billion," *New York Times*, December 21, 1987, http://www.nytimes.com/1987/12/21/us/us-export-bank-seeks-3-billion.html.
55. Diane Katz, "The Export–Import Bank: A Government Outfit Mired in Mismanagement," *Heritage Issue Brief* No. 4208 (Heritage Foundation: Washington, DC) April 29, 2014, http://www.heritage.org/research/reports/2014/04/the-exportimport-bank-a-government-outfit-mired-in-mismanagement.
56. Mark Thorum, "Report on Portfolio Risk and Loss Reserve Allocation Policies," *Export-Import Bank of the United States Inspector General Report No. OIG-INS-12-02* (Export-Import Bank of the United States: Washington, DC) September 28, 2012, http://exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf.

An alarming 2012 report from the Inspector General of the Export-Import Bank reveals that the Bank does not employ adequate risk analyses.[57] The Bank's unique position as a governmental export credit insurer and underwriter exposes it to a number of unusual risks. In addition to balancing normal market considerations and operational boundaries imposed through legislation, the Bank must also adequately calculate and mitigate taxpayer exposure to credit risks, political risks, currency risks, and various concentration risks riddling its vast portfolio. The inspector general warns that "Ex-Im lacks a systemic approach to identify, measure, price, and reward" these many portfolio risks.[58] This improper loss reserve methodology may have "resulted in the systematic underreserving and underpricing of the portfolio risk," which significantly limits the predictive veracity of the Bank's projections.

The methods that Ex-Im does have in place are likewise inadequate to reflect the Bank's underlying portfolio.[59] The Inspector General also warned that the Bank "does not reserve or price for the incremental risk deriving from its portfolio concentrations."[60] In other words, the Bank's loss credit methodology does not account for the potential co-variance of risks among asset classes. Aircraft transactions represent over 51 percent of the total value of the Ex-Im portfolio, but new airline transactions are priced and structured according to the same guidelines as any other transaction. If the aircraft industry were to slide into a downturn,[61] the Bank's portfolio would be far more exposed than its numbers currently predict. The Inspector General also reports that the Bank does not perform portfolio stress tests, thus leaving administrators in the dark when trying to effectively manage this concentration risk.[62]

Even when more appropriate processes are in place, the Inspector General reports that "loan officers and bank personnel did not always document sufficient evidence for borrower statements regarding the need for financing."[63] In many cases, employees did not even perform background checks to determine borrower eligibility before disbursing funds. Federal regulators would not tolerate this kind of carelessness from private institutions. It is all the more unacceptable coming from a federal steward of taxpayer money like the Export-Import Bank.

Additionally, the Bank's default assumptions vastly obscure the Bank's true financial position. A May 2013 report from the Government Accountability Office describes Ex-Im's unusual internal performance measures in detail.[64] To begin with, the Bank employs an unjustifiably narrow definition of "default" that only includes unpaid past-due loans and claims paid to privately insured transactions.[65] The Inspector General points out that the Bank does not even have access to the proper empirical data on the impaired assets in its portfolio, much less employ the proper modeling techniques on these assets.[66] What's more, the GAO found that the Bank did not even use its own default

57. Ibid.
58. Ibid.
59. Administrators that manage politically induced market interventions often underestimate the many silent risks that accumulate beneath the surface. For a detailed treatment of this topic, see Nassim Nicholar Taleb, The Black Swan: The Impact of the Highly Improbable (New York: Random House) 2010.
60. Thorum, "Report on Portfolio Risk," 2012..
61. There is evidence that the Bank's activities are inflating a bubble in the aircraft finance and manufacturing industry. Forthcoming.
62. Mark Thorum, "Report on Portfolio Risk and Loss Reserve Allocation Policies," *Export-Import Bank of the United States Inspector General Report No. OIG-INS-12-02* (Export-Import Bank of the United States: Washington, DC) September 28, 2012, http://exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf.
63. Rebecca Sharek, "Export-Import Bank's Management of Direct Loans and Related Challenges," *Export-Import Bank of the United States Inspector General Report No. OIG-AR-13-05*, 02 (Export-Import Bank of the United States: Washington, DC) September 26, 2013, www.exim.gov/oig/upload/OIG-Final-Report-Audit-of-Ex-Im-Bank-s-Management-of-Direct-Loans-and-Related-Challenges-09-26-13-2.pdf.
64. Lawrence L. Evans, Jr., "Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources," *Government Accountability Office Report No. GAO-13-620* (Government Accountability Office: Washington, DC) May 30, 2013, http://www.gao.gov/products/GAO-13-620.
65. Diane Katz, "The Export–Import Bank: A Government Outfit Mired in Mismanagement," *Heritage Issue Brief No. 4208* (Heritage Foundation: Washington, DC) April 29, 2014, http://www.heritage.org/research/reports/2014/04/the-exportimport-bank-a-government-outfit-mired-in-mismanagement.
66. Mark Thorum, "Report on Portfolio Risk and Loss Reserve Allocation Policies," *Export-Import Bank of the United States Inspector General*

data to calculate program costs and exposure. This oversight is negligent and alarming. The Export-Import Bank exposed taxpayers to a massive $130 billion risk limit during 2013 based on the Bank's misleading financial statements.[67] The GAO warned that this inadequate accounting would fail to accurately predict risk exposure, default rates, and program costs in the future. Accordingly, the Export-Import Bank's previous projections that employed this subpar methodology should also be viewed with a critical eye.

Improper accounting may yield impressive illusions in the short term but will not prevent financial disaster in the event of an unexpected downturn. For many years, Ex-Im skeptics could only point to the dire pleadings of the GAO and Inspector General to bolster their case that the Bank's "profits" may be a misleading accounting fiction. The collapse of the US housing market, prompted partially by the risky underwriting of federal mortgage corporations Freddie Mac and Fannie Mae, provides another cautionary tale.

It was once also common to support Fannie Mae and Freddie Mac on the grounds that they were profitable. While we now know these profits were illusory, many industry and government analysts raised alarms about brewing fiscal mischief years before the housing collapse overwhelmed the GSEs' mismanaged portfolios. In an eerie parallel to the Export-Import Bank's current position, a 2006 audit performed by the Office of Federal Housing Enterprise Oversight (OFHEO) of Fannie Mae's portfolio and practices from 1998 to mid-2004 reported that the "smooth growth" reported by the federal corporation were "illusions deliberately and systematically created by . . . senior management with the aid of inappropriate accounting and improper earnings management."[68] Policymakers did not heed this warning in time, but there still may be time to attend to the improper accounting of the Export-Import Bank.

We do not need to wait for an economic collapse to reveal the financial fallout of the Export-Import Bank's phony accounting. A new CBO report from May of 2014 confirmed the GAO's worst suspicions. The analysis compared the cost projections for FY 2015 through FY 2024 yielded by the Export-Import Bank's unusual accounting practices to those calculated by the CBO's own "fair value" method. The CBO found that the Export-Import Bank's promised budget savings of over $14 billion over the next decade are illusory. The CBO's more accurate accounting method shows that that these Export-Import Bank programs will actually *cost* taxpayers $2 billion over the next decade. The authors report,

> If Ex-Im Bank's activity in 2015 matches the President's budget request for that fiscal year, CBO estimates that $37.6 billion in new loans would be made or guaranteed in the bank's six largest credit programs, with savings totaling $1.4 billion on a FCRA [Federal Credit Reform Act] basis and costs totaling $0.2 billion using the fair-value approach. Thus, the 10-year effects would be savings of $14 billion using FCRA methodology and costs of $2 billion using the fair-value approach, a difference of $16 billion. The average subsidy rate under the FCRA approach is estimated to be negative 3.8 percent for all of the bank's programs combined, whereas the average fair-value subsidy rate is estimated to be positive 0.4 percent.[69]

The CBO notes that administrative and servicing costs were not included in their analysis because they did not have access to those figures. The fiscal picture of Export-Import Bank financing programs could look even worse once those costs are included.

To understand why fair value methods are a better accounting tool for the cost of Ex-Im activities, we need to understand the difference between the two accounting methodologies. Jason Delisle provides the following explanation:

Report No. OIG-INS-12-02 (Export-Import Bank of the United States: Washington, DC) September 28, 2012, http://exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf.

67. Pub. L. No. 112-122, § 3, 126 Stat. 350, 351 (2012).

68. "Report of the Special Examination of Fannie Mae," *Office of Federal Housing Enterprise Oversight (OFHEO) Report* (OFHEO: Washington, DC) 2006, http://www.concernedshareholders.com/CCS_OfheoReport.pdf.

69. "Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024," Congressional Budget Office Report (Congressional Budget Office: Washington, DC) May 2014, http://cbo.gov/sites/default/files/cbofiles/attachments/45383-FairValue.pdf.

> . . . official rules value government loans as if the estimated performance of the loan (repayment rate, defaults, recovery rates, delinquencies, deferments, etc.) is certain to occur as projected. In contrast, fair-value accounting uses the *exact same estimates of loan performance* as the current rules (repayment rate, defaults, recovery rates, delinquencies, deferments, etc.), but it assumes that the estimated performance is not certain and that taxpayers bear a cost for assuming the risk that the loans will cost more than expected. The CBO explains that this is "market risk," which is the risk that defaults will be higher and more costly in times of economic stress and that the federal government bears it when making loans just as any private lender would.[70]

The bottom line is that supporters of the Export-Import Bank can no longer truthfully claim that the Bank's programs are guaranteed to yield a profit to the federal coffers.

CONCLUSION

The data provide no support for the most popular arguments for the Export-Import Bank.

The Export-Import Bank cannot be shown to "maintain or create" any number of US jobs because the Bank's job calculation methodology is so weak that the GAO had to provide an in-depth audit to shake the Bank into reform. While the Bank at least now includes a brief exposition of these weaknesses deep in its Annual Reports, it insists on continuing to use the old, flawed methodology. Even this flawed job measure constitutes only around 2 percent of the total number of export-related jobs each year. What's more, for every job the Bank can claim to have "created," there are numerous employees of unsubsidized competing firms who can claim to have been hurt by this action.

The Bank cannot claim to play a "critical role in promoting US exports" as the total export value of its annual portfolio only accounts for roughly 2 percent of the total value of US exports each year. The Bank cannot claim to be filling the purported "financing gap," either, as most of its portfolio assists large, connected firms that would have no trouble procuring alternative financing. Finally, economists have long known that export credit agencies have, at best, a tiny effect on national exports compared to potent broader economic trends.

The Bank does not substantially benefit small businesses but disproportionately benefits large corporations like Boeing and General Electric. Supporters like to point to the number of deals given out to small businesses, but in terms of dollar amounts, huge multinational corporations are the clear winners. Even the "small businesses" that Ex-Im claims to support are not exactly "small": Ex-Im's definition of "small business" is far more expansive than the one employed by most federal offices and can include businesses that receive up to $21.5 million in revenues each year.

The Bank cannot claim to level the playing field for US companies that compete against foreign subsidized competition, either. For one, the United States is the number two export credit subsidizer in the world, beaten only by China. The Bank's own records report that only 30 percent of the estimated export value in its total portfolio goes toward this kind of activity. Even if the Bank's entire portfolio were turned to this purpose, this position is economically untenable. By subsidizing exports, the Export-Import Bank helps foreign consumers and hurts American consumers, taxpayers, and borrowers.

The Bank cannot point to profits for taxpayers because its internal reporting is significantly flawed and CBO analyses show that the Bank will actually cost taxpayers billions of dollars over the next decade. What's more, numerous audits by the CBO, the GAO, and the Bank's own Inspector General show that the Export-Import Bank's internal risk management and accounting practices are woefully inadequate and leave taxpayers exposed to massive liabilities.

70. Jason Delisle, "Fair-Value Accounting Shows Switch to Guaranteed Student Loans Costs $102 Billion," *Ed Money Watch Blog of the New America Foundation*, March 23, 2012, http://edmoney.newamerica.net/blogposts/2012/fair_value_accounting_says_switch_back_to_guaranteed_student_loans_costs_102_billion-.

The Export-Import Bank fails on each count. An entity that neglects to meet even its supporters' own criteria simply has no justification for existence and no claim to reauthorization. The Bank has long outlived its purpose and cannot manage to meet the standards of the new missions that have been developed to validate its existence. For policymakers who have the facts, the choice is clear: the Export-Import Bank must go.

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Congressional Budget Office

Testimony

Estimates of the Cost of the Credit Programs of the Export-Import Bank

Douglas W. Elmendorf
Director

Before the
Committee on Financial Services
U.S. House of Representatives

June 25, 2014

This document is embargoed until it is delivered at 10:00 a.m. (EDT) on Wednesday, June 25, 2014. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

CONGRESS OF THE UNITED STATES

Summary

Chairman Hensarling, Congresswoman Waters, and Members of the Committee, thank you for inviting me to testify today about the Congressional Budget Office's (CBO's) recent estimates of the budgetary costs of the Export-Import Bank's (Ex-Im Bank's) credit programs.

My testimony describes those estimates, which were provided in *Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024* (May 2014), and discusses the two different approaches that CBO uses to estimate the costs of credit programs:

- One approach reflects the procedures currently used in the federal budget as prescribed by the Federal Credit Reform Act of 1990 (FCRA), and
- Another approach, known as fair value, shows estimated costs that reflect the market value of the federal government's obligations.

For fiscal years 2015 to 2024, CBO found that Ex-Im Bank's six largest credit programs would generate budgetary savings of about $14 billion under FCRA accounting but cost about $2 billion on a fair-value basis (see Table 1 and Figure 1). Both the FCRA and fair-value estimates are based on Ex-Im Bank's projections of cash flows for those credit programs as reported in the *Federal Credit Supplement* to the Administration's 2015 budget. Thus, both estimates reflect the program terms and outcomes—including the amount of lending, fees, and borrowers' rates of repayment and default—that are expected to prevail under the current structure of the programs and the President's budget request for those programs in 2015.

The difference between the two estimates lies in the treatment of the cost of market risk, which is one component of financial risk. Much of the risk of financial investments can be avoided by diversifying a portfolio; market risk is the component of risk that remains even after a portfolio has been diversified as much as possible. It arises because most investments tend to perform relatively poorly when the economy is weak and relatively well when the economy is strong. People value income from investments more when the economy is weak and incomes are relatively low, and so assign a higher cost to losses that occur during economic downturns. The higher cost of losses in bad times (as well as lower cost in good times) is captured in the cost of market risk.

The government is exposed to market risk through its credit programs because, when the economy is weak, borrowers default on their debt obligations more frequently and recoveries from defaulting borrowers are smaller. That market risk is effectively passed along to taxpayers and beneficiaries of government programs because they bear the consequences of the government's financial losses. Moreover, that risk is costly to those taxpayers and beneficiaries because they also tend to value resources more highly when the economy is weak.

Under the FCRA approach to accounting for federal credit programs, Treasury borrowing rates are used to discount expected future cash flows—that is, to translate future cash flows into current dollars. That approach essentially treats future cash flows subject to market risk as having the same value as Treasury securities that promise the same average payments with no risk. This means that the market risk of federal credit assistance is treated implicitly as having no cost to the government, which has important consequences:

- The costs of federal credit programs reported in the budget are generally lower than the costs to private financial institutions for providing credit on the same terms—at least in part because private institutions require compensation for market risk;
- The budgetary costs of federal credit programs are generally lower than those of grants for similar purposes that involve equivalent economic costs; and
- Purchases of loans and loan guarantees at market prices appear to make money for the government and, conversely, sales of loans and loan guarantees at market prices appear to result in losses.

To incorporate the cost of market risk, the fair-value approach generally entails using the discount rates on expected future cash flows that private financial institutions would use. That approach effectively uses market prices to measure the cost to the public of the lower returns on federal loans and loan guarantees when the economy is weak and incomes are relatively low. In CBO's view, therefore, fair-value estimates provide a more comprehensive measure of the costs of federal credit programs, and CBO has provided fair-value estimates for many programs to help lawmakers more fully understand the trade-offs between certain policies.

Table 1.

Estimated Total Budgetary Costs of the Credit Programs of the Export-Import Bank of the United States Under FCRA and the Fair-Value Approach, 2015 to 2024

	Type of Credit	Obligations or Commitments (Billions of dollars)	Subsidy Cost (Billions of dollars)		Subsidy Rate (Percent)	
			FCRA	Fair-Value	FCRA	Fair-Value
Export Financing	Direct loan	30.0	-2.8	-1.0	-9.3	-3.2
Long-Term Guarantees	Guarantee	245.6	-11.5	1.7	-4.7	0.7
Medium-Term Guarantees	Guarantee	1.9	*	**	-1.6	2.2
Medium-Term Insurance	Guarantee	1.7	-0.1	**	-3.7	‡
Short-Term Insurance	Guarantee	66.8	*	0.5	†	0.7
Working Capital Fund	Guarantee	29.6	*	0.3	†	0.9
Total		**375.6**	**-14.4**	**1.6**	**-3.8**	**0.4**

Sources: Congressional Budget Office (for subsidy estimates, using data supplied by the Export-Import Bank of the United States); Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2015: Federal Credit Supplement* (for commitments and obligations).

Notes: The table shows FCRA and fair-value estimates computed from projected obligations (for direct loans), commitments (for guaranteed loans), and cash flows for 2015 provided by the Administration's Office of Management and Budget and the Export-Import Bank of the United States, assuming reauthorization of the Export-Import Bank.

Subsidy costs exclude administrative expenses.

The subsidy rate is the subsidy cost divided by the projected obligations or commitments.

Numbers in the table may not add up to totals because of rounding.

FCRA = Federal Credit Reform Act; * = between -$50 million and zero; ** = between zero and $50 million; † = between -0.05 percent and zero; ‡ = between zero and 0.05 percent.

Some analysts have expressed concern, however, about potential drawbacks of using the fair-value approach in federal budgeting, including the following:

- Fair-value estimates include costs that will not be paid directly by the federal government if actual cash flows turn out to match expected cash flows, and including those costs makes comparisons with estimated costs for some noncredit programs more difficult;
- Fair-value estimates are somewhat more volatile than FCRA estimates over time because of changes in the cost of market risk;
- Producing fair-value estimates is more complex than producing FCRA estimates; and
- Communicating the basis for fair-value estimates to policymakers and the public is more difficult than communicating the basis for FCRA estimates.

Proponents of the fair-value approach respond to those concerns by arguing the following: Decisions about spending the public's money should take into account how the public assesses financial risks as expressed through market prices; by taking those prices into account, fair-value estimates provide unbiased estimates of the expected cost of loans and loan guarantees when that credit assistance is offered; and, other concerns can be mitigated by using established accounting practices.

My testimony provides further background on the cost of market risk and on the FCRA and fair-value approaches, drawn primarily from CBO's earlier report *Fair-Value Accounting for Federal Credit Programs* (March 2012).

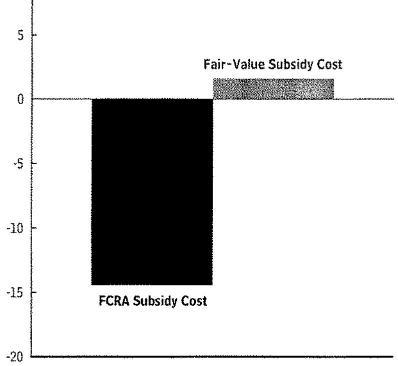
The Difference Between the FCRA and Fair-Value Approaches

Although the costs of most federal activities are recorded in the budget on a cash basis (showing the balance of inflows and outflows when those flows occur), the lifetime costs of federal credit programs are recorded up front on an accrual basis (that is, they are recognized in the year in which a loan is made). The lifetime cost of a federal loan or loan guarantee—called its subsidy cost—is

Figure 1.

Estimated Total Budgetary Costs of the Credit Programs of the Export-Import Bank of the United States Under FCRA and the Fair-Value Approach, 2015 to 2024

(Billions of dollars)



Sources: Congressional Budget Office (for subsidy estimates, using data supplied by the Export-Import Bank of the United States); Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2015: Federal Credit Supplement* (for commitments and obligations).

Notes: The figure shows FCRA and fair-value estimates computed from projected obligations (for direct loans), commitments (for guaranteed loans), and cash flows for 2015 provided by the Administration's Office of Management and Budget and the Export-Import Bank of the United States, assuming reauthorization of the Export-Import Bank.

Subsidy costs exclude administrative expenses.

FCRA = Federal Credit Reform Act.

measured by discounting all of the expected future cash flows associated with the loan or loan guarantee to a present value at the date the loan is disbursed. Those cash flows include the amounts disbursed, principal repaid, interest received, fees charged, and net losses that accrue from defaults; the cash flows do not include administrative costs, which are discussed below. The present value expresses the flows of current and future income or payments in terms of a single number that is equivalent to a lump sum received or paid today; the value depends on the discount rate (that is, the rate of interest) that is used to translate future cash flows into current dollars. For credit programs to have estimated budgetary savings, the discounted value of the government's cash inflows must exceed the discounted value of its cash outflows.

What Is the FCRA Approach?

Under FCRA's rules, the present value of expected future cash flows is calculated by discounting them using the rates on U.S. Treasury securities with similar terms to maturity. For instance, the yield on a Treasury security maturing in one year is used to discount cash flows one year from disbursement, a two-year rate is used for cash flows two years from disbursement, and so on.

What Is the Fair-Value Approach?

Under the fair-value approach, estimates are based on market values in a well-functioning market—actual market prices when markets are functioning well and prices are available, or approximations of market prices when directly comparable figures are unavailable. Thus, this approach accounts for the cost of market risk, which the FCRA approach does not, and thereby offers a more comprehensive estimate of costs.

Although there are many techniques to approximate fair values, a standard method for estimating the market value of a direct loan or loan guarantee—and the method adopted for CBO's analysis of Ex-Im Bank—is to discount the expected cash flows to the present using market-based discount rates. In that case, the only difference between FCRA and fair-value estimates stems from the choice of discount rates. The estimates of cash flows, including the net amount expected to be lost through defaults, are the same in both approaches, but the difference in discount rates means that those cash flows are valued differently. The difference between the FCRA and fair-value discount rates can be interpreted as the additional compensation that investors would require to bear the market risk associated with federal credit assistance.

CBO's fair-value estimates are based on the accounting principles that are generally employed by private financial institutions. Under those principles, estimates of federal costs that are derived from market prices require adjustments to reflect certain differences between the government and the private sector, such as in the costs of originating and servicing loans. CBO continues to refine the adjustments that the agency makes.

How Do Costs Under the Two Approaches Generally Differ?

The cost of a direct loan reported in the federal budget under FCRA procedures is almost always lower than its cost as estimated using the fair-value approach—that is, lower than the cost that private institutions would assign to similar credit assistance on the basis of market prices. Private institutions would generally calculate the present value of expected future cash flows by discounting them using the expected rates of return on private loans (or securities) with similar risks and maturities. Because the expected rates of return on private loans exceed the rates on Treasury securities, the discounted value of borrowers' expected payments is smaller under the fair-value approach, which implies a higher estimated cost for issuing a loan.

Similar reasoning implies that the cost of a loan guarantee calculated under FCRA is almost always lower than its cost as estimated using the fair-value approach. When the government provides a loan guarantee, the government bears the losses resulting from a default on the loan, so a lender places more value on that loan than on the same loan without a guarantee. The difference in value between those two loans is the "fair value" of the guarantee, which reflects the larger losses that an investor would expect on a loan without a guarantee and the higher discount rate that an investor would require to compensate for the market risk associated with those losses. Under FCRA, the expected losses, but not the value of the market risk, are included in the cost. Recognizing the costs of market risk through the use of the fair-value approach results in a higher estimated cost for issuing a loan guarantee.

The Export-Import Bank's Loan, Loan Guarantee, and Insurance Programs

The Export-Import Bank provides direct loans, loan guarantees, and credit insurance to foreign and domestic entities to support the export of U.S goods and services. Ex-Im Bank's programs are subject to the annual appropriation process and, hence, are classified as discretionary. Appropriation bills provide funding to cover the subsidy cost, if any, of the credit assistance provided by Ex-Im Bank. In addition, Ex-Im Bank's authorizing legislation limits the total dollar amount of loans, loan guarantees, and insurance that the bank can have outstanding at any given time.[1] That total exposure was approximately $114 billion at the end of fiscal year 2013, which is $16 billion below the authorization of $130 billion for that year.

For its analysis under the FCRA approach, CBO computed subsidy costs for 2015 using Ex-Im Bank's projection of cash flows and the Office of Management and Budget's discount rates—thus, the subsidy costs match those reported in the *Federal Credit Supplement* to the Administration's 2015 budget.[2] For its analysis under the fair-value approach, CBO used the same cash flows but added a risk premium to the discount rate. Those risk premiums were estimated on the basis of the default projections underlying the cash flows and the market risk premium associated with private loans with similar default rates. Because it did not have a basis for projecting any changes in subsidy rates (the total costs or savings divided by the total amounts disbursed) or in amounts of activity in Ex-Im Bank's credit programs beyond 2015, CBO assumed that the subsidies in each year of the coming decade would match the estimated subsidies for 2015.

If Ex-Im Bank's activity in 2015 matches the amounts proposed in the President's budget, $37.6 billion in new loans would be made, guaranteed, or insured in the bank's six largest credit programs. By CBO's estimate, those transactions would show savings totaling $1.4 billion on a FCRA basis and costs totaling $0.2 billion using the fair-value approach (see Table 2).[3] If that same amount of activity occurred in subsequent years and had the same subsidy rates, the budgetary effect of those transactions over the 2015–2024 period would be savings of about $14 billion using FCRA methodology and costs of about $2 billion using the fair-value approach,

1. For further information about Ex-Im Bank's programs, see Shayerah Ilias, *Export-Import Bank: Background and Legislative Issues*, Report for Congress R42472 (Congressional Research Service, May 22, 2012).

2. See Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2015: Federal Credit Supplement* (March 2014) www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/cr_supp.pdf. The FCRA subsidy estimates in this testimony differ slightly from those in CBO's April 2014 baseline.

3. The budgetary costs and savings discussed here exclude administrative expenses, which are treated separately in the federal budget.

a difference of $16 billion.[4] The average subsidy rate for all of the bank's programs combined is estimated to be negative 3.8 percent under the FCRA approach and positive 0.4 percent under the fair-value approach.

Each of Ex-Im Bank's six largest credit programs would generate a negative or zero budgetary cost on a FCRA basis, CBO estimates. On a fair-value basis, the estimated subsidy cost would increase for all programs and would be positive but less than 1 percent for most of them. However, the fair-value estimate for the Export Financing direct loan program is negative. Estimated fair-value costs for federal credit programs are usually positive or zero because otherwise borrowers would be able to attain more favorable terms from private financial institutions and would not use federal credit assistance. CBO's negative estimate for that specific program could arise because the program's administrative costs are not included in the projected cash flows used in this analysis, because private institutions face obstacles in making loans on the same terms, or because CBO's estimate understates the true subsidy cost.

Under FCRA accounting, the government's administrative expenses for credit programs are not included in the subsidy costs but instead are accounted for separately on a cash basis. To maintain consistency between FCRA and fair-value estimates, and because CBO did not have access to the data required to estimate administrative expenses for Ex-Im Bank's programs, CBO's fair-value estimates for Ex-Im Bank also exclude federal administrative costs. However, comprehensive fair-value estimates of subsidies for Ex-Im Bank's programs and other federal credit programs would incorporate certain administrative expenses, such as servicing and collection costs, that are essential to preserving the value of the government's claims (rather than accounting separately for those costs on a cash basis).

4. The small positive fair-value subsidy cost for Ex-Im Bank's programs in this testimony contrasts with CBO's estimate in June 2012 of a negative fair-value subsidy cost for Ex-Im Bank's programs. See Congressional Budget Office, *Fair-Value Estimates of the Cost of Federal Credit Programs in 2013* (June 2012), www.cbo.gov/publication/43352. That difference stems mainly from the use of a higher discount rate for the long-term loan guarantee program, which increased the estimated subsidy cost for that program. Although the type of credit and loan maturity associated with the long-term guarantee program has not changed, the reported amount of projected defaults has increased: In the 2013 *Federal Credit Supplement*, the Administration reported an expected default rate of 1.35 percent, no recoveries, and a default subsidy cost (net of recoveries) of 1.29 percent for the long-term guarantee program, while in the 2015 *Federal Credit Supplement*, the expected default rate increased to 6.12 percent, recoveries increased to 66.93 percent, and default subsidy costs increased to 1.91 percent.

Background on the Cost of Market Risk

Loans and loan guarantees made by Ex-Im Bank and other federal agencies generally have significant exposure to market risk because borrowers default on their debt obligations more frequently and with greater severity (meaning that recoveries from the borrowers are lower) when the economy as a whole is weak. Such risk imposes a cost on investors because losses that occur when the economy is weak are occurring when resources are more highly valued. That cost is not included in FCRA-based estimates.

Some analysts argue that market risk associated with loans and loan guarantees is much less costly for the federal government than for private investors because of several inherent advantages of the government in extending credit. Specifically, some analysts contend that the federal government is better able to accommodate risk because it can spread risk more widely or because it can borrow money at interest rates that are lower than those available in the private sector. In addition, some analysts note that the federal government's costs of extending credit may be lower than the private sector's costs because the government has no obligation to earn a profit on its activities.

In CBO's view, those characteristics of the federal government do not alter the basic conclusion that the assumption of market risk imposes a cost on the government: The risk is effectively passed along to citizens who, as investors, would view that risk as costly.

To the extent that the federal government is able to spread certain risks more widely than the private sector can, the government may be a relatively efficient provider of credit assistance—leaving aside other considerations. However, even if the federal government can spread risks widely, it cannot eliminate the component of risk that is associated with fluctuations in the aggregate economy (market risk), and that risk is costly to the taxpayers and beneficiaries of government programs who ultimately bear it.

Table 2.

Estimated Annual Loan Volume and Budgetary Costs of the Credit Programs of the Export-Import Bank of the United States Under FCRA and the Fair-Value Approach, 2015 to 2024

(Billions of dollars)

Program Name	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total, 2015-2024
					FCRA Subsidy Cost						
Export Financing	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-2.8
Long-Term Guarantees	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-11.5
Medium-Term Guarantees	*	*	*	*	*	*	*	*	*	*	*
Medium-Term Insurance	*	*	*	*	*	*	*	*	*	*	-0.1
Short-Term Insurance	*	*	*	*	*	*	*	*	*	*	*
Working Capital Fund	*	*	*	*	*	*	*	*	*	*	*
Total	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-14.4
					Fair-Value Subsidy Cost						
Export Financing	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-1.0
Long-Term Guarantees	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.7
Medium-Term Guarantees	**	**	**	**	**	**	**	**	**	**	**
Medium-Term Insurance	**	**	**	**	**	**	**	**	**	**	**
Short-Term Insurance	**	**	**	**	**	**	**	**	**	**	0.5
Working Capital Fund	**	**	**	**	**	**	**	**	**	**	0.3
Total	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.6
					Total Loan Volume						
Export Financing	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	30.0
Long-Term Guarantees	24.6	24.6	24.6	24.6	24.6	24.6	24.6	24.6	24.6	24.6	245.6
Medium-Term Guarantees	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.9
Medium-Term Insurance	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.7
Short-Term Insurance	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	66.8
Working Capital Fund	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	29.6
Total	37.6	37.6	37.6	37.6	37.6	37.6	37.6	37.6	37.6	37.6	375.6

Sources: Congressional Budget Office (for subsidy estimates, using data supplied by the Export-Import Bank of the United States); Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2015: Federal Credit Supplement* (for commitments and obligations).

Notes: The table shows FCRA and fair-value estimates computed from projected obligations (for direct loans), commitments (for guaranteed loans), and cash flows for 2015 provided by the Administration's Office of Management and Budget and the Export-Import Bank of the United States, assuming reauthorization of the Export-Import Bank.

Subsidy costs exclude administrative expenses.

Numbers in the table may not add up to totals because of rounding.

FCRA = Federal Credit Reform Act; * = between -$50 million and zero; ** = between zero and $50 million.

The federal government's ability to borrow at Treasury rates also does not reduce the cost to taxpayers of the market risk associated with federal credit programs. Treasury rates are relatively low because Treasury securities are backed by the government's ability to raise taxes and reduce other spending. When the government finances a risky loan by selling a Treasury security, it is effectively imposing risk on some members of the public: If such a loan is repaid as expected, the interest and principal payments cover the government's obligation to the holder of the Treasury security, but if the borrower defaults, the obligation to the security holder must be paid for either by raising taxes or by cutting other spending. (Issuing additional Treasury debt to repay the outstanding debt can postpone but not avert the need to raise taxes or cut spending.) Thus, the risk is effectively borne by taxpayers or beneficiaries of government programs. Like investors, taxpayers and government beneficiaries generally value resources more highly when the economy is performing poorly.

The view that the federal government is a low-cost provider of credit because it does not need to make a profit rests on the notion that the price paid for market risk represents a type of profit rather than compensation for risk. However, economists view "economic profits" as arising only when the return on private investment exceeds what investors in a competitive market would require. That is, an economic profit is earned when the expected return more than compensates investors for the fact that money in hand now is worth more than the same amount received in the future *and* for bearing market risk. For instance, when a business has a monopoly over a product, it can set prices above costs to earn an economic profit. In competitive financial markets, the presence of many buyers and sellers of financial assets tends to eliminate economic profits, and the risk premium that remains is compensation to investors for bearing the risk.

Thus, those differences between the federal government and private investors do not change the fact that financial transactions whose returns are correlated with the performance of the economy impose a risk on taxpayers and beneficiaries of government programs that is costly for them to bear.

Background on the FCRA and Fair-Value Approaches

The FCRA and fair-value approaches specify that the subsidy cost of credit assistance is to be calculated and recorded on an accrual basis—unlike most items in the federal budget, which are shown on a cash basis. The main distinction between accrual and cash accounting is that under cash accounting, expenditures and receipts are recorded in the years when payments and collections occur, whereas under accrual accounting, the estimated lifetime costs of an activity are recorded at the time that resources are firmly committed. (A system of supporting accounts is used to reconcile FCRA accruals with the cash flows associated with credit programs.)[5]

One advantage of accounting for credit programs on an accrual basis is that it eliminates the incentive that would exist under cash accounting to favor loan guarantees over economically equivalent direct loans. On a cash basis, loan guarantees often would appear to be much less expensive than direct loans with the same default risk and other expected outcomes because guarantee fees are collected when loans are originated but defaults usually occur much later in the life of loans. In contrast, the initial outlay of principal for direct loans occurs in the current year, whereas the return of that principal and many of the interest payments usually do not occur until many years later.

Compared with FCRA accounting, fair-value accounting more fully incorporates the cost to the government (and, by extension, taxpayers and beneficiaries of government programs) of the risks inherent in federal credit transactions. However, the Congress and federal agencies would confront several challenges in adopting fair-value accounting on a widespread basis.[6]

How the FCRA Approach Works

Under FCRA, the subsidy cost of a direct loan or loan guarantee is calculated as a present value of expected net cash flows over the life of the loan; that present value depends on various factors, including the discount rate that is used to translate future cash flows into current dollars. FCRA subsidy costs are estimated by discounting expected net cash flows to the time of loan disbursement using interest rates on Treasury securities of comparable maturities.[7] For example, cash flows a year after disbursement are discounted using the rate on Treasury securities with one year to maturity, and those five years out are discounted using the five-year Treasury rate.

For loan guarantees, expected cash flows include expected payments by the government to cover default or delinquency, offset by any expected payments to the government, including origination fees, other fees, penalties, and recoveries on defaulted loans. For direct loans, expected cash flows include loan disbursements and expected payments of interest and repayments of principal (after accounting for expected defaults, recoveries, and prepayments), fees, and penalties.

5. See Office of Management and Budget, *Circular A-11* (2011), Part 5: Federal Credit, www.whitehouse.gov/omb/circulars_a11_current_year_a11_toc.

6. See "Special Topics," *Budget of the United States Government, Fiscal Year 2013: Analytical Perspectives*, pp. 373–379, www.whitehouse.gov/omb/budget/Analytical_Perspectives.

7. Section 504(d) of FCRA, 2 U.S.C. §661c(d) (2012).

How the Fair-Value Approach Works

The fair value of a loan is the price that would be received if the loan were sold in what is known as an orderly transaction—one that occurs under competitive market conditions between willing participants and that does not involve forced liquidation or a distressed sale.[8] Similarly, the fair value of a loan guarantee is the price that would have to be paid to induce a private financial institution to assume the guarantee commitment. FCRA and fair-value estimates incorporate the same projections of future cash flows. But instead of using Treasury rates to discount those cash flows, fair-value estimates employ discounting methods that are consistent with the cost to private market participants of the risk of the loan or loan guarantee.

As an example of the difference between the FCRA and fair-value approaches to estimating the federal budgetary cost of a financial transaction, consider the following: Suppose that the federal government purchased a loan that had been made previously to a private business and that the purchase occurred in a well-functioning private market so the government paid a price that reflected market participants' views of the value of the loan. Under the FCRA approach, a cost estimate for that transaction would show budgetary savings because the FCRA procedure places greater value on cash flows to be received in the future than do the market participants who determined the purchase price; the loan would appear to be more valuable to the government than to others, even though nothing about the expected cash flows had changed. Essentially, the transaction would appear to reduce the budget deficit because the risk being transferred from the private sector to the government would appear to have no cost. By contrast, under the fair-value approach, a cost estimate for that transaction would show no budgetary impact because the fair-value procedure—by construction—places a value on those cash flows equal to that assessed by market participants. With this approach, the risk being transferred from the private sector to the government would be assigned the cost perceived by the private sector.

Fair values for government loans and loan guarantees can be estimated in different ways. One way is to base estimates on the market prices of similar products offered by private companies—for example, the interest rates charged on private-sector loans to students can be combined with other information to infer a risk premium for federal student loans. Another way is to employ standard financial valuation techniques, such as discounting expected cash flows with risk-adjusted discount rates or using an options-pricing model—a type of model that many private-sector practitioners use to evaluate guarantees. CBO has applied each of those methods in various analyses of credit programs; the choice of methodology has depended on which approach was deemed to produce the most reliable estimates given the characteristics of the obligations being evaluated and the information available.[9]

In private-sector uses, such as in financial reporting by large financial institutions, fair values are based on actual market prices whenever reliable prices on comparable credit products are available. However, when comparable products are not publicly traded—or during a financial crisis, when transactions are usually rare and at distressed prices—fair values are approximated.

Potential Drawbacks of the FCRA Approach

One consequence of using Treasury rates to estimate the cost of federal credit assistance is that some large credit programs, such as the Federal Housing Administration's mortgage guarantees and the federal direct student loan programs, appear in some years to make money for taxpayers. If, instead, the discount rates used in calculating the present values of cash flows for those programs included a market risk premium, budgetary figures for those programs might show a net cost for taxpayers. Thus, FCRA accounting creates a budgetary incentive to expand the programs beyond the scale that would be chosen if the budget reflected comprehensive estimates of the costs of those programs.

In the case of certain other credit programs, the federal government sets interest rates and fees to eliminate any

8. See Financial Accounting Standards Board, *Original Pronouncements, as Amended. Statement of Financial Accounting Standards No. 157: Fair Value Measurements* (Norwalk, Conn.: Financial Accounting Foundation, 2010), www.fasb.org/pdf/aop_FAS157.pdf. The standard is now reflected in Accounting Standards Codification 820.

9. For additional information on alternative approaches to calculating the fair value of federal credit programs, see Deborah Lucas and Marvin Phaup, "The Cost of Risk to the Government and Its Implications for Federal Budgeting," in Deborah Lucas, ed., *Measuring and Managing Federal Financial Risk* (University of Chicago Press, 2010), pp. 29–54.

budgetary cost. Because the cost of market risk is not considered in FCRA-based estimates, the government offers credit through those programs on terms that are generally more favorable than would be offered by even the most efficient and competitive private financial institutions. When the government is not truly more efficient than the private sector at providing credit, those more-favorable terms constitute an unrecognized subsidy to borrowers and a hidden cost to the government.

Even when a credit program has a budgetary cost under FCRA, neglecting the market price of risk lowers the reported cost relative to that of a grant or benefit payment with the same cost measured at market prices, which could distort policymakers' decisions. For example, if policymakers were considering providing assistance to low-income homebuyers either through grants that cover down payments or through loan guarantees that subsidize borrowing, FCRA accounting would make the loan program appear less costly than the grant program even if the programs were designed to have the same cost measured at market value.

In addition, FCRA estimates could provide misleading information about the costs of buying, selling, or holding loans. Under FCRA, selling a loan at a competitive price to a private purchaser would produce an estimated budgetary loss because the proceeds of the sale would be less than the value that the government assigns to holding the loan (apart from possible indirect effects that would occur as a result of the sale). Conversely, the purchase of a loan at a market price would show an estimated budgetary gain.

Potential Drawbacks of the Fair-Value Approach

As discussed above, federal loans and loan guarantees have returns that are correlated with the performance of the economy and thereby impose a risk on taxpayers and beneficiaries of government programs that is costly for them to bear. Fair-value estimates incorporate the cost of that risk using market prices and, in CBO's view, therefore provide a more comprehensive measure of the costs of federal credit programs. However, some analysts have expressed concerns about potential drawbacks of using the fair-value approach in federal budgeting.

One such concern is that fair-value estimates of the cost of federal credit programs include costs that will not be paid directly by the federal government if actual cash flows turn out to match expected cash flows. Suppose, for example, that the government borrowed funds to make loans to individuals for some purpose, that cash flows to and from the borrowers turned out to match CBO's expectations, and that future Treasury rates turned out to match the rates that CBO used in constructing FCRA estimates. Then, if there were no offsetting changes elsewhere in the budget, the program would increase or decrease future federal debt by roughly the future value (calculated using FCRA discount rates) of the estimated cost of the program on a FCRA basis—and by less than the future value of the estimated cost on a fair-value basis.[10] Estimates of the costs of noncredit programs are, like FCRA estimates, indicators of the effect of those programs on future federal debt (excluding debt-service costs). This line of reasoning might suggest that, by increasing the estimated budgetary cost of credit programs, the fair-value approach makes comparisons with estimated costs for noncredit programs more difficult and disadvantages credit programs in the competition for budgetary resources.

In fact, in some cases, using the more comprehensive estimates produced under the fair-value approach enhances the comparability of estimates of the costs of credit programs with estimates of the costs of other credit programs and noncredit programs. For example, when comparing a proposal to provide loan guarantees for home mortgages to a proposal to provide grants for people to use in reducing the down payments on their mortgages, using a fair-value estimate for the loan guarantees allows for a more accurate comparison with the estimated cost of the grants. However, for some other comparisons, using fair-value estimates for credit programs reduces the comparability of those estimates with estimates for noncredit programs. For example, when comparing the proposal to provide loan guarantees to one that would provide additional unemployment insurance benefits, using a fair-value estimate for the proposal with loan guarantees produces a less accurate comparison, because unemployment insurance imposes market risk on the government that is not reflected in a standard estimate of the budgetary cost of that insurance.

As a general matter, the usefulness of different approaches for constructing estimates of the costs of federal policies depends on the purpose for which those estimates are

10. Under both FCRA and fair-value accounting, reconciling the government's cash flows with costs estimated on an accrual basis requires supporting budgetary accounts.

used. Fair-value estimates may be less useful than FCRA estimates in projecting the average budgetary effects of programs that provide credit assistance. But projecting such effects is not the only, or necessarily even the primary, purpose of cost estimates. Cost estimates are tools that policymakers can use to make trade-offs between different policies that work toward a particular policy goal. By taking into account how the public assesses financial risks as expressed through market prices, fair-value estimates may be more useful than FCRA estimates in helping policymakers understand trade-offs between policies when some of them involve such risks.

Another concern raised by some analysts is that incorporating the cost of market risk into budgetary estimates would tend to increase the volatility of those estimates over time because the cost of market risk is not constant. However, the additional volatility that would be introduced would generally be less than the considerable volatility of FCRA estimates that is attributable to fluctuations in Treasury rates, swings in projected defaults, and administrative changes in fees and other terms of loans. For example, CBO's fair-value estimates of costs for the Troubled Asset Relief Program have changed considerably over time, but those changes have been primarily the result of changes in the components of the estimates that also would have been used in FCRA estimates, such as projections of participation rates in government programs and projections of repayment rates on loans.

A further concern that is sometimes expressed about the fair-value approach is that, because most government credit programs have no exact analogue in the private sector, estimating their fair value may involve considerable analytical judgment. Indeed, to construct fair-value estimates, analysts need to make judgments about the amount of market risk in different types of loans and loan guarantees, and they sometimes need to make adjustments for cost differences between the government and the private sector, such as the government generally spending less on marketing than the private sector. Mistaken judgments about those and other factors could generate inaccuracies and inconsistencies in the treatment of different programs.

That complexity also makes it more difficult to communicate to policymakers and the public about fair-value estimates. FCRA and fair-value estimates alike depend on analysts' projections of such variables as prepayment patterns, default rates, and the amounts recoverable after a default. However, fair-value estimates would depend on market risk premiums in addition to estimates of cash flows, and the basis for choosing those premiums might be difficult to explain.

Such concerns about possible inconsistencies and communication challenges could be addressed in various ways. One approach would be to use accounting practices similar to those used to audit fair-value estimates produced by private financial institutions. Guidelines also could be established by the Office of Management and Budget (OMB) or through legislation to ensure that the choices of discount rates and other assumptions that are used in valuation models followed systematic procedures and could be adequately verified. Briefing sessions for the staff of the Congress and federal agencies as well as development of materials that explained how estimates were derived would facilitate communication about the approach in general and about specific estimates.

Adopting fair-value accounting for federal credit programs would entail additional effort and expense for government agencies—particularly OMB, which oversees the process of estimating the costs of such programs. Start-up expenses of implementing the fair-value approach would include funding for additional training and possible expansion of staff, for redesign of procedures and account structures, and for development of models and approaches for producing estimates. Even over the long term, some additional resources would probably be needed because of the greater complexity of producing fair-value estimates. Failure to provide the necessary funding, both for start-up costs and for the continuing costs of using fair-value accounting, could leave policymakers with insufficient information for making choices about federal credit assistance.

Whether and How to Account for Administrative Costs

FCRA accounting separates the administrative expenses of federal credit programs from the programs' subsidy costs, and it accounts for administrative expenses on a cash basis. The resulting mix of cash and accrual accounting, and the use of multiple accounts, makes it difficult to assess the total costs of each federal credit program and to compare costs across programs.

Comprehensive fair-value estimates of subsidies for credit programs would incorporate certain administrative expenses, such as servicing and collection costs, that are essential to preserving the value of the government's claims (rather than accounting separately for those costs on a cash basis). Those essential preservation expenses can differ significantly among credit programs, and including them in subsidy estimates would make comparing subsidy costs across programs easier. However, doing so could erode Congressional control over program expenditures. Appropriations to cover credit subsidies could provide upfront funding for certain administrative costs that might span many years and be spread among different types of loans and guarantees. At the same time, other administrative costs would be funded through annual appropriations. Determining which expenses belong in which category would probably be difficult. Under such a system, the Congress and the affected agencies might be unsure how much funding was available in any particular year for servicing or loan collection. In addition, current law provides an indefinite appropriation for increases in estimated costs after a loan or loan guarantee is initiated.[11] Including some administrative expenses in subsidy estimates would make that indefinite appropriation available for those expenses as well.

In addition, although including administrative costs in subsidy estimates would improve comparability between credit programs, in some instances it might hinder the ability to compare credit assistance and grant programs. Grant programs also incur administrative costs, and those costs are not readily linked to the funds disbursed in any one year. Including all administrative costs in credit programs but not in grant programs could reduce comparability between the two. However, if the adjustment was just for essential preservation expenses in credit programs, comparability with grant costs could be improved because grant recipients generally do not need to repay the government in future years and, hence, few preservation expenses are associated with most grants.

11. Section 504(f) of FCRA, 2 U.S.C. §661c(f) (2012).

About This Document

This testimony draws upon several previous CBO reports—with contributions from Sunita D'Monte, Mark Hadley, Sarah Jennings, Wendy Kiska, Deborah Lucas (formerly of CBO and currently a consultant to the agency), Mitchell Remy, and David Torregrosa—and was prepared with guidance from Damien Moore. Peter Fontaine and Theresa Gullo provided helpful comments. In keeping with CBO's mandate to provide objective, impartial analysis, this testimony contains no recommendations.

Jeffrey Kling and Robert Sunshine reviewed the testimony, Loretta Lettner edited it, and Jeanine Rees prepared it for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/45468).

Douglas W. Elmendorf
Director

June 2014

Statement of
Honorable Osvaldo Luis Gratacós
Inspector General
Export-Import Bank of the United States

before the

United States House of Representatives
Committee on Financial Services

June 25, 2014 at 10:00 am

Good morning, Chairman Hensarling, Ranking Member Waters, and distinguished members of this Committee.

Thank you for the invitation and opportunity to testify before you about the activities of the Office of Inspector General (OIG) and the programs and operations of the Export-Import Bank (Ex-Im Bank) as it relates to Export-Import Bank oversight and its pending authorization. Before I continue, I would like to thank the Almighty for this opportunity, my family, and the members of the Ex-Im OIG staff for their hard work.

I. Ex-Im Bank

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

Ex-Im Bank is experiencing unprecedented growth - achieving three straight years of record authorization levels. Between FYs 2012-2013, Ex-Im Bank authorized over $60 billion in transactions. This is in addition to over $32 billion in FY 2011. Further, Ex-Im Bank's portfolio has increased by 94% since 2008 ($58.4 billion in FY 2008 vs. $113.8 billion in FY 2013). In the current Charter, Ex-Im Bank has authority to approve up to $140 billion in export transactions, subject to meeting certain credit-related performance criteria.

Naturally, this rapid growth in Ex-Im Bank's total portfolio exposure raises concerns as to Ex-Im's ability to manage and monitor this significant portfolio growth. Below in section III, we highlight the OIG's observations of some of the risks and challenges Ex-Im Bank faces and our recommendations for mitigating the issues we have identified.

II. Ex-Im OIG

Ex-Im OIG was statutorily created in 2002[1] but the Inspector General did not officially take office until August 2007. The OIG has achieved notable success in performing its statutory duties. Specifically, since FY 2008, multiple audit, evaluation

[1] Export-Import Bank Reauthorization Act of 2002, P.L. 107-189, Sec 22 (June 14, 2002).

and special reports have been issued in the areas of risk management, domestic content, economic impact, IT systems, direct loan program, working capital delegated authority program, medium term program, sponsored travel, and performance metrics. In addition, the office has produced a number of inspection reports examining specific credit transactions approved by Ex-Im Bank. Further, our investigative efforts have resulted in a number of law enforcement actions against parties who have attempted to defraud the Bank, including 71 indictments and informations; 45 convictions; two extraditions; approximately 500 referrals of information to Bank management for enhanced due diligence actions; and over $277 million in court imposed restitution, forfeitures, repayments and cost savings efforts. All of this has been accomplished with a very modest annual budget that started at $1 million and is now approximately $5 million.

III. Operational Areas – Risks, Observations and Challenges

In order to manage its growing portfolio and to better meet export credit needs of the American exporters, it is our opinion that Ex-Im Bank and Congress can take steps to address some operational weaknesses and challenges facing the Bank. We believe that addressing these operational weaknesses and challenges would provide Ex-Im Bank with a more efficient and prudent capability to create and maintain jobs in the United States. Some of the most important risks, observations and challenges Ex-Im Bank and Congress should address are:

- *Develop a More Comprehensive Risk Management Framework to Manage Portfolio Risk and Monitor Market Trends.*

Last year, I testified before this Committee about the need for Ex-Im Bank to enhance its risk management framework. Back then, we stated that Ex-Im Bank should proactively manage the risk of its growing portfolio in line with common practices of commercial and multilateral development banks. Specifically, we recommended that Ex-Im Bank should:

- establish a Risk Officer or create a risk management office with independent reporting requirements to the Chairman;
- assign qualified and experienced staff to that office;
- conduct periodic stress testing on its entire portfolio reflecting different market, industry, and macroeconomic scenarios; and
- actively monitor industry, geographic and obligor exposure levels.

As of today, Ex-Im Bank has taken some steps towards improving its risk management framework, however, opportunities for improvement still exist. For example, Ex-Im Bank established and hired a Chief Risk Officer (CRO) and restructured reporting lines to separate origination functions from risk management functions. However, the position of Chief Risk Officer was established as a non-career appointment and with additional management responsibilities supervising the legal and administrative functions of the Bank, which could dilute the focus of the position on credit risk issues. In addition, Ex-Im Bank has initiated some stress testing of its portfolio utilizing a top-down analysis of the portfolio as well as a bottom-up approach on some obligors. The results of the first stress testing process were conveyed to Congress in the Default Report dated September 30, 2013. The Bank has also established an Enterprise Risk Committee and recently provided documentation on its activities to the OIG. Finally, Ex-Im Bank commenced the use of several qualitative factors in its re-estimate process to account for the impact of such factors in the portfolio. The application of such factors in the re-estimate process commenced in the fall of 2012 and resulted in an upward revision of its loss reserves.

- *Inefficient and Ineffective Information Technology (IT) Platform.*

In 2012, we reported that Ex-Im Bank was using an ineffective, inefficient, and fragmented IT platform and infrastructure composed of several legacy systems and databases. These systems and databases do not effectively and accurately interface with each other – compromising data integrity, creating duplicative information, and creating unreliable files. Further, these systems make data mining and analysis burdensome and time consuming. Since 2012, Ex-Im Bank has engaged in an IT infrastructure modernization effort focused on replacing legacy systems and improving quality and access of its data. We understand that key systems are scheduled to be implemented in the next several months. The OIG will continue to monitor the implementation of the IT modernization system, and we recommend that the Ex-Im Bank and Congress continue monitoring this critical initiative, including provision of necessary funding.

- *Human Capital Planning and Resources.*

In past Semiannual Reports to Congress, we have identified human capital planning and resources as one of the management challenges Ex-Im Bank is facing. While Ex-Im Bank's portfolio has increased by 117% since FY 2008, its staff has increased at a much slower rate. Ex-Im Bank's portfolio growth strains Ex-Im Bank's resources in both the underwriting and asset monitoring functions. Ex-Im Bank is currently in the process of increasing the staffing levels for the above referenced functions. The OIG will closely monitor these upcoming staff allocations.

- *Monitoring of Local Cost Disbursements*.

The Organization of Economic Co-operation & Development (OECD) allows Export Credit Agencies (ECAs) to finance up to 30% of the "project-related costs for goods and services incurred in the buyer's country"[2] related to structured and/or project finance transactions. These local cost disbursements may be disbursed in lump sums without any exports directly associated to them. In two recent inspections conducted by the OIG, covering nearly $700 million in local cost disbursements, we noted that Ex-Im Bank relies on certifications made by borrowers and contractors, but has limited ability to verify whether the amounts disbursed to cover local costs are actually used for the intended purpose and comply with Ex-Im Bank's policies and procedures. Given the countries where Ex-Im bank finances projects and the size of these disbursements, we have recommended to Ex-Im Bank management that it reserve rights of inspection in its credit agreements and allocate additional staff to monitor and validate local costs.

[2] http://www.exim.gov/generalbankpolicies/index.cfm

- *Continue Efforts to Expand Small Business Participation.*

The Ex-Im Bank Charter dictates a small business participation goal of 20 percent of the total funding authorized each year. Ex-Im Bank provided record small business financing of around $6 billion in both FY 2011 and FY 2012. In FY 2013, the amount decreased to $5.2 billion. In the last three fiscal years, this financing has not reached the Charter goal of 20%.

- *Continue Efforts to Expand Renewable Energy Products and to Create Clean Energy Export Opportunities.*

Congress has set a renewable energy mandate of ten percent of authorizations every year. Ex-Im Bank has not met this goal, mainly due to the fact that the total renewable energy export market is not yet large enough to achieve this level relative to the total size of Ex-Im Bank's portfolio. Nonetheless, Ex-Im Bank continues to take a proactive approach in developing renewable energy specific products such as Solar Express, as well as reaching out to local companies such as wind and solar manufacturers.

- *Improve Corporate Governance, Business Processes and Internal Control Policies and Practices.*

One of the consistent observations arising out of audits, evaluations, and investigations conducted by the OIG are weaknesses in governance and internal controls as they relate to business operations. Internal policies providing clear guidance to staff and establishing clear roles and authorities have not been prevalent at Ex-Im Bank. The Bank has made some progress in this area by, for example, creating a more comprehensive Loan, Insurance, and Guarantee Manual. However, these efforts must be sustained to continue improving the corporate governance culture.

IV. Conclusion

Ex-Im Bank has an important role in creating and maintaining jobs by facilitating export financing to American exporters. A 94% increase in export authorization levels since 2008 only supports that role. While Ex-Im Bank continues to provide export credit and financing as part of its export credit agency functions, it should work to improve its practice while it enhances its operational effectiveness and efficiencies.

I have highlighted some of the challengers and weaknesses facing Ex-Im Bank for consideration in the reauthorization process. The OIG will continue to perform its independent oversight role as well as strengthen its efforts in preventing and detecting fraud, waste, and abuse.

Chairman Hensarling, Ranking Member Waters, and members of the Committee, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have.

WRITTEN TESTIMONY OF
FRED P. HOCHBERG - PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE HOUSE COMMITTEE ON FINANCIAL SERVICES

"Examining Reauthorization of the Export-Import Bank: Corporate Necessity or Corporate Welfare?"
June 25, 2014

Chairman Hensarling, Ranking Member Waters, and distinguished members of the Financial Services Committee, thank you for inviting me to testify before you as the Committee considers the progress that the Export-Import Bank of the United States ("Ex-Im Bank" or "the Bank") has made in supporting U.S. jobs through exports since our last reauthorization just two short years ago.

The Administration is requesting a five year reauthorization of the Export-Import Bank of the United States and a cap of $160 billion. This proposal reflects a stepped increase totaling $20 billion above the FY 2014 exposure cap of $140 billion. The proposal reflects a 2.9% annual increase over the FY 2014 exposure cap level, a 14% increase over all 5 years. The Bank's mission is to support jobs in the United States by facilitating the export of U.S. goods and services. The reauthorization of the Bank at the $160 billion cap supports an estimated 1.3 million U.S. jobs between 2015 and 2019. The Bank has looked at the current and expected macroeconomic environment and identified four main macroeconomic factors (competition from other Export Credit Agencies (ECAs), financing for small business exporters, financing for developing/emerging markets, and increasing regulations) that show the continued need for Ex-Im Bank financing support for U.S. exports. Ex-Im evaluated several scenarios, and determined that the $160 billion requested level will provide the needed capacity to continue supporting small business, and fill gaps in trade-financing.

I am proud of the work our 400+ employees do each day to empower U.S. companies and support American job growth. Since our last reauthorization in 2012, Ex-Im Bank has supported nearly half a million American export-backed jobs, while generating nearly two billion dollars for the taxpayers and maintaining a low default rate of .211percent[1] as of March 31, 2014. For perspective, our default rates over the last five years, during the height of the financial crisis shown below illustrate a very responsible approach to our portfolio.

	2006	2007	2008	2009	2010	2011	2012	2013
Default Rate	1.6%	1.4%	1.1%	0.8%	0.6%	0.4%	0.3%	0.3%

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

I would like to focus today on three primary issues.

- Requirements set forth in our last reauthorization, including our enhanced risk posture.
- Our impact on small business.
- The heightened need for a robust Ex-Im Bank given the brutally competitive global trade environment faced by American businesses.

Reforms set forth in our last reauthorization, including our enhanced risk posture.

Since our last reauthorization, Ex-Im Bank has met all of the reporting requirements set forth in our reauthorization bill. We produced numerous reports for this Committee, including:

1. The Bank's Business Plan
2. The Bank's Small Business Report
3. The Bank's Content Review
4. The Bank's Report on Financing of Textiles
5. The Bank's Quarterly Default Rate Reports, including incorporating additional requests from the Committee staff.

The Bank has also implemented a number of reforms, including:

6. Providing notice in the Federal Register and an opportunity for comment prior to any approval of all transactions of $100 million or more
7. An economic impact procedures review and posting of policies on our website
8. Implementing enhanced Iran sanctions provisions
9. Added a textile industry representative to our Advisory Committee
10. Implemented Know Your Customer (KYC) provisions and due diligence standards

And the Bank implemented additional reforms aimed at ease of service and minimizing any negative effects on U.S. industry including:

11. Increased access to co-financing to better support globalized supply chains
12. Streamlined content procedures by providing for annual certifications
13. Revised economic impact procedures to airline services

Ex-Im Bank fills gaps in private sector financing and only gets involved when the private sector is unable or unwilling to provide financing or when there is foreign ECA competition. Last year, Ex-Im Bank provided $27.3 billion in authorizations, down from the previous year. This supported $37.4 billion in export value.

We have worked well with the Government Accountability Office (GAO) on several reports that they were tasked with, including:

- A review of the Bank's Business Plan
- A review of the Bank's jobs calculation methodology
- A review of the Bank's risk management

I met with Comptroller General Gene Dodaro to indicate my personal commitment to working cooperatively and in an open and transparent fashion with the GAO on audits. The Comptroller General thanked me for arranging the meeting and noted that very few agency heads take the time to come meet with him. He also added that his staff indicated they have a good working relationship with Ex-Im Bank staff.

We have also made a number of changes as a result of recommendations from our Inspector General (IG) and the GAO reviews. These include, but are not limited to:

1. As recommended by the Inspector General's 2012 report, we created the position of, and hired, a Chief Risk Officer (CRO) who reports directly to me as the President and Chairman. I committed to this in your June 2013 oversight hearing of the House Financial Services Committee and the CRO was on board before the end of the year.
2. As recommended by the Inspector General's 2012 report, we established a risk committee called the Enterprise Risk Committee (ERC) that assesses comprehensive risk issues and reports semi-annually to the Bank's Board of Directors, while providing the other Directors and me with monthly updates. In fact, the CRO reported to Directors on the Bank's Audit Committee just last week.
3. Exposure Forecasting: as recommended by the GAO, we are comparing previous forecasts and key assumptions with actual results to provide additional accuracy.
4. Stress Testing: as recommended by the Inspector General, we have implemented stress testing of our portfolio
5. Stress Testing: As recommended by the GAO in their Risk Review, we are reporting the results of our stress testing to Congress.
6. Risk Modeling: as recommended by the GAO, we have implemented point-in-time data as well as our historical data for risk modeling.
7. Financial Performance of the Portfolio: as recommended by the GAO, we are keeping point-in-time data which we are using along with historical data to compare performance of the newer book of business with the more seasoned books at comparable points in time.
8. Sub-portfolio Reporting (mandates from Congress): as recommended by the GAO, we are reporting sub-portfolio financial performance to Congress in our default reports.
9. As recommended by IG, we have incorporated qualitative analysis into our budgetary cost methodology.
10. The GAO reviewed our jobs calculation methodology and per their request, we are providing detail about jobs calculation limitations in our Annual Report.

<u>Our Positive Impact on Small Business</u>

As a small businessman for 20 years and as a former Acting Administrator of the Small Business Administration, I place a premium on the role that small businesses play in our economy. One of the core missions of Ex-Im Bank is ensuring that small businesses are at the forefront of U.S. exports. We cannot grow our economy without fully supporting the small businesses of America in competing globally.

In 2013, the Bank financed a record 3,413 small businesses—nearly 90 percent of Ex-Im's transactions. This amounted to $5.2 billion in direct small business financing. When you examine the export value of small business exports as a percentage of our overall portfolio export value, of the $37 billion of exports supported by Ex-Im Bank, nearly 33 percent were small businesses.

In addition, Ex-Im financed more small businesses over the last five years than in the prior eight years combined. The Bank also financed more minority- and woman-owned businesses in the last five years than over the prior sixteen years combined.

The Bank also supports tens of thousands of small businesses whose goods are incorporated into larger export products such as transportation, heavy machinery, oil and gas facilities and other manufactured goods. Industry frequently refers to these small business exporters as "hidden exporters". It is important to note that the manufacturing process in the United States has changed significantly over the last few decades. Many more companies use vast supply chains to produce finished goods, as evidenced by our largest exporters. When you see the name of a large company on a name plate of finished goods, there are thousands of small businesses that contributed to that finished product.

Ex-Im Bank supports American jobs in countless cities and towns across America. Since 2009, Ex-Im Bank supported $20 billion in authorizations for Texas businesses and no city in the nation exported more Ex-Im Bank financed goods and services than Houston. We also financed $9 billion in authorizations for California businesses, $1 billion in authorizations for South Carolina businesses, and approximately $500 million in authorizations for Missouri businesses over the past five years—just to name a few. Ex-Im Bank supports exports in all 50 States and Territories.

The need for Ex-Im Bank given the brutally competitive global trade environment

There are some 60 Export Credit Agencies (ECAs) around the world. Every industrialized country has its own version of Ex-Im, and each is tasked with supporting the domestic exports of their respective nations.

The mission of Ex-Im Bank is to empower U.S. companies—large and small—to turn export opportunities into sales that maintain and create U.S. jobs and contribute to a stronger national economy. When private sector funding is unavailable or there is foreign ECA involvement, Ex-Im Bank provides export financing through its loan, guarantee, and insurance programs in order to level the playing field for U.S. businesses.

Let me provide a few examples.

On a recent visit to Chicago, I met with Mary Howe, a fourth generation small business owner and owner of Howe Corporation. We provide trade credit insurance to Howe Corporation so they can export their ice making machines around the globe. Trade credit insurance enables U.S. exporters, most of them small businesses, to compete and sell overseas with their receivables insured for loss. We provide insurance when the private sector does not, because frequently the dollar volume of small businesses is too small to be of interest to private insurers. Credit insurance is part of running a responsible business, just like fire or theft insurance.

Another example is the working capital guarantee Ex-Im provides to Auburn Leather in Auburn, Kentucky, a town with a population of 1,332 people as of 2012. Auburn Leather makes the laces that are in baseball gloves and boat shoes. Over the years, I've come to know the owner, Lisa Howlett and I was delighted that Ex-Im could provide a working capital guarantee so that her business could have the liquidity to meet large foreign purchase orders. Ex-Im exists to fill gaps in private sector financing. Nowhere else does this show itself than in insurance for small businesses. These small businesses often grow out of needing Ex-Im Bank and will later obtain private sector financing – which we encourage.

In this global economy, buyers will make procurement decisions based on the availability and attractiveness of financing. Ex-Im Bank provides long-term direct loans and guarantees to foreign buyers of capital goods, so that their best option is to buy a product with the "Made in America" label on it. Our financing supports the export of products from U.S. companies such GE Transportation, so that the sales and jobs arising from their locomotives will benefit workers in Erie and Grove City, Pennsylvania, rather than in Beijing, China.

Ex-Im Bank also provides support, if necessary, to level the playing field when financing is provided by foreign governments to their companies who compete against U.S. exporters. Critics of the Bank argue that Ex-Im should not be involved in helping to level the playing field for U.S. businesses and that the private sector should handle this. I concur. When the private sector can provide financing, we prefer that course of action. Ex-Im Bank does not compete with private sector lenders, but rather provides financing for transactions that would otherwise not take place because commercial lenders are either unable or unwilling to provide financing support. Often, private lenders do not want to get involved with small business exports because the dollar value is too low. Another area is structured finance, which generally requires more than twelve years of financing.

The last five years have seen major shifts in the global financing landscape that could have a serious impact on American competitiveness and economic growth in the years ahead. But despite the global recovery, commercial banks still have not fully regained their appetites for offering the kind of long-term financing necessary to fuel many export projects. As banks withdraw from important areas of export finance just as exports become more vital to economic growth worldwide, ECAs are rising in importance for many nations. More and more, export financing is occurring outside of the international standards put in place by the OECD to avoid a financing 'race to the bottom.' The OECD Arrangement on Officially Supported Export Credits, while not perfect, constitutes the international export credit framework that sets the most generous terms and conditions governments may provide when financing exports. Countries like Russia and China that are not members of the OECD and do not operate within the international export credit framework may offer financing terms that distort the global market. The effect of this can be an increasingly unleveled playing field for American exporters. When the private sector is unable or unwilling to provide financing support, Ex-Im Bank steps in to level the playing field so that American businesses can win their fair share of export orders.

Conclusion

I want to thank this committee for their work on our charter in 2012, and stress the importance of a timely reauthorization in 2014. As I mentioned earlier, there are some 60 Export Credit Agencies around the globe. Make no mistake, these foreign governments want for themselves the 205,000 American jobs Ex-Im financing helped support last year.

As I travel the world on behalf of American companies, I know that my counterparts in China, Brazil, Russia, South Korea, and many others are right behind me, fighting for business. These nations, and many others, are serious competitors in the global marketplace—and each supports its exporters aggressively.

For example, the South Korean ECA, supporting an economy less than one tenth of our size, finances more than 3 times the exports for South Korean companies than the Ex-Im Bank finances for U.S. companies. A few weeks ago, we heard from one exporter at a Capitol Hill roundtable whose business was adversely impacted by the actions of a foreign ECA. Steve Wilburn is a veteran whose small renewable energy company, FirmGreen, has created 165 jobs in California and at suppliers in seven other states since partnering with Ex-Im. A $48 million loan from Ex-Im empowered FirmGreen to bring their innovative ideas, equipment, and services to Brazil. And the Novo Gramacho biogas project will convert dirty methane gas into clean, compressed biomethane gas. That is not just good for the environment. It is good for the U.S. economy, and the communities across America made stronger thanks to an infusion of new jobs.

I had the opportunity to visit the Novo Gramacho site not long ago—this is a game-changing technology. Steve is looking at two more sites in Brazil. His company has emerged as a global leader in its field.

But two months ago, Steve was stunned to hear that he lost out on a $57 million project in the Philippines. He had been told he was the preferred supplier. He thought he had it in the bag. But he lost out because his competitor from Korea convinced the buyer that Steve's business might not have the financing to get it done. They pointed to the debate surrounding Ex-Im's reauthorization, and they said: 'There's too much uncertainty there—you can't rely on America.'

Can't rely on America? That's just wrong.

There is a strong drive to increase exports from many countries around the globe. We need to send the same signal to competitor nations that we stand behind American workers and exporters—and ensure that products stamped "made in the U.S.A." are able to compete on a level playing field. In order for U.S. businesses to be able to compete based on the price and quality of their exports, Ex-Im needs to be there to level the playing field when it comes to meeting foreign ECA competition.

The thousands of businesses that benefit from Ex-Im Bank financing—almost 90 percent of which are small businesses—appreciate the fact that Congress was able to reach an agreement to reauthorize the Bank in 2012. They need to know that we will be around in the years ahead to support them as they face off against increasingly intense foreign competition, grow their exports, and create more jobs here at home.

Every other country is strengthening the capacity of their ECAs to support their domestic exporters. Only the United States is having a conversation about actually making Ex-Im Bank less robust in response to global trends. This uncertainty is only emboldening foreign ECAs in their effort to take jobs away from U.S. businesses.

I thank you for this opportunity to provide you with an update on the excellent work Ex-Im Bank is doing to support U.S. jobs. I want to again commend the outstanding, professional work of our 400+ employees who are committed to supporting American jobs and increasing U.S. exports. I look forward to working with you to reauthorize the Bank and continue to support U.S. exports, create more American jobs, , and keep our economy strong in a global age.

STATEMENT OF THE

AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C

June 25, 2014

"Examining Reauthorization of the Export-Import Bank:
Corporate Necessity or Corporate Welfare?"

Air Line Pilots Association, International
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Statement of
Captain Lee Moak, President
Air Line Pilots Association, International
Before the
U.S. House of Representatives
Committee on Financial Services
on
"Examining Reauthorization of the Export-Import Bank:
Corporate Necessity or Corporate Welfare?"
June 25, 2014

Mr. Chairman, Ranking Member Waters, and members of the Committee, I am Captain Lee Moak, president of the Air Line Pilots Association, International (ALPA). It is an honor for me to be here today to testify on behalf of more than 51,000 pilot members who fly for 31 airlines in the United States and Canada.

I would like to begin by emphasizing that ALPA supports the historic mission of the Export-Import Bank of the United States: to turn export opportunities into real sales that help to maintain and create U.S. jobs and contribute to a stronger national economy. However, the Bank has lost its way. Recently, the Bank has deviated from its mission and is now actually providing subsidies to U.S. companies' foreign competitors. This costs jobs for pilots, flight attendants, and other airline workers.

In many instances, the Bank plays an important and strategic role in our export economy. For U.S. airlines, however, the Bank's financing decisions often skew the economic playing field to favor foreign airlines and have a negative effect on jobs here at home. In these cases, the Bank's lending practices must be heavily scrutinized to ensure that its decisions give U.S. airlines an equal opportunity to compete.

The U.S. House Financial Services Committee is responsible for providing guidance to the Bank through the authorization process. We urge this committee to employ its oversight and legislative authority to make the changes necessary to ensure that the Bank's actions do not inflict injury on any sector of the U.S. economy.

Congress Intended Ex-Im Bank to be Lender of Last Resort

The Bank is intended to be a lender of last resort. However, the extent to which the Bank was involved in the sale of widebody aircraft as recently as 2013 is evidence that the Bank is not delivering on the intent of Congress.

Over the last decade, the Ex-Im Bank has provided financing to foreign airlines for the acquisition of hundreds of widebody aircraft. In 2011 alone, nearly 40 percent of the Bank's authorizations went to foreign airlines and/or leasing companies—this is more than to all other named categories combined. Nearly 45 percent of the Bank's portfolio is tied to one company.

In 2013, the Ex-Im Bank approved 7.9 billion dollars in financing for U.S.-made airliners to be operated by U.S. airlines' competitors. This financing is often well below market rates and can result in an economic advantage of more than $3 million per airplane per year. In an already hyper-competitive marketplace, this advantage gives foreign airlines a significant economic leg up over their U.S. counterparts.

Because this financing is provided at U.S.-taxpayer-backed rates that are unavailable to U.S. airlines, the Ex-Im Bank is effectively providing a subsidy to foreign airlines. Many of these Bank-subsidized aircraft are then operated on routes that are, have been, and could be served by U.S. airlines.

As a result, U.S. airlines have been forced to withdraw or not enter routes that might otherwise be economically viable because foreign carriers are able to operate at a lower cost with the benefit of Ex-Im Bank-subsidized aircraft. This withdrawal of service results in the loss of U.S. jobs, including the jobs of ALPA members.

To be clear, with every dollar of Ex-Im Bank widebody aircraft financing, the U.S. government is giving our foreign competitors a subsidy to help them compete directly against U.S. airlines and their employees.

U.S. Airline Industry Job Losses

A specific example of the economic harm the Ex-Im Bank's financing practices pose to U.S. jobs can be found in its financing of widebody aircraft for Air India.

In 2006, Delta Air Lines began nonstop service between New York and Mumbai, a route that Air India could not fly at the time because it could not afford the widebody aircraft necessary to operate the route without stopping to refuel.

Between 2006 and 2009, the Bank provided Air India approximately $3.3 billion in loan guarantees, which Air India used to purchase new widebody aircraft at below-market rates.

Air India then used its U.S.-taxpayer-subsidized airplanes to flood the U.S.–India market with extra capacity and, in 2008, forced Delta Air Lines out of the New York–Mumbai route, causing harm to both Delta and its pilots who are represented by ALPA.

U.S. District Court Recognizes Ex-Im Bank's Financing Harms U.S. Jobs

The harm to U.S. jobs was recognized by the U.S. District Court for the District of Columbia which, in a July 18, 2012, decision, found that the Bank's financing of a large number of widebody aircraft for Air India would "almost surely" cause U.S. airlines to "lose business or to cut prices to preserve business." U.S. airlines have razor-thin profit margins to begin with and even a slight decrease in prices results in a route becoming unprofitable.

Similarly, a *Washington Post* editorial stated, "Ex-Im surely creates jobs at Boeing, but whether it increases employment overall is another question . . . the United States needs to lead a redoubled global diplomatic effort to phase out these market-distorting practices."

Senior Ex-Im Bank officials have also agreed. The Bank's senior vice president, Business & Product Development, Export Finance, Robert Morin, commented in support of a reduction of the Bank's role in aircraft financing, stating when he was vice president of transportation, "[c]learly it's not healthy in the long term for export credit agencies to be doing so much."

The negative effect of Bank-supported financing for Air India's Boeing 777 airplanes does not end with Air India's using them to compete against U.S. airlines. Air India subsequently sold its Bank-subsidized aircraft to one of the largest and richest airlines in the world: state-subsidized Etihad Airways, the national airline of the United Arab Emirates. Etihad, which has an impeccable credit rating, does not need financial assistance from any export credit agency.

While Air India is one example, the end result of many of the Ex-Im Bank's widebody airplane financing decisions is that U.S. airlines are not only forced to compete with a state-subsidized foreign airline, but one that is also receiving additional subsidies from the U.S. government.

Gulf Airlines' Rapid Growth

At the heart of the debate about the need to reform the Bank lies the rapid expansion of Persian Gulf airlines. Etihad Airways, Emirates Airline, and Qatar Airways have dramatically expanded their operations over the past 10 years. The stated goal of these airlines is to position their countries as global hubs, and they are using their airlines as the key to building their respective economies.

The UAE government, for example, has spent hundreds of millions of dollars to build world-class airports, which will host hundreds of millions of air travelers from Asia and around the globe. The concept behind the UAE mega-airport is to supplant gateway airports in Europe where U.S. airlines provide a substantial amount of air service.

The state support of the Persian Gulf airlines and the economic advantage it gives them in competing against U.S. airlines is of great concern to our members. Qatar Airways is a wholly owned state airline, and recently leaked documents about Etihad Airways confirm what many have strongly suspected: it has received billions of dollars in subsidies from the state.

Emirates Airline, much like the other UAE carriers, is a vertically integrated company with members of the royal family occupying high-level positions in the airport authority, transportation authority, energy production authority, Emirates Airline management, and other important government positions.

Combine these facts with the $162 billion dollars in aircraft orders placed by these three airlines just last year at the 2013 Dubai Air Show, and the picture for U.S. airlines' ability to compete internationally becomes extremely bleak. Adding to this already unlevel economic playing field is the Ex-Im Bank's substantial subsidies provided to these airlines when they purchase widebody aircraft.

ALPA's Recommendations

As members of this committee will recall, Congress directed the Bank to enter into discussions with its EU counterparts to cease funding for widebody aircraft (P.L. 112-122). We encourage you to ask the Bank for a full accounting of the Department of Treasury's negotiations to accomplish this objective. Congress must mandate and provide strict oversight to ensure that the Treasury indeed acts to substantially reduce—with the ultimate goal of ending—financing for widebody aircraft across the board.

Financing decisions made by the Bank for the purchase of widebody aircraft have led to job losses in the U.S. airline industry. The present job impact analysis of the Bank disregards the downstream negative effect of its loans on aviation workers and the airline industry. Congress has long required the Bank to "take into account any serious adverse effect of [any] loan or guarantee on the competitive position of United States industry . . . and employment in the United States."

Over the past decade, multiple reports by the Congressional Research Service and Government Accountability Office clearly show that transparency continues to be a problem at the Bank.

Congress reiterated the mandate to review the economic effects of bank financing in the 2012 authorization act, requiring the Bank to begin to notify the public, before approving certain transactions, whether the export at issue "may be used to . . . provide services in competition with the . . . provision of services by a United States industry," and to publish "methodical guidelines to be used by the Bank in conducting economic impact analyses." ALPA believes that the ruling in the Air India case clearly demonstrates that the Bank is failing to follow Congressional intent.

Despite guidance recently issued by the U.S. Department of the Treasury stating that a competing export credit agency offering to finance an aircraft purchase is not a sufficient reason for the Bank to offer financing, the Bank cited an offer by a competing export credit agency as the reason for approximately 90 percent of the aircraft loans it made in 2013.

Given this evidence, the Bank appears to be ignoring the congressional intent found in its current authorization with respect to widebody aircraft financing. As a result, ALPA is pleased that this committee is providing early and appropriate oversight of the Bank with the reauthorization deadline looming later this year.

ALPA urges Congress to reform the U.S. Ex-Im Bank through action including:

- Ending the Bank's involvement in transactions for widebody aircraft with airlines that receive any type of state subsidy, are wholly state-owned, or are eligible to obtain commercial loans comparable to those received by U.S. carriers to finance their aircraft purchases.

- Directing the Bank to develop a reasonable and accurate economic effects test. The Bank uses a multitier review system to analyze the effect a transaction will have on domestic jobs. These tiers appear to be designed to prevent meaningful consideration of the serious adverse economic effects of Bank-subsidized transactions on U.S. airlines and their employees. The Bank should be directed to develop more a more reasonable economic effects test.

Conclusion

ALPA strongly supports the mission of the Bank. We also strongly support U.S. manufacturers. Like manufacturers, U.S. airlines can only compete and prevail in the global marketplace if they operate on a level playing field. However, the current practices of the Bank unfairly tilt the playing field to the advantage of U.S. airlines' competitors.

ALPA commends Congress for requiring in its 2012 Reauthorization the U.S. Export-Import Bank to conduct economic impact studies. The Bank's studies, however, are set up to effectively rubber-stamp financing proposals. Before extending any financing, the Bank should meet its legal obligation to fully evaluate whether a proper balance exists between the financing's potential harm and its potential benefit to U.S. industry or U.S. employment. An important element of that evaluation is for the Bank to look at the effect of its widebody aircraft financing on an airline's entire network, not just on a single route.

Time Is Now to Reform the U.S. Export-Import Bank

With the Bank's current authorization expiring on September 30, now is the time for Congress to use the authorization process to make certain the Bank follows congressional intent, operates with maximum transparency, uses proper economic modeling, and analyzes the potential to harm U.S. industry and employees from its widebody aircraft financing.

One of the overall goals of the Bank authorizations should be to eliminate all credit agency financing for widebody aircraft on *both* sides of the Atlantic. ALPA believes that, by working together, we can achieve this goal without putting Boeing and its tens of thousands of employees, a strategic asset for our national defense and our economy, at any financial risk.

Given that the value of the current backorder of aircraft is equivalent to the combined GDP of 164 countries, ALPA is confident that our government leaders can safeguard good jobs in the aviation and manufacturing sectors while still allowing both sectors a fair opportunity to compete in the global marketplace.

Thank you. I will be pleased to answer any questions that members of this committee may have.

United States Government Accountability Office

GAO

Testimony
Before the Committee on Financial Services, House of Representatives

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EXPORT-IMPORT BANK

Status of GAO Recommendations on Risk Management, Exposure Forecasting, and Workload Issues

Statement of Mathew J. Scirè, Director,
Financial Markets and Community Investment

GAO-14-708T

GAO Highlights

Highlights of GAO-14-708T, a testimony before the Committee on Financial Services, House of Representatives

Why GAO Did This Study

Ex-Im helps U.S. firms export goods and services by providing a range of financial products. The Export-Import Bank Reauthorization Act of 2012 increased the statutory ceiling on the agency's total exposure to $140 billion in 2014. As a condition of raising the exposure limit, the act required Ex-Im to prepare a report with a Business Plan and analyses of key operational elements. The act also mandated GAO to evaluate the effectiveness of Ex-Im's risk management and analyze its Business Plan. GAO reported on these issues in March and May 2013, respectively (see GAO-13-303 and GAO-13-620). In the reports, GAO made a total of eight recommendations—to which Ex-Im agreed.

This testimony is based on GAO's March and May 2013 reports. It discusses actions Ex-Im has taken in response to GAO recommendations on (1) estimating losses, managing financial risks, and forecasting exposure levels; and (2) managing and reporting on its workload. For the 2013 reports, GAO analyzed Ex-Im's financial data, policies and procedures, Business Plan, and processes for calculating program costs and loss reserves. GAO also interviewed Ex-Im officials and other entities involved in export financing.

View GAO-14-708T. For more information, contact Mathew J. Scirè at (202) 512-8678 or sciremj@gao.gov.

June 25, 2014

EXPORT-IMPORT BANK

Status of GAO Recommendations on Risk Management, Exposure Forecasting, and Workload Issues

What GAO Found

The U.S. Export-Import Bank (Ex-Im) has addressed recommendations GAO made in two 2013 reports that related to processes for estimating losses, managing financial risks, and forecasting outstanding financial commitments (exposure). In these reports, GAO found weaknesses in the processes, including limitations in Ex-Im's data and models. Based on accounting standards for federal credit agencies, federal banking regulator guidance, and federal internal control standards, GAO made six recommendations that Ex-Im subsequently implemented. For example, GAO recommended that Ex-Im

- assess whether it was using the best available data for adjusting loss estimates for long-term credit transactions to account for global economic risk. In November 2013, Ex-Im replaced a 1-year forecast of global economic conditions it used in its loss estimation model with a 5-year forecast.
- retain point-in-time data on credit performance to conduct analyses to compare the performance of newer and more seasoned business at comparable points. Ex-Im began retaining such data in fiscal year 2013.
- report to Congress on scenarios used for and results of stress tests on its portfolio. In September 2013, Ex-Im began including this information in quarterly reports to Congress on the bank's default rates.
- assess the sensitivity of its exposure forecast model to key assumptions and estimates and identify and report the range of forecasts these analyses produced. In response, Ex-Im created additional statistical models to validate its forecasts and provided a range of estimates.

Ex-Im also has begun to address two recommendations in GAO's 2013 reports concerning the bank's workload. In a March report, GAO found Ex-Im faced potential operational risks because administrative budgets and staff levels had not kept pace with growth in its portfolio and Ex-Im had not formally determined the level of business it could properly manage. In a May report, GAO found the Business Plan provided limited analysis of the adequacy of Ex-Im's resources and ability to meet congressional mandates for credit transactions supporting small business and renewable energy. Based in part on federal internal control standards, GAO recommended that Ex-Im develop benchmarks to monitor and manage workload levels and provide Congress with more information on resources associated with meeting the mandates. To help address the recommendations, Ex-Im hired a contractor to develop workload benchmarks and a workload modeling tool. As of June 2014, this effort was ongoing. As a result, the two recommendations remain open.

While Ex-Im has been responsive to GAO's recommendations, it is important to note that GAO has ongoing work examining other aspects of Ex-Im operations. Furthermore, managing a large export financing portfolio and its associated risks is challenging. Therefore, it will be important for Ex-Im to sustain the improvements it has made, effectively implement future audit recommendations, and carefully manage emerging risks.

Chairman Hensarling, Ranking Member Waters, and Members of the Committee:

I am pleased to be here today to discuss our prior work on the U.S. Export-Import Bank (Ex-Im), which serves as the official export credit agency of the United States. Ex-Im helps U.S. firms export goods and services by providing financial products, including direct loans, loan guarantees, and insurance. Ex-Im's business volume has grown dramatically in recent years. From fiscal years 2008 through 2013, Ex-Im's exposure—that is, its total outstanding financial commitments—rose from $58.5 billion to $113.8 billion.[1] Factors associated with this growth included the reduced availability of private-sector financing following the 2007-2009 financial crisis. This rapid growth has challenged Ex-Im's ability to plan for and manage its portfolio.

My statement today draws on two reports we issued in March and May 2013, which were mandated in the Export-Import Bank Reauthorization Act of 2012 (2012 Reauthorization Act).[2] Specifically, the act mandated us to assess aspects of Ex-Im's risk management and 2012 Business Plan in the context of the agency's growth. The act also increased the statutory ceiling on the agency's total exposure (exposure limit). I will discuss actions Ex-Im has taken to address recommendations in our 2013 reports regarding (1) estimating losses, managing financial risks, and forecasting exposure levels; and (2) managing and reporting on the bank's workload.

For the March and May 2013 reports, we analyzed Ex-Im's financial data, policies and procedures, and processes. We also reviewed Ex-Im's Business Plan, related analyses, and other reports. We examined the models Ex-Im used to forecast exposure levels and estimate credit losses, including the data and assumptions underlying the models. In addition, we reviewed Congressional Budget Justifications, annual reports, and other reports for information on Ex-Im's administrative budgets and the size of its workforce. We reviewed various sources of

[1]All years in this statement are federal fiscal years unless otherwise indicated.

[2]Pub. L. No. 112-122 § 4 and 5, 126 Stat. 350, 352 (2012). See GAO, *Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management*, GAO-13-303 ((Washington, D.C.: Mar. 28, 2013); and *Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources*, GAO-13-620 (Washington, D.C.: May 30, 2013).

guidance on risk management and cost estimation, including federal internal control standards, Office of Management and Budget (OMB) guidance, and federal banking regulator guidance. Additionally, we interviewed Ex-Im officials and other entities involved in export financing. Our prior reports each include a detailed description of our scope and methodology. For this statement, we also updated information on Ex-Im's overall exposure and authorizations as of the end of 2013 and updated the status of the recommendations we made in the 2013 reports.[3] We conducted the work on which this testimony is based 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Ex-Im is an independent agency operating under the Export-Import Bank Act of 1945, as amended. Its mission is to support the export of U.S. goods and services, thereby supporting U.S. jobs. Ex-Im's charter states that it should not compete with the private sector. Rather, Ex-Im's role is to assume the credit and country risks that the private sector is unable or unwilling to accept, while still maintaining a reasonable assurance of repayment. Ex-Im's authorizations increased from $14.4 billion in 2008 to $35.8 billion in 2012, but declined to $27.3 billion in 2013.

While demand for its services generally drives Ex-Im's business, Congress also mandated that Ex-Im support specific objectives. For example, since the 1980s, Congress has required that Ex-Im make available a percentage of its total export financing each year for small business. In 2002, this requirement increased from 10 percent to 20 percent. Congress further instructed that Ex-Im promote the expansion of its financial commitments in sub-Saharan Africa. Finally, in 2012 Congress directed that "not less than 10 percent of the aggregate loan, guarantee, and insurance authority available to [Ex-Im]...should be used for renewable energy technologies or end-use energy efficiency technologies"—to which we refer as the renewable energy mandate.

[3]An authorization is an export financing transaction for which Ex-Im has granted credit approval.

Ex-Im Has Addressed GAO's Recommendations Related to Risk Management and Loss and Exposure Estimation

Our March and May 2013 reports found that Ex-Im had been developing a more comprehensive risk-management framework and had provided exposure forecasts to Congress, but could take additional steps to improve these processes. More specifically, Ex-Im had started to address recommendations by its Inspector General (IG) about portfolio stress testing, thresholds for managing portfolio concentrations, and risk governance. We concluded that the IG's recommendations represented promising techniques that merited continued attention and recommended further steps to help improve Ex-Im's risk-management practices.

First, our March 2013 report found that Ex-Im could further improve its risk modeling. Ex-Im calculates credit subsidy costs and loss reserves and allowances with a loss estimation model that uses historical data and takes credit, political, and other risks into account.[4] Consistent with industry practices, Ex-Im added qualitative factors to the model in 2012 to adjust for circumstances that may cause estimated credit losses to differ from historical experience. For example, Ex-Im incorporated a 1-year forecast of certain bond defaults to predict possible changes in loss estimates from changed global economic conditions. However, we concluded that a short-term forecast might not be appropriate for adjusting estimated defaults for longer-term products and could lead to underestimation of credit subsidy costs and loss reserves and allowances.[5] Thus, we recommended that Ex-Im assess whether it was using the best available data for adjusting the loss estimates. Ex-Im agreed with our recommendation and identified a 5-year forecast of the global economy to adjust loss estimates. In November 2013, Ex-Im incorporated this longer-term forecast of global economic change into its

[4]Ex-Im uses the model to build the agency's credit subsidy estimates in the President's budget and for calculating loss reserves and allowances reported in its annual financial statements. Credit risk is the risk that an obligor—an entity contractually obligated to make payments to satisfy the terms of an Ex-Im export credit product—may not have sufficient funds to service its debt or be willing to service its debt. Political risk is the risk that expropriation of the obligor's property, war, or inconvertibility of the obligor's currency into U.S. dollars may result in nonrepayment.

[5]We based our recommendation on guidance from the Federal Accounting Standards Advisory Board for federal credit agencies, which states that agencies should develop cash flow projections for their transactions based upon the best available data. See Federal Accounting Standards Advisory Board, *Federal Financial Accounting and Auditing Technical Release 6: Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act* (January 2004).

loss estimation model. As a result, we consider this recommendation implemented and closed.

Second, our March 2013 report found that Ex-Im could improve its analysis of the financial performance of its portfolio. Ex-Im's default rate declined steadily from about 1.6 percent as of September 30, 2006, to 0.29 percent as of September 30, 2012, and, more recently, Ex-Im reported a further decline to 0.21 percent as of March 30, 2014.[6] However, as we concluded in our report, this downward trend should be viewed with caution because Ex-Im's portfolio contains a large volume of recent transactions that have not reached their peak default periods. Additionally, we found that Ex-Im was not maintaining the data it needed to compare the performance of newer books of business with more seasoned books at comparable points in time, a type of analysis recommended by federal banking regulators.[7] We concluded that the lack of point-in-time data showing when defaults occur could reduce the precision of Ex-Im's loss estimation model. We recommended that Ex-Im retain point-in-time performance data to compare the performance of newer and older business and enhance loss modeling. Ex-Im agreed and began retaining such data in 2013. We therefore consider this recommendation implemented and closed. Ex-Im said it plans to use these data to conduct an annual analysis that will compare the performance of newer books of business with older books and that the results will further enhance its loss estimation model.

Third, our May 2013 report found weaknesses in the methodology Ex-Im used to forecast future exposure levels. The 2012 Reauthorization Act increased Ex-Im's exposure limit to $120 billion in 2012, with provisions for additional increases to $130 billion in 2013 and $140 billion in 2014. Although Ex-Im's forecast model is sensitive to key assumptions, Ex-Im had not reassessed these assumptions to reflect changing conditions or conducted sensitivity analyses to assess and report the range of potential

[6]Ex-Im calculates the default rate as the sum of net claims paid to date on loan guarantees and insurance transactions and unpaid past due installments to date on direct loans divided by disbursements. Ex-Im developed this calculation of the default rate in response to a provision in the Export-Import Bank Reauthorization Act of 2012, which requires Ex-Im to report default rates to Congress at least quarterly. (Pub. L. No. 122-122, § 6, 126 Stat. 350, 353 (2012)).

[7]Ex-Im is not bound by federal banking regulator guidance, but faces risk-management challenges similar to those of regulated private financial institutions.

outcomes.[8] Because Ex-Im had not taken these steps, we concluded that the reliability of its forecasts was diminished. Based on GAO cost estimation guidance, we recommended that Ex-Im (1) compare previous forecasts and key assumptions to actual results and adjust its forecast models to incorporate previous experience and (2) assess the sensitivity of the exposure forecast model to key assumptions and estimates and identify and report the range of forecasts based on this analysis. Ex-Im agreed and put in place new methodologies for its 2015 budget estimates. Specifically, Ex-Im compared the results of its existing authorization forecast method with actual results and enhanced its calculation of expected repayments and authorizations by incorporating historical experience into the methodology. Additionally, Ex-Im created statistical models to validate its forecasts and provide a range of estimates. Therefore, we consider these recommendations implemented and closed.

Finally, in both our March and May 2013 reports, we recommended that Ex-Im report certain risk information to Congress. Our March report found that Ex-Im had begun to implement the IG's recommendation to develop a systematic approach to stress testing its portfolio. We concurred with the IG's recommendation and concluded that Ex-Im's reporting of testing scenarios and results would aid congressional oversight and be consistent with federal internal control standards for effective external communication.[9] Thus, we recommended that Ex-Im report this information to Congress. Ex-Im agreed and began reporting its stress test scenarios and results in quarterly reports to Congress on default rates, beginning with the report for the fourth quarter of 2013. In that report, Ex-Im described the stress test scenarios and provided some information about results. The scenarios included an across-the-board increase in the riskiness of obligors and an assumption of zero recoveries on defaulted credit transactions. Ex-Im plans to annually update the stress testing

[8]GAO, *GAO Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, GAO-09-3SP (Washington, D.C.: March 2009). Among other things, this cost guidance calls for agencies' assumptions and forecasts to be supported by historical data and experience, and a sensitivity analysis that can assess the effect of changes in assumptions.

[9]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999) and *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001). These standards indicate that agency communications with external parties, including Congress, should provide information that helps the parties better understand the risks facing the agency.

information in fourth-quarter default reports. Additionally, our May 2013 report found that Ex-Im had not routinely reported the performance or risk ratings of its subportfolios for the congressional mandates on small business, sub-Saharan Africa, and renewable energy.[10] We concluded that Ex-Im could analyze additional information about its subportfolios related to the three mandates. Citing guidance from OMB and federal banking regulators, we recommended that Ex-Im routinely report the financial performance of subportfolios supporting congressional mandates.[11] Ex-Im concurred with our recommendation and began reporting this information in its default rate report to Congress for the quarter ending June 30, 2013. As a result, we consider both recommendations as implemented and closed.

Ex-Im Has Begun to Address GAO's Recommendations to Improve Workload Management and Reporting

In both our March and May 2013 reports, we found that Ex-Im faced potential operational risks because administrative budgets and staff levels had not kept pace with the growth in its portfolio.[12] Ex-Im reported in its 2012 Business Plan that its resource levels could not sustain the bank's current level of activity or meet expected demand in coming years.

Our March report found that while Ex-Im determined that it needed more staff, it had not formally determined the level of business it could properly manage with its current resources.[13] We concluded that without benchmarks to determine when workload levels have created too much

[10]Ex-Im reviews each credit transaction and assigns a numerical risk rating based on assessments of credit, political, and market risks. In our May 2013 report, we found that the performance of the small business, sub-Saharan Africa, and renewable energy subportfolios differed from the performance of Ex-Im's overall portfolio. For instance, the higher risk ratings of the subportfolios suggested these transactions generally were more risky than Ex-Im's overall portfolio.

[11]OMB guidance indicates that agencies should use comprehensive reports on the status of the credit financing portfolios to evaluate effectiveness and collect data for program performance measures such as default rates. Furthermore, federal banking regulator guidance suggests that banks should provide financial performance information by portfolio and specific product type to allow management to properly evaluate lending activities.

[12]Operational risk is the risk that loss may result from inadequate or failed internal processes, people, and systems, or from external events.

[13]Federal internal control standards state that agencies should develop a risk-management approach based on how much risk can be prudently accepted. See GAO/AIMD-00-21.3.1 and GAO-01-1008G.

risk, Ex-Im's ability to manage its increased business volume might be limited. Further, we concluded that monitoring workloads against such benchmarks would help Ex-Im determine when additional steps—such as tightening underwriting standards or increasing requirements for lender participation—might be needed to mitigate Ex-Im's increased risk. Accordingly, we recommended that Ex-Im develop benchmarks to monitor and manage workload levels. Ex-Im agreed with this recommendation and hired a contractor in September 2013 to develop workload benchmarks and a workload modeling tool. As of June 2014, benchmarks had been established for certain activities in three Ex-Im divisions. According to Ex-Im, the agency plans to use the modeling tool to develop benchmarks for the remaining activities and divisions. Because Ex-Im's actions to implement this recommendation are ongoing, this recommendation remains open.

Our May 2013 report found that Ex-Im expected that administrative resource constraints might prevent it from meeting its congressionally mandated target for small business export financing. The mandated target is fixed to a percentage of the dollar value of Ex-Im's total authorizations. Although Ex-Im has dedicated resources to support the mandate, as Ex-Im authorizations have grown, the growth in the value of the mandated target has outpaced Ex-Im's increasing support. According to Ex-Im officials, processing small business transactions and bringing in new small business customers is resource-intensive. Originating, underwriting, and servicing for small business deals requires more effort than other transactions because small businesses tend to have less exporting experience than larger businesses. We concluded that it was important for Ex-Im to communicate to Congress the effect of percentage-based mandates on its operations, as well as the potential impacts such mandates might have on the agency's resources and ability to achieve its goals. Therefore, based on OMB guidance and federal internal control standards, we recommended that Ex-Im provide Congress with additional information on the resources associated with meeting its percentage-based mandates.[14] Ex-Im agreed with this recommendation and told us

[14]OMB, Circular No. A–11 Revised, *Preparation, Submission, and Execution of the Budget* (August 2012). The guidance directs agency leaders to set ambitious, yet realistic goals that reflect careful analysis of associated challenges and the agency's capacity and priorities. Communicating information about challenges and capacity that may significantly affect achievement of agency goals to external stakeholders, such as Congress, is also consistent with federal internal control standards.

that it plans to use the workload modeling tool noted previously to provide information in its next budget submission on resources associated with meeting such mandates. Because Ex-Im is in the process of addressing this recommendation, it remains open.

While Ex-Im has been responsive to the recommendations we made, it is important to note that we have ongoing work examining different aspects of Ex-Im's operations. Furthermore, managing a large export financing portfolio and the wide variety of associated risks is challenging. Therefore, it will be important for Ex-Im to sustain the improvements it has made, effectively implement future audit recommendations, and carefully manage emerging risks. We look forward to continuing to assist the Committee in its oversight of Ex-Im.

Chairman Hensarling, Ranking Member Waters, and Members of the Committee, this concludes my statement. I would be pleased to respond to any questions you may have.

Contacts and Staff Acknowledgments

For further information about this statement, please contact me at 202-512-8678 or sciremj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Lawrance L. Evans, Jr., Director; Juan Gobel, Assistant Director; Steve Westley, Assistant Director; Christine Houle, Analyst-in-Charge; Michael Simon, Analyst-in-Charge; Joshua Akery; Kathryn Bolduc; Marcia Carlsen; Anna Chung; Michael Hoffman; Melissa Kornblau; Risto Laboski; Felicia Lopez; Grace Lui; Colleen Moffatt Kimer; Barbara Roesmann; and Jessica Sandler.

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Personal and Professional Background Information

My name is Steven P. Wilburn. I was born on December 19, 1948 in Chicago, Illinois, I was raised in East St. Louis and Belleville, Illinois. I am married to Margaret Wilburn, and I am the father of five children, nine grandchildren and one great-granddaughter. I reside in Newport Beach, California.

After graduating from Althoff Catholic High School in 1966, I enlisted and served in the United States Marine Corps from 1967 to 1969. I am a decorated Vietnam War Veteran, including the Purple Heart Medal. I was air medevac'd from DaNang, Vietnam to the United States in November of 1967. I spent 9 months in the Great Lakes Naval hospital recuperating. I was honorably discharged in April, 1969. I have a VA rating of being 90% Disabled.

I am the founder of, and currently serve as the Chief Executive Officer and President, of FirmGreen, Inc. FirmGreen®, is a privately held, integrated energy company participating in virtually all aspects of the global energy markets. FirmGreen® is involved with identifying, inventing, developing and commercializing new and emerging energy technologies that promise to play an increasingly important role in the world's energy mix.

Fundamentally, I am an energy executive, with over thirty years of experience in the development and implementation of energy production technologies and alternative energy projects. I served as Founding Chairman of the International Cogeneration Society.

I have successfully commercialized numerous patents in areas of energy production and energy efficiency. I have invented, or developed, breakthrough approaches in the areas of Fluidized Bed Technology, Landfill Gas Utilization, Anaerobic Digestion of Organic Wastes, Biogas Upgrading Technology to CNG fuel quality, Smart Plant Controls and Smart LED Lighting Systems. I have recently filed a continuation-in-part patent application to further advance FirmGreen's IP in the LED marketplace under the Registered trademark of VerdeWatts®.

Under my leadership, FirmGreen has received the following awards:

- 2008 EPA Project of the Year for converting landfill gas into compressed natural gas vehicle fuel.
- 2009 Solid Waste Association of North America for proving the efficacy of upgrading Landfill Gas to fuel grade quality.
- 2013 ExIm Bank of the United States Renewable-Energy Exporter of the Year Award for the Gàs Verde project at the infamous Gramacho landfill that was depicted in the critically acclaimed Film Documentary "wasteland". The landfill gas project is located at Gramacho near Rio de Janerio, Brazil.

I currently serve on the Environmental and Renewable Energy Sub-Committee and the Advisory Committee to the Export Import Bank of the United States. I have served in in both capacities since January of 2013.

The Written Statement of Steven Wilburn on the Reauthorization of the ExIm bank of the United States.

Chairman Hensarling, Ranking Member Waters, and Members of the Committee, thank you for inviting me here today to testify about the Export-Import Bank of the United States.

Areas the Committee was seeking opinion based on my expertise:

Comment to be addressed-- taken from Invite letter
.."The Banks role in the Economy"

Speaking from my personal experience of export finance, I will offer a bit of background. After the near collapse of the banking system of the United States in 2008, FirmGreen was forced to divest itself of a partnership with one of the largest investment banks of the United States. They were an equity and debt partner in the in the amount of 17 million USD, and were the source of a $25 million dollar revolving credit facility. Through no fault of FirmGreen, our multi billion-dollar partner was teetering on the brink of insolvency. As a result, they stated they were forced to divest themselves of certain assets. I was forced to exit our relationship with the new "Bank Holding Company" at great cost to me. It was an 11 million dollar hit to my company.

I had to pull this divestiture off within several months. Tall order indeed! But we did it. Out of the 46 companies in the Renewable Development Fund they managed, FirmGreen is one of the only survivors.

The credit markets crash also cost FirmGreen a $20 million Biogas project opportunity in Ohio that was fully permitted when we were left at the altar. We were unable to source alternate financing in the chaotic financial markets of 2009 and had to abandon the project and ultimately untangle a trailing lawsuit that was filed due to my Bank's inability to perform on the project finance. I prevailed in the costly lawsuit and settled the suit and was able to reclaim 4 million dollars worth of previously installed equipment.

At this troubled time in the US economy, I was negotiating to obtain a large landfill gas project in Brazil. In 2010, FirmGreen was formally invited by Gàs Verde SA to submit a Landfill Gas Upgrading project proposal. Also invited to propose, were the French firm Air Liquide, and the German firm Linde--both multi-billion dollar international conglomerates.

The Brazilian company was impressed with our technology, but they asked us if we could offer long-term project finance as part of our proposal. I contacted my Commercial Bank officer who advised they could not undertake a loan for FirmGreen to finance the project in Brazil. That was simply out of the question: the reluctance of banks to support small business exports because of the difficulty in collecting payments in a foreign country, coupled with the tighter credit standards following the financial crisis, made this impossible.

My Brazilian client requested that we approach my ECA for possible assistance. I was embarrassed that I needed ask my clients what the acronym ECA represented. They advised that

ECA stood for "Export Credit Agency" and that the US ECA was "The Export Import Bank of the United States". This was the first time in my memory that I had even heard of Ex-Im Bank.

So, we found out through our local SBA contacts that Ex-Im had a local office in Irvine, CA, and we called them. The staff was friendly and walked us through the Bank's structure and how my clients might be able to qualify for export finance.

Over the course of the next three weeks, I was able to come up to speed on Ex-Im's lending criteria, etc. and girded up to do battle with my better capitalized, and ECA advantaged competitors.

Air Liquide, offered finance through France's ECA – Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE),

Linde Corporation offered finance through Germany's ECA-Euler Hermes Kreditversicherungs-AG,

The Gas Verde management wanted our technology, but we were informed that we were too high on the capital financing costs, and since we had no assurance from my corporate bankers unless we were able to match the other firms ECA's financing terms and conditions, we would lose the deal!

My client and I flew to Washington DC and conferred with ExIm Bank officers and staff. They informed us that there were rules governing the project financing terms that these particular ECA's were able to offer, and that ExIm could indeed compete if the Bank's project credit, technology and environmental impact criteria could be met.

Based on this news, my client submitted a formal application and the vetting process began. I believe it was a little over 4 months before the application was deemed complete and a Board Approval Meeting was set. The Loan was approved and became operational in June 2011.

FirmGreen with the help of Ex-Im became Giant killers! We had won a 32 Million Dollar contract over two multi-billion dollar foreign competitors!

As a result, FirmGreen's technology has been commercially proven on the world stage The Grammacho Landfill Biogas is being treated and conveyed by a private pipeline to the local Petrobras oil refinery where it displaces up to 12% of its gas energy requirements. It is the largest Biogas to pipeline quality gas project in the world.

Gas Verde wants to buy at least three more plants from us under similar ExIm debt structures. A total of another possible 65 million in contracts is on the line.

I believe that ExIm is needed for small businesses like FirmGreen to compete on an international basis with competitors using their country's ECA credit terms.

According to my research in preparing for my testimony I discovered that in FY 2013, the Bank approved a record-high 3,413 small-business authorizations – nearly 90 percent of the total number of Ex-Im authorizations.

In FY 2013, 625 U.S. small businesses were first-time users of Ex-Im products.

The Bank authorized amounts under $500,000 for 1,923 small-business transactions.

Ex-Im Bank authorized more than $5.2 BILLION in financing and insurance for the direct support for American small-business exporters in FY 2013.

Exports from small businesses constituted 20 percent or more of Ex-Im-supported exports in nearly every state in the nation.

Comment to be addressed- taken from Invite letter
..."the extent to which its programs may shift jobs between sectors of the economy rather than resulting in net job creation",

I can only speak to the jobs involved with FirmGreen's Biogas technology. We created a net 165 jobs according to the suppliers who worked on the fabrication of FirmGreen's technology. These were mostly jobs at small machine and welding shops in the Mid-West of the United States. Specifically, Wisconsin, Michigan, Ohio, Illinois, Missouri, Indiana, and Oklahoma. In addition, we created and supported manufacturing, warehousing, trucking and Maritime shipping jobs in California, Florida and Texas.

These were good paying jobs, most of them paying well above the minimum wage.

The companies involved in providing support services, fabricating and shipping FirmGreen's equipment were: (See following Page)

Partial Vendor list for Gàs Verde Project (Brazil)

Vendor	Location
FlexSteel	Houston, Texas 77002
Rotary Compression Tech. Inc	Sidney, OH 45365
R&R ENGINEERING	TULSA,OK 74170
Silvan Industries Inc	Marinette, WI 54143
MEDAL -A DIVISION OF AIR LIQUIDE ADVANCE TECH LLC	NEWPORT, DELAWARE 19804
FCX PERFORMANCE	COLUMBUS, OH 43219
GARDNER DENVER NASH, LLC	ST. LOUIS MO 63195
GE OIL & GAS OPERATIONS LLC	OSHKOSH, WI 54902
PIPE & VALVE, INC.	COLUMBUS, OH 43212
Defabco	COLUMBUS, OHIO 43227
MOTION INDUSTRIES	COLUMBUS, OH, 43209
COLUMBUS FASTENERS CORP.	COLUMBUS, OH 43212
Advance Industrial Manufacturing	Grove City Oh 43123
MARTIN PAINTING	GROVE CITY, OHIO 43123
SCIOTO VALVE	WESTERVILLE, OHIO 43082
FLUIDRAULICS, INC	TWINSBURG, OH 44087-2441
Reece Fluid Power	TOLEDO OHIO 43623
BUCKEYE FABRICATING CO.	SPRINGBORO, OH 45066
MOTION INDUSTRIES	COLUMBUS, OH, 43209
AUSTIN CO	AUSTIN CO
Hersh Rubber and Packing	Canal Winchester, OH
Intermarine Shipping	Houston, Texas
UTC Shipping Texas	Port of Houston, Texas
Mayekawa Refigeration	Covina CA 91724
SulfaTreat	Sauget, Illinois
Paul Hastings LLC (Legal Services)	Costa Mesa, CA 92626
Guild and Associates	COLUMBUS, OH 43212
UPS Franchise Store	Irvine, CA 92614
Newtech Engineering Services	Irvine, CA 92614
Quantum Power	Newport Beach, 92663
Greenworld Security	Kokomo, IN, 46902
International Trade & Transportation, Inc.	Pinehurst, Texas 77362
Kinko's	Newport Beach, 92663
Staples	Irvine, CA 92614
Acrion, Inc.	Cleveland Ohio, 44125

Comment to be addressed- taken from Invite letter
"...the extent of which ExIm may benefit some companies while harming others".

The only companies that I believe are "harmed" by the US EX-IM Bank are my foreign competitors. Unlike other ECA's, the US Ex-Im Bank financing is tied directly to US domestic content, meaning that the Ex-Im can only finance the portion of a product that is manufactured in the U.S. This ensures that Ex-Im financing is directly linked to the preservation and creation of U.S. jobs. Once a Borrower is deemed creditworthy by the US Ex-Im Bank, the contracts that are awarded to US Companies are based on quality of products and services, and price. To put this in perspective, if US EXIM Bank is unilaterally dissolved as some Committee members wish, it would only harm US Companies, jobs and our recovering economy. I can tell you that there's nothing more my foreign competitors would love to see.

I understand that several companies, including Delta Airlines, claim they have been harmed by the financing programs offered by Ex-Im bank. I am not an expert in air travel business, but I do know Boeing creates and supports thousands of good paying jobs by selling its American-made aircraft overseas and utilizes the competitive credit terms offered by the Ex-Im Bank for its credit worthy clients. Thousands of small business sub-contractors indirectly benefit from Boeing contracts. As a former US combat veteran, and the beneficiary of the life saving benefits of Close Air Support, I can also state categorically, that maintaining our aircraft industrial manufacturing base is critical to our National Defense. With US Military spending down to its lowest level in decades, I believe we must maintain our industrial manufacturing base. For, it is our manufacturing base that supports our national defense in peacetime and is able to rapidly ramp up in times of War. Keeping our manufacturers strong through innovative programs such as those offered by the ExIm Bank, are vital for protecting our National security.

Summation

In summation, I would like to state for the record that I am a firm believer in free trade and limited government, but I do not share -- nor do I understand -- the rabid anti-government animus that seems to be motivating the current attacks on the Ex-Im Bank. Government, in my view, is simply people working collectively to accomplish things for the greater good that can't be done by individuals acting alone. I have come to realize over the past several years that trading on the world stage is a complex undertaking for small businesses like FirmGreen.

I used to believe that the eight most feared words in the English language were, "We're the government, we're here to help you!" Thank God for the folks at the US Department of Commerce, The USTDA, The SBA, and the Ex-Im Bank. They have effective outreach programs that make navigating the pathways to international markets understandable and attainable for small Main Street Businesses like FirmGreen.

The aforementioned governmental agencies help me conduct my global business on a level playing field, so my international clients can buy my American-made goods and services at a competitive price.

Finally, please know that FirmGreen has recently lost a $57 Million dollar Waste to Energy deal in the Philippines. We had initially won the deal in April after hard-fought negations, lasting almost a year. But we lost it in May. I received a letter from my client explaining to me that I lost the order as a direct result of the uncertainty created by the public comments made by members of Congress against reauthorization of the Ex-Im Bank. The negative comments against the Bank by key congressional leaders have allowed my competitors to play the "Don't Count on U.S. Ex-Im Support" card to steal business away from FirmGreen. I have attached a copy of the client's letter stating the reason they withdrew from our executed Memorandum of Understanding. They still prefer our technology, but require certainty about financing terms equal to that being offered my Korean competitor backed by the Korean Ex-Im Bank.

The Chairman and other members contend that the private sector can effectively assume the role of the Ex-Im Bank. With all due respect to the Chairman and Members of this prestigious Committee, I have yet to be able to find any private sector funding that is competitive, or for that matter, even available, for my overseas Capital Projects. If the Chairman or other members of the Committee are aware of any firms offering such private sector funding, please make such a list publicly available to me and the thousands of other U.S. small business that so desperately need access to this support.

Thank you for allowing me the extreme honor of testifying on this critical issue.

AIR LIQUIDE

July 14, 2014

The Honorable Jeb Hensarling
Chairman
House Financial Services Committee
Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Hensarling:

On June 25, 2014, the House Financial Services Committee held a hearing entitled "Examining Reauthorization of the Export-Import Bank: Corporate Necessity or Corporate Welfare?" On behalf of American Air Liquide ("Air Liquide"), we appreciate the Committee's attention to this important issue and wish only to correct the record with regard to misrepresentations made relative to Air Liquide by one witness, Stephen P. Wilborn from FirmGreen, Inc., in his testimony before the Committee.

In Mr. Wilborn's testimony, he refers to FirmGreen's proposal for a landfill gas upgrading project in Brazil. In doing so, he mentions that FirmGreen competed for the work against, among others, "the French firm Air Liquide...[a] multi-billion dollar international conglomerate[]" He then refers to Air Liquide as having "offered finance through France's ECA—Compagnie Francaise d'Assurance pour le Commerce Exterieur (COFACE)."

American Air Liquide is one of the Nation's leading industrial and medical gas companies. Headquartered in Houston, Texas, Air Liquide has over 5,000 U.S. employees in more than 200 locations throughout the country. As to the project in Brazil cited in Mr. Wilborn's testimony, Air Liquide never pursued the project Mr. Wilborn describes and only engaged in a small equipment sale that was a component of the larger project. Air Liquide did not, as was suggested by Mr. Wilborn, pursue any outside funding (foreign or otherwise) related to the supply of equipment to the project and, in fact, the equipment Air Liquide ultimately supplied for the project was sourced in the United States.

Once again, we appreciate the Committee's attention to the important topic discussed at this hearing and we appreciate the opportunity to correct the record on this issue. If the Committee has any further questions on this issue, please feel free to contact me at (302) 225-2101.

Sincerely,

Chet Benham
Vice President
Air Liquide Advanced Technologies US LLC

THE
AMERICAN
CONSERVATIVE
UNION

June 24, 2014

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
2129 Rayburn Office Building
Washington, DC 20515

Dear Mr. Chairman:

The American Conservative Union urges you to allow the authorization of the Export-Import Bank to expire.

As with many government programs, the Export-Import Bank began as a small government program in the midst of the Depression to promote American exports. It is now a $100 billion bureaucracy that in some cases actually harms American companies by subsidizing their competition in other countries. It is yet another example of the federal government picking winners and losers that has long outgrown its usefulness. Now the inevitable has happened and there are news reports the Bank is under investigation for favoritism in its operations.

In recent years, much of the Ex-Im Bank's loan portfolio has gone to make it cheaper for foreign airlines to purchase American planes, which in turn allows these companies to cut their rates. As American companies don't have access to these loans and guarantees, foreign airlines get an intrinsic competitive advantage against their American counterparts.

In addition, the renewable energy mandate in the current law encourages Solyndra-like loans to risky companies that could not get private financing.

Two years ago, Congress not only reauthorized the Ex-Im Bank, but increased the caps so taxpayer exposure went up by 40%. After a thorough debate, we hope Congress now recognizes that, at the age of 80, it is time for the Export-Import Bank to be retired.

Sincerely,

Larry Hart
Director of Government Relations
American Conservative Union

American Conservative Union
1331 H Street NW, Suite 500 | Washington, DC 20005
(P) 202.347.9388 | (F) 202.347.9389
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CLIFFS

CLIFFS NATURAL RESOURCES INC.
200 Public Square, Suite 3300, Cleveland, OH 44114
P 216.694.5700 cliffsnaturalresources.com

Chairman Jeb Hensarling
House Financial Services Committee
2129 Rayburn HOB
Washington, DC 20515

June 24, 2014

Re: June 25, 2014 Oversight Hearing on U.S. Export-Import Bank

Dear Chairman Hensarling,

Thank you for your interest in Cliffs Natural Resources and our experiences with the United States Export-Import Bank (Ex-Im). We appreciate the opportunity to share our perspective on Ex-Im and its practices.

Cliffs Natural Resources is a global mining company headquartered in Cleveland, Ohio. We have a long history in the iron ore business, dating back to 1847, and we are proud of our place in America's industrial economy. Cliffs is the largest producer of iron ore in North America with iron mines in Michigan's Upper Peninsula and Northeast Minnesota. With coal operations in West Virginia and Alabama, Cliffs is also a significant provider of metallurgical coal used for steelmaking. In addition, Cliffs operates iron ore mines in Eastern Canada and Australia that provide iron ore product for the global seaborne market.

Globally, Cliffs employs approximately 7,000 people and provides significant, positive economic contributions in the communities where we operate. We work tirelessly to preserve our social license to operate and take great pride in providing the steel industry with the critical raw materials it needs at home and abroad. Today, the volatility of global iron ore and coal pricing, due to global oversupply, represents a significant challenge to Cliffs' business interests, both in the U.S. and overseas. I write today because we believe that, through its financing activities, Ex-Im is exacerbating this oversupply problem and making it more difficult for Cliffs to compete on a global basis.

Through Cliffs' recent experience opposing the Bank's $694 million direct loan for the Roy Hill iron ore project in Australia, it has become apparent that the Bank is falling short of adherence to its congressionally authorized Charter. More specifically, the Bank is failing to properly account for the negative economic impact its transactions have on domestic industries. As a company that competes globally, Cliffs understands the need to expand U.S. exports and we have never advocated for the outright elimination of Ex-Im. However, as Congress considers Ex-Im's reauthorization, substantial revisions to the Bank's Charter and operating procedures are needed to protect American interests.

In late 2012, Cliffs became aware of Ex-Im's pattern of support for foreign iron ore producers. According to data made available by the Bank, between 2009 and 2013, Ex-Im helped bring on-line 124 million metric tons of new or expanded iron ore capacity through the extension of loans and loan guarantees to operators of foreign mining projects. This tonnage equates to approximately 231% of annual U.S. iron ore production. Among the transactions approved by Ex-Im was a $694 million direct loan to support the development of a new Australian iron ore project called Roy Hill, which is owned by Australia's richest person and the world's richest woman, billionaire Gina Rinehart.[1] Of the $7 billion in debt financing sought for Rinehart's project, it has been reported that nearly $3.5 billion came from Ex-Im and other export credit agencies ("ECAs").

The Roy Hill mine will have the capacity to produce 55 million metric tons of ore per year – more than the entire annual iron ore production of the United States. Cliffs vigorously opposed the Roy Hill loan, and we were joined in our opposition by the American Iron and Steel Institute, the United Steelworkers (USW), the Iron Mining Association of Minnesota, and numerous members of Congress who represent states and districts reliant on the iron ore and steel industries.

Cliffs commissioned a detailed economic analysis on the proposed Roy Hill transaction, which showed that the economic benefits for U.S. exporters arising from this transaction would be far outweighed by the substantial injury to domestic iron ore producers. During the 8.5-year term of the proposed financing arrangement, output from the Roy Hill project will cause the loss of almost $600 million worth of U.S. iron ore exports. In addition, because of the nature of the global iron ore trade, losses to the domestic industry from reduced domestic sales would exceed $1.2 billion, for a total loss of $1.8 billion to the U.S. iron ore industry over the term of the Roy Hill loan. Furthermore, the price-depressive effect of the Roy Hill production would support overseas U.S. steel competitors on the order of $8 billion per year.[2] Ex-Im's involvement in this regard stands to exacerbate the global steel overcapacity epidemic, which is currently harming U.S. steelmakers.

Ex-Im's congressionally authorized charter prohibits the Bank from financing projects that would harm U.S. producers more than they would benefit the U.S. exporter requesting the financing. The $1.8 billion in harm that will be felt by U.S. iron ore producers as a result of the Roy Hill transaction far outweighs the approximately $550 million in benefits to the U.S. exporter. This finding alone should have been reason enough for Ex-Im to deny Roy Hill's credit application, but the project's negative effects are far from singular.

The completion of the Roy Hill project will contribute to a global oversupply of iron ore, which will be particularly acute when the Roy Hill tonnage is scheduled to come online in 2015. This oversupply outlook is the consensus view of industry analysts, and has been exacerbated by Ex-Im's aforementioned

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[1] "U.S. Ex-Im Bank Votes to Support $694 Million Loan for Roy Hill." November 14, 2013. http://www.bloomberg.com/news/2013-11-14/u-s-ex-im-bank-votes-to-support-694-million-loan-for-roy-hill.html

[2] Comments of Cliffs Natural Resources (June 20, 2013), pursuant to Economic Impact Notice Federal Register 78: 100 (May 23, 2013) p. 30920. Much of this benefit will be realized by Asian steel producers, since Roy Hill's production will be exported almost exclusively to Asian countries, many of which have been the subject of numerous trade orders related to the illegal subsidization and dumping of steel products in recent years.

pattern of support for foreign iron ore projects in recent years. **Ex-Im's Charter prohibits the Bank from approving transactions that would result in the production of a commodity during a period of global oversupply.** As such, the global oversupply outlook for iron ore also should have been grounds for denial of the Roy Hill credit application.

Despite the high economic stakes associated with the Roy Hill transaction, Ex-Im was under no obligation to respond to Cliffs' economic impact analysis or share details of its own economic study, until *after* a final decision on the Roy Hill application was made by the Ex-Im Board of Directors. This fact alone illustrates the extent to which the Bank is free to approve transactions without ever acknowledging, responding to, or refuting findings of injury to U.S. interests.

When Cliffs reviewed the sparse "non-confidential summary" of the Bank's Roy Hill economic impact analysis after approval of the loan, we found the Bank's study to be highly flawed with numerous unsupported assumptions that produced aberrational results. For example, the Bank made the incomprehensible assumption (without any apparent support) that the Roy Hill project's 55 million metric tons would lead to "no change in the supply/demand balance" within the global market for iron ore. The Bank routinely uses this assumption to avoid performing a supply-and-demand economic analysis, something that should be an obvious requirement when considering a project of this scale – especially one involving the production of a commodity like iron ore, for which supply and demand are at the heart of global pricing.

Additionally, the Bank found that Roy Hill's production would cause a mere $25 million in harm to U.S. iron ore producers, a mystifying conclusion that represents just 1.3 percent of the $1.8 billion in harm calculated by Cliffs using standard economic assumptions, forecasts, and models. This discrepancy in results is not the usual problem of dueling economists. Rather, it reflects the reality that the Bank, despite its claims, did not perform anything that would be recognized as "economics" by the economics profession. This appears to be typical of the economic impact analyses performed by Ex-Im – in a 2010 review of the Bank's economic impact procedures, Ex-Im's own Inspector General ("IG") criticized the Bank for not having an economist on staff to assist with economic impact analyses, and concluded that Ex-Im could "benefit from the participation of an expert economist having a strong foundation in analyzing U.S. and international markets at a macroeconomic level."

The Bank's consideration of the Roy Hill financing application illustrates the Bank's practice of not following its own guidelines, the recommendations of its IG, or standard U.S. government cost-benefit analysis methods that Congress requires and the IG recommends. This experience illustrates the significant shortcomings of Ex-Im's economic impact procedures and highlights the lack of transparency with which the Bank considers major applications.

As the Bank pursues its reauthorization, Congress should amend its statute to ensure that: 1) the Bank is required to operate with more transparency and accountability; and 2) the Bank's procedures no longer allow it to finance projects for the benefit of one U.S. industry if doing so would cause substantial injury to another U.S. industry. Cliffs is happy to provide the committee and interested Members of Congress with specific, detailed recommendations on changes to Ex-Im's charter based on our experience.

Again, Mr. Chairman, thank you for allowing Cliffs to have a voice in your oversight of the Export-Import Bank's reauthorization process. We stand ready to provide additional information if needed.

Sincerely,

William Boor
Executive Vice President, Corporate Development and Chief Strategy/Risk Officer
Cliffs Natural Resources

30 Groups to Congress: Let the Export-Import Bank Expire

May 1, 2014

Dear Members of Congress:

On behalf of our groups and organizations, together representing millions of Americans, we urge you to oppose the reauthorization of the Export-Import Bank. It unfairly hurts domestic companies and risks billions of taxpayer dollars.

By paying foreign companies to buy American exports, the Export-Import Bank tilts the playing field away from mid-sized and small businesses in favor of large, politically connected corporations. The Airlines for America, for example, estimates that the bank's recent loans to foreign airlines have killed as many as 7,500 jobs for domestic airlines in the United States. Eliminating the Export-Import Bank would level the playing field and allow U.S. companies to compete for business on their merits rather than the strength of their political ties to the bank.

Not only does the Export-Import bank interfere with the free market, it also jeopardizes billions of taxpayer dollars. According to the Congressional Budget Office, the bank relies on obsolete accounting methods that significantly overstate its profits. When using a fair-value accounting analysis, a study by Massachusetts Institute of Technology concluded that the bank is actually *losing* $200 million a year. These risky loans and poor accounting practices are harmful to taxpayers, who are left footing the bill. In fact, taxpayers have already bailed out this bank once before at a cost of $3 billion.

America deserves an international trade policy that is based on free-market mechanisms, not paying foreign companies to buy exports from large corporations with political connections. We, the undersigned organizations, urge you to oppose reauthorizing the Export-Import Bank.

Sincerely,

Brent Gardner, Director of Federal Affairs
Americans for Prosperity

Jim Martin, Chairman
60 Plus Association

Phil Kerpen, President
American Commitment

Al Cardenas, Chairman
American Conservative Union

Nathan Paul Mehrens, President
Americans for Limited Government

Grover Norquist, President
Americans for Tax Reform

John Tate, President
Campaign For Liberty

Tina Pisenti, Executive VP and COO
Cascade Policy Institute

Thomas A. Schatz, President
Council for Citizens Against Government Waste

Andrew Quinlan, President
Center for Freedom and Prosperity

Jeffrey Mazzella, President
Center for Individual Freedom

Chris Chocola, President
Club for Growth

Tom Brinkman Jr., Chairman
Coalition Opposed to Additional Spending and Taxes (COAST)

Lawson Bader, President
Competitive Enterprise Institute

Pete Hegseth, CEO
Concerned Veterans for America

Mattie Duppler, Executive Director
Cost of Government Center

Coley Jackson, President
Freedom Action

Matt Kibbe, President and CEO
FreedomWorks

Evan Feinberg, President
GenOpp

Michael A. Needham, Chief Executive Officer
Heritage Action for America

Seton Motley, President
Less Government

Daniel Garza, Executive Director
The LIBRE Initiative

Colin A. Hanna, President
Let Freedom Ring

Lew Uhler, President
National Tax Limitation Committee

Pete Sepp, Executive Vice President
National Taxpayers Union

Andrew Moylan, Executive Director and Senior Fellow
R Street Institute

Paul Gessing, President
Rio Grande Foundation

Stephen Ellis, Vice President
Taxpayers for Common Sense

David Williams, President
Taxpayers Protection Alliance

Judson Phillips, Founder
Tea Party Nation

National Taxpayers Union

April 15, 2014

The Honorable Mike Lee
United States Senate
316 Hart Senate Office Building
Washington, DC 20510

The Honorable Justin Amash
United States House of Representatives
114 Cannon House Office Building
Washington, DC 20515

Dear Senator Lee and Representative Amash:

On behalf of the 362,000-members of National Taxpayers Union (NTU), I write in strong support of the "Export-Import Bank Termination Act," S. 1102 and H.R. 2263 in the Senate and House respectively. These bills would wind down the activities of the Export-Import Bank (Ex-Im) over three years, bringing to an end a program with dubious benefits and serious liabilities for taxpayers.

A majority of Ex-Im financing uses taxpayer dollars to back overseas sales for large, profitable companies like Boeing, John Deere, Caterpillar, Dell, and GE. The government should be seeking to reduce, not perpetuate, its role in underwriting private business activities. Total U.S. exports for 2013 came to $2.3 trillion, marking a new record for the fourth year in a row. During the same year, Ex-Im approved $27.3 billion in loans, just over 1.2 percent of our total exports. As markets open and grow, those exports will rise without unnecessary subsidies from Ex-Im. This kind of crony capitalism only encourages wasteful spending and does not serve the interests of taxpayers.

Created in 1934 as part of the New Deal, the Ex-Im Bank has become, as President Obama himself stated on the campaign trail in 2008, "little more than a fund for corporate welfare." Like Fannie Mae and Freddie Mac, Ex-Im exposes taxpayers to considerable risk and substantially distorts markets. When government picks winners, the real losers are the American people as witnessed by debacles like Solyndra, a failed company that received Ex-Im funding. Proponents of the bank cite its role in filling private funding gaps, but those gaps argue for its elimination, not its continuance. If private entities are unwilling to risk their own money, it should serve as a warning sign that tax dollars shouldn't be exposed either.

Free-market conservatives aren't the only ones calling for an end to the Ex-Im Bank. In the past, our annual "Toward Common Ground" report, undertaken with the left-of-center U.S. Public Interest Research Group (U.S. Pirg), has advocated for the elimination of the Ex-Im Bank. While NTU and U.S. PIRG differ on the appropriate size and scope of the federal government, we were united in our belief that the bank is an anachronistic corporate welfare program that should be ended immediately.

Your legislation is an important opportunity to take a positive step toward smaller and smarter government by phasing out the Ex-Im Bank. NTU is pleased to endorse the "Export-Import Bank Termination Act," and urges all Members of Congress to co-sponsor the legislation.

Sincerely,

Nan Swift

Nan Swift
Federal Affairs Manager

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THE WALL STREET JOURNAL.

OPINION

End Corporate Welfare? Start With the Ex-Im Bank

The CBO says the bank will cost U.S. taxpayers $2 billion over 10 years on a fair-value basis.

By TIM PHILLIPS

June 15, 2014 5:52 p.m. ET

Here's a neat trick: Ask a room full of congressmen what they think of corporate welfare. The scene will devolve into competing campaign speeches, each politician trying to one-up their peers' rhetoric. Now ask that same room what they think of the federally run Export-Import Bank. You'll only hear crickets—even though the bank is one of Washington's biggest corporate-welfare cash cows.

Congress has a chance to rectify its inconsistency in September, when the Ex-Im Bank comes up for reauthorization. If they're honest, the politicians who decry corporate welfare will let the bank, which authorized $27.3 billion in loans and guarantees in 2013, expire.

Every time Congress debates the Ex-Im Bank's future, which last happened in 2012, defenders claim that it exists primarily to serve small businesses. The bank itself proudly proclaims this near the top of its annual reports. Yet research published in April by the Mercatus Center at George Mason University shows that the bank doles out the vast majority of its funds to America's biggest corporations. Last year, 10 companies—including giants like Boeing, General Electric and Dow Chemical —received roughly three-quarters of the bank's financial assistance for exports. A similar number of companies accounted for 97% of its loan guarantees by value, along with 97% of the bank's direct loans by value.

The Ex-Im Bank's benevolence toward major publicly traded companies and their shareholders leaves taxpayers on the hook. In 2006 the bank's financial exposure was close to $60 billion, according to the Mercatus Center. That number has ballooned to $134 billion today.

The bank's defenders argue that it repays every cent it hands out, and then some. The Ex-Im website says that it has "contributed $1.6 billion to the U.S. Treasury" over the past five years.

Independent analysts and other government agencies disagree. The Ex-Im-Bank uses the widely discredited accounting practices established by the 1990 Federal Credit Reform Act (FCRA). The Congressional Budget Office has cautioned that this accounting system "does not fully account for the cost of the risk" associated with loans and loan guarantees. Simply put, it is inferior to the "fair-value approach" used by private business.

This has enormous ramifications for the Ex-Im Bank's balance sheet. In a report released in May comparing the bank's accounting practices with fair-value accounting, the CBO concluded that for fiscal years 2015 to 2024, the "Ex-Im Bank's six largest programs would generate budgetary savings of $14 billion under FCRA accounting but cost $2 billion on a fair-value basis."

That's a $200-million-a-year hit for taxpayers for 10 years. But the real risk to taxpayers could be far worse. The Ex-Im Bank suffers from a number of serious internal issues—accounting and otherwise—that influence its financial well-being. The Government Accountability Office in 2013 found "weaknesses" in its exposure forecasting model. In 2012, the Office of the Inspector General noted that the Ex-Im Bank "lacks a systematic approach to identify, measure, price, and reserve for its portfolio risk." Last year the IG issued a report saying the bank's loan officers often failed to confirm "borrower eligibility and compliance with Ex-Im Bank credit policies and standards," check the "completeness of loan applications," and ensure that "due diligence reviews were completed and documented prior to loan approval."

These issues raise serious questions about whether the Ex-Im Bank's more than $207 billion in loans, guarantees, and insurance authorizations over the past 10 years—to say nothing of the authorizations before that—were based on sound financial data and proper vetting, rather than political pressure and lobbying efforts. Yet even if they were, it wouldn't change the fact that the bank serves a select few multinational corporations, boosting their bottom lines and shareholder dividends at the taxpayer's expense.

There isn't a politician in Washington who would support such blatant corporate welfare on the campaign trail. In September, let's hope they put their principles into practice and end the Export-Import Bank.

Mr. Phillips is president of Americans for Prosperity.

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[DISCUSSION DRAFT]

113TH CONGRESS
2D SESSION

H. R. ____

To [reauthorize the Export-Import Bank of the United States for 3 years, and for other purposes].

IN THE HOUSE OF REPRESENTATIVES

Mr. CAMPBELL introduced the following bill; which was referred to the Committee on ____________

A BILL

To [reauthorize the Export-Import Bank of the United States for 3 years, and for other purposes].

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS; REFERENCES.

(a) SHORT TITLE.—This Act may be cited as the "[Export-Import Bank Reauthorization Act of 2014]".

(b) TABLE OF CONTENTS.—The table of contents of this Act is as follows:

(c) REFERENCES.—Except as otherwise expressly provided in this Act, wherever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the amendment shall be considered to be made to a section or other provision of the Export-Import Bank Act of 1945.

SEC. 2. EXTENSION OF AUTHORITIES.

(a) GENERAL OPERATIONS.—Section 7 (12 U.S.C. 635f) is amended by striking "2014" and inserting "2017".

(b) EXTENSION OF AUTHORITY TO USE PORTION OF BANK SURPLUS TO UPDATE INFORMATION TECHNOLOGY SYSTEMS.—Section 3(j) (12 U.S.C. 635a(j)) is amended in each of paragraphs (1) and (3) by striking "2012, 2013, and 2014" and inserting "2012 through 2017".

(c) DUAL USE EXPORTS.—Section 1(c) of Public Law 103–428 (12 U.S.C. 635 note) is amended by striking "2014" and inserting "2017".

SEC. 3. LIMITATIONS ON OUTSTANDING LOANS, GUARANTEES, AND INSURANCE.

(a) REDUCTION OF LIMIT.—Section 6(a)(2) (12 U.S.C. 635e(a)(2)) is amended—

(1) in subparagraph (F)—

(A) by striking "fiscal year 2012 and each succeeding fiscal year" and inserting "each of fiscal years 2012 through 2015"; and

(B) in clause (ii)(III), by striking the period and inserting a semicolon; and

(2) by adding at the end the following:

"(G) during fiscal year 2015, $125,000,000,000;

"(H) during fiscal year 2016, $110,000,000,000; and

"(I) during fiscal year 2017, $95,000,000,000.".

(b) TEMPORARY INCREASE IN LIMIT IF NECESSARY; WAIVER AUTHORITY.—Section 6(a) (12 U.S.C. 635e(a)) is amended by redesignating paragraph (3) as paragraph (4) and inserting after paragraph (2) the following:

"(3) INCREASE IN APPLICABLE AMOUNT IF JUSTIFIED BY DECLINES IN UNSUPPORTED PRIVATE EXPORT FINANCING.—

"(A) IN GENERAL.—If, in a fiscal year, the Secretary of the Treasury determines that the aggregate dollar amount of export financing provided by private entities in the United States without any support from the Bank or the Overseas Private Investment Corporation has declined by at least 5 percent in each of the 2 calendar quarters, in or after fiscal year 2015, most recently preceding the date of the determination, the applicable amount otherwise in effect under this subsection during the remainder of the fiscal year shall be increased by $5,000,000,000.

"(B) WAIVER AUTHORITY.—Subparagraph (A) shall not apply with respect to a determination if the Secretary of the Treasury determines that so applying subparagraph (A) is not necessary to maintain stability in export finance markets.".

SEC. 4. REVIEW OF BANK PRODUCT PRICING AND CREDIT STANDARDS TO AVOID CROWDING OUT OF PRIVATE EXPORT FINANCE.

(a) FEDERAL RESERVE REPORT ON PRIVATE EXPORT FINANCE.—The Board of Governors of the Federal Reserve System shall submit to the Congress semiannual reports, in writing, on the terms and conditions (including interest rates, maturities, and credit standards) that apply in the provision of export finance by private financial institutions.

(b) BANK REPORT ON PRODUCT PRICING AND CREDIT STANDARDS.—The Bank shall submit to the Congress semiannual reports, in writing, on the steps taken by the Bank to adjust the pricing of products offered, and the credit standards used, by the Bank, to avoid crowding out private export finance.

SEC. 5. REINSURANCE AUTHORITY.

(a) IN GENERAL.—Section 2 (12 U.S.C. 635) is amended by adding at the end the following:

"(k) REINSURANCE AUTHORITY.—

"(1) IN GENERAL.—The Bank may—

"(A) make and carry out contracts of insurance or reinsurance, or agreements to associate or share risks, with insurance companies, financial institutions, any other persons, or groups thereof, and may employ any such entity, as appropriate, as an agent of the Bank, or act as an agent of any such entity, in the issuance and servicing of insurance, the adjustment of claims, the exercise of subrogation rights, the ceding and accepting of reinsurance, and in any other matter incident to an insurance business, except that such agreements and contracts shall be consistent with the objects and purposes of the Bank and shall be on equitable terms;

"(B) enter into pooling or other risk-sharing arrangements with multinational insurance or financing agencies or groups of such agencies;

"(C) hold an ownership interest in any association or other entity established for the purposes of sharing risks under investment insurance; and

"(D) issue, on such terms and conditions as the Bank may determine, reinsurance of liabilities assumed by other insurers or groups thereof in respect of insurance provided by the Bank.

"(2) RETENTION BY REINSURED OF PORTION OF LIABILITY.—All reinsurance issued by the Bank under this subsection shall require that the reinsured party retain for the account of the reinsured party specified portions of liability, whether first loss or otherwise.

"(3) LIMITATION.—The amount of reinsurance of liabilities under this Act which the Bank may issue shall not in the aggregate exceed at any one time an amount equal to $25,000,000,000.".

(b) PROGRESS REPORT.—Within 2 years after the effective date of this Act, the Export-Import Bank of the United States shall submit to the Congress a written report on the extent to which the Bank has exercised the authority provided in the amendment made by subsection (a) of this section, and the effects of doing so.

SEC. 6. STRENGTHENING OF BOARD OF DIRECTORS.

Section 3(c) (12 U.S.C. 635a(c)) is amended by adding at the end the following:

"(11) ESTABLISHMENT OF RISK COMMITTEE.—The Board of Directors shall establish a committee, composed of Board members, to monitor the financial risks assumed by the Bank.

"(12) BOARD APPROVAL REQUIRED BEFORE SUBMISSION OF REPORT TO CONGRESS.—An officer or employee of the Bank shall not submit to any committee, officer, or employee in the Legislative

Branch a report pertaining to the Bank, without the prior approval of the Board of Directors.

"(13) BOARD APPROVAL OF BUDGET AND ORGANIZATIONAL CHANGES.—The budget of the Bank shall not take effect without the prior approval of the Board of Directors. The duties, powers, and functions of a Vice President of the Bank may not be modified without the prior approval of the Board of Directors.".

SEC. 7. CHIEF RISK OFFICER.

Section 3 (12 U.S.C. 635a) is amended by adding at the end the following:

"(k) CHIEF RISK OFFICER.—

"(1) POSITION.—There is established in the Bank the position of Chief Risk Officer.

"(2) APPOINTMENT.—The President of the Bank, with the unanimous agreement of the Board of Directors, shall hire an individual to serve as the Chief Risk Officer.

"(3) DUTIES.—

"(A) IN GENERAL.—The Chief Risk Officer shall monitor the portfolio, underwriting, and other financial risks assumed by the Bank, and shall report directly to the risk committee established under subsection (c)(11).

"(B) ESTABLISHMENT OF PORTFOLIO SUB-LIMITS.—Within 1 year after the date of the enactment of this subsection, the Chief Risk Officer shall establish, and from time to time thereafter revise, sub-limits on the portfolio of the Bank based on geography, types of borrowers, types of suppliers, types of financial partners or counterparties, product lines, maturities of obligations, industries, and such other categories as the Chief Risk Office deems appropriate.

"(4) INDEPENDENCE FROM BANK BUSINESS ACTIVITIES.—The Chief Risk Officer and any staff assisting the Chief Risk Officer may not exercise any authority over the conduct of any business of the Bank.".

SEC. 8. MODIFICATION OF DEFAULT RATE CALCULATION.

Section 8(g)(1) (12 U.S.C. 635g(g)(1)) is amended by striking "a payment obligation" and inserting "any".

SEC. 9. APPLICANTS FOR BANK ASSISTANCE REQUIRED TO CERTIFY INABILITY TO OBTAIN CREDIT FROM THE PRIVATE SECTOR WITHOUT GOVERNMENT SUPPORT.

Section 2 (12 U.S.C. 635), as amended by section 5 of this Act, is amended by adding at the end the following:

"(i) APPLICANTS FOR BANK ASSISTANCE REQUIRED TO CERTIFY INABILITY TO OBTAIN CREDIT ELSEWHERE.—The Bank shall not guarantee, insure, or extend credit, or participate in an extension of credit in connection with a transaction, to an applicant who has not certified to the Bank that—

"(1) the applicant has sought, and has been unable to obtain, financing for the transaction without any support from the Overseas Private Investment Corporation or the Small Business Administration; and

"(2) if the transaction involves an aircraft, the applicant has sought, and has been unable to obtain, financing for the transaction in the capital markets through enhanced equipment trust certificates.".

SEC. 10. PILOT PROGRAM FOR AIRCRAFT EETC RISK-SHARING.

Notwithstanding section 2(l) of the Export-Import Bank Act of 1945, during the 3-year period beginning with the effective date of this Act, the Export-Import Bank of the United States may provide insurance, for an unlimited period, for tranches of enhanced equipment trust certificates issued with respect to a transaction involving an aircraft, for an applicant who is able to obtain financing in the capital markets for part of the transaction.

SEC. 11. PILOT PROGRAM FOR PRIVATE FINANCIAL INSTITUTION RISK-SHARING.

Section 2 (12 U.S.C. 635), as amended by sections 5 and 9 of this Act, is amended by adding at the end the following:

"(m) PRIVATE FINANCIAL INSTITUTION RISK-SHARING.—During fiscal years 2015 through 2017, the Bank may make available from the aggregate loan, guarantee, and insurance authority available to the Bank a total of not more than $1,000,000,000 for loans and guarantees made by private financial institutions for the export of goods or services from the United States, under which the first 5 percent of any loss, and 50 percent of any remaining loss, would be borne by the institutions.".

SEC. 12. LIMITATION ON RISK EXPOSURE FOR NEW LOANS.

(a) IN GENERAL.—Section 2 (12 U.S.C. 635), as amended by sections 5, 9, and 11 of this Act, is amended by adding at the end the following:

"(n) LIMITATION ON RISK EXPOSURE FOR LOANS.—The Bank may not make a loan unless another entity has provided the Bank with a guarantee that the other entity will pay the Bank any portion of 10 percent of the aggregate of the amounts payable to the Bank under the loan, that is not paid by the borrower when due.".

(b) LIMITATION ON AMOUNT OF OUTSTANDING LOANS.—Section 6(a)(1) (12 U.S.C. 635e(a)(1)) is amended to read as follows:

"(1) IN GENERAL.—The Export-Import Bank of the United States shall not have outstanding at any one time—

"(A) loans, guarantees, and insurance in an aggregate amount in excess of the applicable amount; or

"(B) loans in an aggregate amount in excess of 10 percent of the applicable amount.".

SEC. 13. MODIFICATION OF METHOD FOR CALCULATING THE EFFECTS OF BANK FINANCING ON JOB CREATION AND MAINTENANCE IN THE UNITED STATES.

The Export-Import Bank of the United States shall modify the methodology used by the Bank to calculate the effects of the provision of financing by the Bank on the creation and maintenance of employment in the United

States, by subtracting from the number of jobs created or maintained as a result of the provision of financing by the Bank, the number of jobs that would have been created had the Bank not provided the financing.

SEC. 14. ELIMINATION OF CERTAIN MANDATES.

(a) SMALL BUSINESS.—

(1) ELIMINATION OF POLICY MANDATES.—

(A) IN GENERAL.—Section 2(b)(1)(E) (12 U.S.C. 635(b)(1)(E)) is amended by striking clauses (v) through (vii) and redesignating clauses (viii) through (x) as clauses (v) through (vii), respectively.

(B) CONFORMING AMENDMENTS.—

(i) Section 2(h)(2) (12 U.S.C. 635(h)(2)) is amended by striking "(E)(x)" and inserting "(E)(vii)".

(ii) Section 3(f)(1)(D) (12 U.S.C. 635a(f)(1)(D)) is amended by striking "2(b)(1)(E)(x)" and inserting "2(b)(1)(E)(vii)".

(iii) Section 3(h)(2)(B)(i) (12 U.S.C. 635a(h)(2)(B)(i)) is amended by striking "2(b)(1)(E)(v) and (x)" and inserting "2(b)(1)(E)(vii)".

(iv) Section 8(c) (12 U.S.C. 635g(c)) is amended by striking "(E)(x)" and inserting "(E)(vii)".

(v) Section 8(f)(8) (12 U.S.C. 635g(f)(8)) is amended by striking "(E)(x)" and inserting "(E)(vii)".

(2) ELIMINATION OF REPORTING MANDATE.—Section 8(b)(2) (12 U.S.C. 635g(b)(2)) is amended by striking subparagraph (B) and redesignating subparagraphs (C) through (F) as subparagraphs (B) through (E), respectively.

(b) SUB-SAHARAN AFRICA ADVISORY COMMITTEE.—Section 2(b) (12 U.S.C. 635(b)) is amended by striking paragraph (9) and redesignating paragraphs (10) through (13) as paragraphs (9) through (12), respectively.

(c) RENEWABLE ENERGY.—

(1) ELIMINATION OF POLICY MANDATES.—

(A) IN GENERAL.—Section 2(b)(1) (12 U.S.C. 635(b)(1)) is amended by striking subparagraphs (C) and (K) and redesignating subparagraphs (D) through (J) as subparagraphs (C) through (I), respectively, and subparagraph (L) as subparagraph (J).

(B) CONFORMING AMENDMENTS.—

(i) Section 2(h) (12 U.S.C. 635(h)) is amended by striking "(E)(x) and (J)" and inserting "(D)(x) and (I)".

(ii) Section 3(f)(1) (12 U.S.C. 635a(f)(1)) is amended—

(I) in subparagraph (A), by striking "(E) and (I)" and inserting "(D) and (H)"; and

(II) in subparagraph (D), by striking "2(b)(1)(E)(x)" and inserting "2(b)(1)(D)(x)".

(iii) Section 3(g)(7) (12 U.S.C. 635a(g)(7)) is amended by striking "(E) and (I)" and inserting "(D) and (H)".

(iv) Section 3(h)(2)(B)(i) (12 U.S.C. 635a(h)(2)(B)(i)) is amended by striking "2(b)(1)(E)(v)" and inserting "2(b)(1)(D)(v)".

(v) Section 8(b) (12 U.S.C. 635g(b)) is amended—

(I) in paragraph (1), by striking "2(b)(1)(E)" and inserting "2(b)(1)(D)";

(II) in paragraph (2)(B), by striking "2(b)(1)(E)(vii)" and inserting "2(b)(1)(D)(vii)"; and

(III) in paragraph (2)(F), by striking "2(b)(1)(E)" and inserting "2(b)(1)(D)".

(vi) Section 8(c) (12 U.S.C. 635g(c)) is amended by striking "(E)(x) and (J)" and inserting "(D)(x) and (I)".

(vii) Section 8(f) (12 U.S.C. 635g(f)) is amended—

(I) in paragraph (1), by striking "2(b)(1)(E)" and inserting "2(b)(1)(D)"; and

(II) in paragraph (8), by striking "(E)(x) and (J)" and inserting "(D)(x) and (I)".

(2) ELIMINATION OF REPORTING MANDATE.—Section 8A(a) (12 U.S.C. 635g-1(a)) is amended by striking paragraph (5) and redesignating paragraphs (6) through (10) as paragraphs (5) through (9), respectively.

SEC. 15. LIMITATION ON PORTION OF TRANSACTION FOR WHICH SUPPORT MAY BE PROVIDED TO STATE-OWNED ENTERPRISES OF CERTAIN GOVERNMENTS.

Section 2(b) (12 U.S.C. 635), as amended by section 14(b) of this Act, is amended by adding at the end the following:

"(13) LIMITATION ON PORTION OF TRANSACTION FOR WHICH SUPPORT MAY BE PROVIDED TO STATE-OWNED ENTERPRISES OF CERTAIN GOVERNMENTS.—

"(A) LIMITATION.—

"(i) IN GENERAL.—The Bank shall not guarantee or extend (or participate in an extension of) credit in connection with a transaction with a state-owned enterprise of a foreign government if—

"(I) the foreign government has a sovereign wealth fund with a value of at least $100,000,000,000; and

"(II) the provision of the guarantee or the extension of credit would result in the Bank being obligated with respect to more than 30 percent of the amount of the transaction.

"(ii) SOVEREIGN WEALTH FUND DEFINED.—In clause (i), the term 'sovereign wealth fund' means, with respect to a government, an investment fund owned by the government, excluding foreign currency reserve assets, any asset held by a central bank for the execution of monetary policy, and any government-managed pension fund.

"(B) WAIVER AUTHORITY.—Subparagraph (A) shall not apply with respect to a transaction if the Secretary of the Treasury determines that an export credit agency of a foreign country is willing and able to supply financing for the transaction on terms that would hamper the ability of an exporter located in the United States to compete.".

SEC. 16. EXTENSION OF SUSPENSION OF SUPPLEMENTAL GUIDELINES FOR HIGH CARBON INTENSITY PROJECTS.

Notwithstanding section 7081 of division K of the Consolidated Appropriations Act, 2014, paragraph (4) of such section shall apply through September 30, 2017, with respect to the Supplemental Guidelines for High Carbon Intensity Projects approved by the Export-Import Bank of the United States on December 12, 2013.

SEC. 17. NEGOTIATIONS WITH EUROPEAN UNION TO REDUCE TRADE-DISTORTING EXPORT SUBSIDIES OF WIDE-BODY AIRCRAFT.

(a) IN GENERAL.—Section 11 of the Export-Import Bank Reauthorization Act of 2012 (12 U.S.C. 635a-5) is amended—

(1) by striking "and" at the end of paragraph (1);

(2) by striking the period at the end of paragraph (2)(C) and inserting "; and"; and

(3) by adding at the end the following:

"(3) with the European Union, on a bilateral basis, to reduce trade-distorting export subsidies of wide-body aircraft.".

SEC. 18. REDUCTION OF LIMITATIONS ON OUTSTANDING LOANS, GUARANTEES, AND INSURANCE IF FOREIGN EXPORT CREDIT REDUCTION IS SIMILAR TO EXPORT-IMPORT BANK EXPORT CREDIT REDUCTION.

(a) MONITORING OF CREDIT PROVIDED BY FOREIGN EXPORT CREDIT AGENCIES.—The Secretary of the Treasury shall monitor the aggregate lending volume of foreign export credit agencies that compete with the Export-Import Bank of the United States.

(b) REDUCTION OF LIMITATIONS IF FOREIGN EXPORT CREDIT REDUCTION IS SIMILAR TO EXPORT-IM-

PORT BANK EXPORT CREDIT REDUCTION.—If, within 2 years after the date of the enactment of this Act, the Secretary of the Treasury determines that the aggregate of the amounts loaned by, or the aggregate amount of outstanding loans, guarantees, and insurance provided by, foreign export credit agencies has been reduced by an amount similar to the amount by which the aggregate of the amounts loaned by, or the amount by which the aggregate amount of outstanding loans, guarantees, and insurance provided by, the Export-Import Bank of the United States has been reduced, then the applicable amount otherwise in effect under section 6(a) of the Export-Import Bank Act of 1945 for the then succeeding fiscal year shall be reduced by $2,500,000,000.

SEC. 19. EFFECTIVE DATE.

This Act and the amendments made by this Act shall take effect on October 1, 2014.

Export Import Strategies
7305 Boulevard 26
North Richland Hills, TX 76180
Phone: 817-519-4002
Fax: 817-605-7022

June 13, 2014

Maxine Waters c/o Daniel McGlinchey
Ranking Member
House Committee on Financial Services
U.S. House of Representatives

Dear Daniel McGlinchey,

I am writing at the request of Maxine Waters regarding our experience with Export-Import Bank.

Export Import Strategies Corporation is a full service export management company. We currently represent 161 North American manufactures with a product portfolio of over 6000 products. We offer these products to a network of well over 4000 buyers around the globe.

We work very hard and are in complete support of the current Administration's Presidential Executive Order NEI 13534 in doing our part to increase American Exports to further the efforts to repair our economy, help pay down the National Deficit and to help create American Jobs.

The role Export-Import Bank plays in the operations of what we are achieving is vital in securing the transactions that need to take place in some of the uncertain environments we operate in. Without this assistance, Export Import Strategies would not be able to conduct business with many regions of the world we currently do business in. Being able to insure shipments from foreign buyers gives our U.S. Manufacturers assurance that they will not suffer loss in the event of non-payment.

Export Import Strategies Corporation is in full support of the reauthorizations of this chapter and will do whatever is needed to voice this support.

If further assistance is needed, feel free to contact me at any time.

Respectfully,

Terry Stough
President/CEO
Export Import Strategies Corporation
817-519-4002 Ext. 130

GHP 25

GREATER HOUSTON PARTNERSHIP

June 24, 2014

The Honorable Al Green
United States House of Representatives
3003 South Loop West, Suite 460
Houston, TX 77054

Dear Congressman Green,

The Houston region continues to enjoy strong economic growth driven in large part by our export economy. In order to keep momentum, it is critical that Congress supports tools encouraging businesses to expand into new markets and create new jobs. The Export-Import (Ex-Im) Bank of the United States is one of these tools, and we ask you to support its reauthorization.

This letter represents strong support for the reauthorization of Ex-Im Bank by 14 chambers of commerce in the Houston region representing 10,951 companies and over 730,000 employees. As the voice of the business community across our region, we are directly connected to both small businesses and major corporations that use Ex-Im Bank to gain access to foreign markets and create jobs.

Ex-Im Bank plays a vital role in keeping our region globally competitive, and it is responsible for contributing $4 billion to total export sales in Texas in 2013. The value of foreign trade passing through the Houston region doubled over the last decade, and Houston now ranks as the 4th busiest export district in the U.S. for international trade. More than 76 percent of all Ex-Im Bank support in Texas for 2013 directly benefited the Houston region.

Small and medium-sized businesses in our region also benefit directly from Ex-Im. Small businesses account for nearly 85 percent of Ex-Im Bank's transactions; further, these transaction figures do not include the tens of thousands of small and medium-sized businesses that supply goods and services to large exporters using the Bank.

We trust you will carefully consider the impact Ex-Im Bank has on our region and our position as a global economic leader. As the collective voice of the business community in the region, we look forward to your support of the reauthorization of the Export-Import Bank of the United States.

Sincerely,

Bay Area Houston Economic Partnership
Baytown Chamber of Commerce
Brenham/Washington County Chamber of Commerce
Clear Lake Chamber of Commerce
Greater Beaumont Chamber of Commerce
Greater Houston Partnership
Greater Tomball Area Chamber of Commerce
Houston East End Chamber of Commerce
Houston Northwest Chamber of Commerce
Lake Houston Area Chamber of Commerce
League City Chamber of Commerce
Pearland Chamber of Commerce
West Chambers County Chamber of Commerce
Wharton Chamber of Commerce

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Houston, June 16, 2014

Ms. Maxine Waters
Ranking Member
House Committee on Financial Services
U.S. House of Representatives

Dear Ms. Waters

It has come to my attention that some doubt exists in your committee as to the value of Ex-Im Bank, having to face a lengthy battle every time its charter needs to be renewed. I don't know about other companies, but for us, an Presidential E-Award winning exporter which has been sending US products abroad for thirty five years, it is invaluable.

It is only thanks to the Bank that we get any financing at all; since our foreign accounts receivables are insured, then local banks are able to give us a line of credit. Without the insurance, we would not be in business. It is not that our customers are a bad risk, we collect 99%+ of what we invoice; in fact, in the more than fifteen years that we have been insured by Ex-IM Bank, we only had one claim, and a minor one at that. We have paid a lot more money in premiums than what we have gotten back, so at least with us the Bank has generated money for the Treasury.

Ex-Im Bank not only gives us peace of mind, it is an invaluable tool that we could not live without. We sincerely hope you see the value of this organization to the many companies who export our products, and not only renew this charter but make it so that the fate of the Bank is no longer questioned.

Sincerely,

Alfred Zorzi, MBA CM
President
Hallmark Sales Corporation

Editorial: No time for games: Export-Import Bank loans support American jobs, including Houston-area jobs (Houston Chronicle editorial)

Published June 25, 2014

Sometimes it's hard to tease out the ideological impetus fueling crusades from the far right. That includes the most recent push to eliminate the Export-Import Bank. Dallas-area Republican Jeb Hensarling, chairman of the House Financial Services Committee, announced his intention to kill the agency a couple of weeks ago. Last week, California Republican Kevin McCarthy, newly crowned House majority leader, announced his determined opposition, as well.

Short-sighted. Ill-advised. Unfortunate. Take your pick; all three adjectives apply.

When Fred Hochberg, head of the bank, visited the Chronicle editorial board not long ago, we assumed the work of his agency was so noncontroversial that Republicans and Democrats alike supported its efforts. After all, what could be wrong with an agency that supports American jobs, is self-sustaining and helps American companies, large and small, compete with companies in China and elsewhere, companies that have access to their own export credit agencies?

We were naive.

Hensarling and his congressional cohorts - including Houston-area GOP Reps. Ted Poe and John Culberson - insist that the 80-year-old federal agency is a propagator of corporate welfare. They claim that it primarily benefits corporate behemoths like Boeing and General Electric and that it puts the federal government in the position of playing favorites.

With the bank needing congressional authorization by Sept. 30 to remain in business, opponents see a chance to kill it off. The recent unexpected defeat of House Majority Leader Eric Cantor, a bank supporter, is likely to make their mission easier.

Hensarling has described the bank as the "poster child of the Washington insider economy and corporate welfare." Our view of the Export-Import Bank couldn't be more different. What we see is an agency that promotes exports by backing loans made primarily to foreign groups that want to buy American. And that's a good thing. Sometimes the loans are small, to relatively small businesses; sometimes they're large, to Boeing and other giant companies.

Large or small, Export-Import Bank loans support American jobs, including jobs in the Houston area. Bank officials told the Chronicle that its financing has supported $11 billion in export sales from the area since 2009, with $3.5 billion of that attributable to small businesses.

The bank also costs taxpayers nothing. It supports itself through the fees and interests it charges and regularly sends money to the U.S. Treasury to reduce the debt. As Hochberg noted when he was in Houston, the default rate is negligible.

The bank's future is dire, largely because its House opponents only have to do what they do best: Nothing.

Reauthorizing the Export-Import Bank requires passage of legislation to that effect. For Hensarling to move a bill out of his committee is, at this point, about as likely as a House vote to add the image of President Obama to Mount Rushmore.

****

EVERREST VALVE
COMPANY

MANUFACTURERS OF VALVES AND STRAINERS

June 13, 2014

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

The Honorable Maxine Waters and Committee Chairman Jeb Hensarling:

We are writing to you on behalf of Everest Valve Company located in Houston, Texas. We are a custom valve manufacturer which employs thirty-two people. Since September 2011, Everest Valve Company has been borrowing money from the Export-Import Bank of the United States to finance our customer's orders. Because we get paid only after delivery of the finished product, Everest Valve must find a way to finance our manufacturing process with borrowed money. Traditionally banks are reluctant to lend money on foreign receivables because of the difficulty involved in collecting payment in foreign countries. The Export-Import Bank is willing to accept this risk and lend us money to finance our large export projects. Even better, the bank has underwritten a short term multi-buyer export credit insurance policy to protect us against foreign customers who do not pay. Because of the Export-Import Bank's support, Everest Valve Company has successfully sold over five million dollars of American manufactured merchandise overseas, and we have another five million dollars in overseas orders in production.

We hope you share our testimonial with the House Committee on Financial Services and the United States House of Representatives and urge them to renew the Export-Import Bank's charter in September.

Thank you for listening to us,

Phillip R. Blest
President

Braja B. Das
Vice-President

P.O. Box 24295 • Houston, Texas 77229-4295 • 713-923-8696 • Fax 713-923-6270
Website: www.everestvalveusa.com • E-mail: info@everestvalveusa.com

Ricardo Rincon

2249 Ebony Ave. #6
McAllen, Texas. 78501
E-Mail: babyrivera3@msn.com

Tel: (956) 994-9744
Cell: (956) 534-2761

June 16, 2014

To: The Honorable Maxine Waters
Ranking Member
House Committee on Financial Services
U.S. House of Representatives

Re: Re-Authorization of the charter for the Export-Import Bank of the U.S.

Dear: Congresswoman Waters:

My name is Ricardo Rincon and I do business as Grafitec. My business is located in McAllen, Texas located just 7 miles from one of the fastest growing cities on the Mexico side of the border and 130 miles from Monterrey, Mexico which is a city of five million people and is known as the industrial heart of Mexico.

I have been in business for over 30 years now. My company exports consumables and equipment used in the Newspaper and Commercial paper industries. All the products I export are 100% made in the United States.

For 27 of those years I struggled and had miniscule growth due to the lack of financing; something which most small businesses are well acquainted with. Three years ago I finally approached the Export-Import Bank and secured a Credit Insurance Policy. With this document, I was able to obtain financing for my business. My sales increased by over 50% thanks to this financing.

Thousands of businesses like mine have benefited from the services the Export-Import Bank provides. They not only provide the Credit Insurance Policies, but their many seminars, publications and data bases related to potential export markets for American products insure that we can compete against anybody.

I write to you now in full support of your efforts to obtain re-authorization for the Export-Import Bank of the United States.

Sincerely,

Ricardo Rincon

SOUTH COAST PRODUCTS

P.O. Box 450109 • Houston, TX 77245
(713)225-0048 • Fax (713)229-8304 • 1-800-535-5823 USA & Canada

24 June 2014

Hon. Maxine Waters
Ranking Member
House Committee on Financial Services
U.S. House of Representatives

Dear Hon. Waters,

We are a small manufacturer in Texas that exports thread and valve lubricants, primarily to the oil and gas industry. We have used Ex-Im Bank's export credit insurance for 13 years. During that time, *our export business has grown by a factor of 15* because of the security offered by our policy with Ex-Im. Private insurance companies charge much higher premiums before the fact which are prohibitive to us as a small company. They also are pre-emptively exclusive in the customers they cover. Ex-Im's pay-as-you-go system has affordable premiums and it evaluates credit customers on a case-by-case basis. This allows us to offer credit terms to customers in parts of the world with active oil and gas development activities such as Indonesia, the Middle East and China.

Additionally, between Ex-Im and their commercial brokers, we have received tremendous support in developing our export business and learning how to discern good risks from poor risks. Ex-Im has strict rules covering invoice payment and availability of coverage. As a result, not only has our business grown, but we have not had to file a single claim in the 13 years that Ex-Im has covered our export credit accounts.

Please emphasize to your colleagues that Ex-Im Bank is not corporate welfare or a charity of any kind. It facilitates US exports, especially for small businesses like us, while supporting itself. Please do not let them put our livelihoods on the chopping block for their own political gain.

Respectfully,

Sharon Stratman

Sharon Stratman
South Coast Products
20 Southbelt Industrial Dr.
Houston, TX 77047
713 225 0048
713 229 8304 fax
sharons@socousa.com

Statement for the Record of
Linda Dempsey

Vice President, International Economic Affairs
National Association of Manufacturers

For the

House Financial Services Committee
Hearing on

"Examining Reauthorization of the Export-Import Bank: Corporate Necessity or Corporate Welfare?"

June 25, 2014

Chairman Hensarling, Ranking Member Waters and members of the Committee, thank you for the opportunity to submit this statement for the record. I am grateful for the chance to highlight the importance of supporting the U.S. Export-Import Bank to help manufacturers compete in the global marketplace.

The National Association of Manufacturers (NAM) is the largest manufacturing association in the United States, representing small and large manufacturers in every industrial sector and in all 50 states. Manufacturing employs nearly 12 million men and women, contributes more than $2.08 trillion to the U.S. economy in 2013, has the largest economic impact of any major sector and accounts for two-thirds of private-sector research and development. The ability of U.S. companies to export has always been a critical issue for the NAM, and exports are increasingly important to the U.S. economy and to the success of domestic manufacturing. Manufactured goods exports more than doubled between 2002 and 2013, reaching a record $1.38 trillion in 2013.

The NAM strongly supports Ex-Im Bank's mission to support U.S. jobs through exports and views the Bank as one of the most important tools the U.S. government has to help grow U.S. exports and jobs, which is now more important than ever to U.S. companies. Ex-Im is the only tool American manufacturers have to counter the estimated $1 trillion in export financing that other governments provide their exporters. Without Ex-Im Bank support, customers may turn to foreign competitors that have support from aggressive foreign export credit agencies to the detriment of U.S. industry and jobs. America's manufacturers and other employees cannot afford to be defenseless in today's global marketplace.

NAM member companies across the country, from large firms to small businesses, have turned to Ex-Im Bank to take advantage of new international trade opportunities and grow their workforce. Polyguard Products develops and produces materials in Ennis, Texas, for corrosion protection and water proofing of structures and infrastructure. Founded in 1952, Polyguard started to delve into exporting in 2005. Today, the company is trading with more than 30 countries a year and has experienced a 325 percent increase in total sales. Ex-Im Bank was able to mitigate one element of uncertainty in international trade, helping Polyguard cover the credit risk of exporting. Ampal Inc., with 45 employees in New Jersey and Pennsylvania, produces aluminum powders that are used in the manufacture of a variety of products in the automobile, aerospace, chemical and explosives industries. Ex-Im Bank's programs have enabled Ampal to expand into an international marketplace where they might otherwise not have had the working capital to do so. Lion Precision, a small company in Minnesota, has grown its exports to more than 50 percent of its sales. The company relies on Ex-Im Bank's receivables insurance to support those exports. Morrison Textile Machinery Company, a small family business in Fort Lawn, S.C., that manufactures dyeing and finishing capital machinery, depends on Ex-Im to regularly compete with other firms whose countries offer far more extensive support than the United States. These companies are just a snapshot of the many small businesses that have sought the assistance of Ex-Im Bank and reaped the benefits of expanded market access.

As new export opportunities emerge overseas, manufacturers in the United States can create American jobs. According to the latest figure from the U.S. Department of Commerce, every $1 billion increase in exports creates or supports an estimated 4,000 manufacturing jobs. Exports have a real impact, and that impact is strengthened through the work of Ex-Im Bank.

The Export-Import Bank is essential to boosting exports of U.S. products. In FY2013, Ex-Im was involved with 3,842 transactions that supported more than $37 billion in exports – leveraging about $27 billion in authorizations. Nearly 90 percent of those transactions directly supported small-businesses, with a total of $5.2 billion in support for more than 3,000 small business exporters. Furthermore, the Bank has maintained its incredibly low default rate of through the recession and through several years of record growth. At last measure, the Bank's default rate was less 0.3 percent.

The Ex-Im Bank's charter expires on September 30, 2014, and Congress must act quickly this year to extend its authorization. Reliable access to export financing is a vital part of being globally competitive, and the Ex-Im Bank has taken on even greater significance in today's turbulent financial environment. Exporters often face difficulty in obtaining credit and working capital, and overseas customers are financially stretched. Those customers will continue to place a high priority on favorable financial terms. Failure to reauthorize Ex-Im Bank would threaten the many American jobs that depend directly or indirectly on its crucial export financing.

Additionally, the Ex-Im Bank is the only tool American manufacturers have to counter the huge sums of export financing – many hundreds of billions of dollars – that other governments provide their exporters. Manufacturers in the United States face stiff competition from companies backed by the 59 other export credit agencies around the world, and Ex-Im Bank helps level the playing field so that manufacturers can compete on the merits of their products. If American manufacturers lose access to the Ex-Im Bank, our ability to compete globally will be severely curtailed. Companies large and small will be disadvantaged, and their customers may turn to foreign competitors that have support from aggressive foreign export credit agencies. America's manufacturers cannot afford to be defenseless in today's global marketplace.

I urge you to move swiftly on legislation that will provide a stable, long-term reauthorization for Ex-Im Bank. Thank you, Chairman Hensarling and Ranking Member Waters, for holding this hearing and for allowing me the opportunity to submit a statement for the record.

NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

Bruce W. Starr
Senator
Oregon
President, NCSL

Thomas W. Wright
Chief of Staff to Speaker
Alaska
Staff Chair, NCSL

William T. Pound
Executive Director

June 17, 2014

The Honorable John Boehner
Speaker of the House
United States Capitol H-232
Washington, DC 20515

The Honorable Harry Reid
Senate Majority Leader
United States Capitol S-221
Washington, DC 20515

The Honorable Nancy Pelosi
House Minority Leader
United States Capitol H-204
Washington, DC 20515

The Honorable Mitch McConnell
Senate Minority Leader
United States Capitol S-230
Washington, DC 20515

Dear Speaker Boehner, Majority Leader Reid, Minority Leader Pelosi & Minority Leader McConnell:

On behalf of the National Conference of State Legislatures (NCSL), we urge you to reauthorize the United States Export-Import (Ex-Im) Bank and increase its lending cap. It is essential that swift action takes place before the bank's current authorization lapses on September 30, 2014, or before the bank's lending authority is exhausted.

Ex-Im is a vital tool in providing financing assistance to American businesses to help them succeed and prosper in the global market. This assistance is especially important in light of foreign business competitors that benefit from significant financial support from their own governments. Without the assurance of continued funding for the Ex-Im Bank, U.S. businesses will be disadvantaged compared to their foreign competitors.

U.S. exporters have continually enjoyed strong partnerships between federal and state governments, particularly as they collaborate to foster opportunities for small and medium-sized American businesses to reach international markets. In particular, Ex-Im's City/State Partners Program has been a useful resource for state governments and state economic development agencies in identifying local businesses, markets, and trading partners for U.S. goods and businesses abroad. Currently, the City/State program partners with numerous economic development associations in 42 states, the District of Columbia and Puerto Rico. However, the usefulness of successful programs such as City/State would be threatened if Ex-Im's authorization or lending authority lapses.

American businesses cannot afford any uncertainty that a lapse in authorization or exhaustion of lending authority would be sure to bring. Either result would amount to an unstable situation for

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Website www.ncsl.org
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June 17, 2014
p. 2

current Ex-Im partners, prospective U.S. exporters, and creditors both in the U.S. and abroad. Growth in U.S. exports has helped contribute to positive job growth and economic recovery, but such gains may be easily mitigated or reversed without Congressional action. It is important that leadership in both the House and the Senate work together to develop a multi-year reauthorization with a significant lending cap increase and transparency mechanisms to ensure fiduciary soundness and protections for American businesses and workers. Short term stopgap measures would erode exporting confidence for American businesses, international markets, and creditors.

Thank you for your consideration of this important matter. If we can be of further assistance, you can contact NCSL staff Jon Jukuri (jon.jukuri@ncsl.org) and Ben Schaefer (ben.schaefer@ncsl.org) or call NCSL's D.C. office at (202) 624-5400.

Sincerely,

The Honorable Gary LeBeau
Connecticut Senate
Co-Chair, NCSL Labor & Economic Development Committee

The Honorable Brandt Hershman
Indiana Senate
Co-Chair, NCSL Labor & Economic Development Committee

Attached: NCSL Trade Policy Directive: *"Export Promotion, Export Finance and Trade Agreements"*

Cc: Members of the Senate Committee on Banking, Housing, and Urban Affairs
Members of the House Committee on Financial Services

June 23, 2014

TO THE MEMBERS OF THE UNITED STATES CONGRESS:

The undersigned 865 organizations from across the country are writing to urge your support for reauthorization of the U.S. Export-Import Bank (Ex-Im) before its charter expires on September 30. Ex-Im provides loans, loan guarantees and export credit insurance to help cover financing gaps for American exporters. It helps level the playing field for U.S. companies seeking new sales in fiercely competitive global markets.

Last year, Ex-Im supported $37 billion in exports that in turn sustained more than 200,000 American jobs at 3,400 companies. The Bank's support is especially important to small and medium-sized businesses, which account for nearly 90 percent of the Bank's transactions. Tens of thousands of smaller companies that supply goods and services to large exporters also benefit from Ex-Im's activities.

Not only does Ex-Im directly support American jobs, it operates at no cost to the U.S. taxpayer. Ex-Im charges fees for its services, follows rigorous accounting and risk-management standards and its loans are often backed by the collateral of the goods being exported. As a result, Ex-Im's default rate has consistently been less than two percent over the past eight decades, a default rate lower than commercial banks.

Failure to reauthorize Ex-Im would amount to unilateral disarmament in the face of other governments' far more aggressive export credit programs, which have provided their own exporters with an estimated $1 trillion in financing support in recent years. Export credit agencies in China, France, Germany, Brazil, and Korea have provided significantly more support for their exporters than Ex-Im has provided to U.S. exporters — in some cases, more than seven times what Ex-Im Bank has provided on an annual basis.

If Ex-Im is not reauthorized before September 30, American companies would be put at a unique disadvantage in global markets, resulting immediately in lost sales and lost jobs. U.S. businesses of all sizes would be deprived of a vital financing source at a time when boosting exports is increasingly vital to growing our nation's economy and jobs.

We urge you to support Ex-Im's swift reauthorization.

Sincerely,

National Groups

Aerospace Industries Association
Air-Conditioning, Heating, and Refrigeration Institute
American Apparel & Footwear Association
American Association of Exporters and Importers
American Chemistry Council
American Council of Engineering Companies
American Petroleum Institute
American Security Project
American Sportfishing Association
American Textile Machinery Association
Association and Society Management International, Inc.
BAFT - Bankers Association for Finance and Trade
Business Roundtable
Coalition for Employment Through Exports
Edison Electric Institute
Financial Services Roundtable
General Aviation Manufacturers Association
Irrigation Association
Motor & Equipment Manufacturers Association
National Association of Manufacturers
National Black Chamber of Commerce
National Council for Advanced Manufacturing
National Council of Farmer Cooperatives
National Council of Textile Organizations
National District Export Council
National Electrical Manufacturers Association
National Foreign Trade Council
National Grain and Feed Association
National Marine Manufacturers Association
National Small Business Association
National Waste & Recycling Association
Nuclear Energy Institute
Outdoor Power Equipment Institute
Satellite Industry Association
Small Business Exporters Association
SPI: The Plastics Industry Trade Association

National Groups (cont'd)
The Association For Manufacturing Technology
The National Industrial Transportation League
Treated Wood Council
U.S. Chamber of Commerce
United States Council for International Business

Alabama
Alabama World Trade Association
Baron Services
Birmingham Business Alliance
Business Council of Alabama
CentraLite
Chamber of Commerce Association of Alabama
Chamber of Commerce Huntsville/Madison County
Decatur - Morgan County Chamber of Commerce
el Toro Wines, LLC
Fagerman Technologies, Inc.
Global Growth Consulting
International Services Council of Alabama
McSweeney Holdings
Mobile Area Chamber of Commerce
Nidek Medical Products, Inc.
North Alabama International Trade Association
Process Equipment, Inc.
Revere Control Systems
Sprayroq Inc.
Total Airport Services, Inc.
Vulcan, Inc.

Alaska
Anchorage Chamber of Commerce

Arizona
Able Engineering & Component Services
Arizona Chamber of Commerce and Industry
Arizona Commerce Authority
Arizona District Export Council
Arizona Manufacturers Council
Arizona Technology Council
Buckeye Valley Chamber of Commerce
Chandler Chamber of Commerce
East Valley Partnership
Fedelta Partners
Gilbert Chamber of Commerce
Greater Flagstaff Chamber of Commerce
Greater Phoenix Chamber of Commerce
Greater Phoenix Leadership
Kiva Plastics, Inc.
Marana Chamber of Commerce
Mesa Chamber of Commerce
SUMCO Phoenix Corporation
Tempe Chamber of Commerce
Tucson Hispanic Chamber
Tucson Metro Chamber
Wickenburg Chamber of Commerce
Willcox Chamber of Commerce and Agriculture

Arkansas
Alliance Rubber
Arkansas District Export Council
Arkansas State Chamber of Commerce/Associated Industries of Arkansas
Greater Hot Springs Chamber of Commerce
Little Rock Regional Chamber of Commerce
Nexans AmerCable
Power Technology, Inc.
Rebounces
Rogers-Lowell Area Chamber of Commerce
World Trade Center Arkansas

California
Acura Spa Systems, Inc./Regal Spas Inc.
ALOM
Antelope Valley Board of Trade
Cal Truck Sales, LLC
California Chamber of Commerce
California Inland Empire District Export Council
California Manufacturers & Technology Association
Camarillo Chamber of Commerce
Cange International, Inc.
Cerritos Regional Chamber of Commerce
Chamber of Commerce Alliance of Ventura & Santa Barbara Counties
Chamber of Commerce of the Santa Barbara Region
CONNECT
District Export Council of Southern California
Fallingwater Consulting Group LLC
Filipino American Chamber of Commerce of San Diego County
Fireblast Global
Foreign Trade Association
Frontier Trading, Inc.
FTC Commercial Corp.
Fullerton Chamber of Commerce
Gateway Chambers Alliance
Global Green Development Group
GNI Watermann LLC
Goleta Valley Chamber of Commerce
Greater Conejo Valley Chamber of Commerce
Gruber Systems Inc.
Hayward Chamber of Commerce
Hueneme Chamber of Commerce
Huntington Beach Chamber of Commerce
Industry Manufacturers Council
Irvine Chamber of Commerce
K&N Engineering, Inc.
LAX Coastal Chamber of Commerce
Lodi Chamber of Commerce
Long Beach Area Chamber of Commerce
Los Angeles Area Chamber of Commerce

California (cont'd)
Los Angeles County Economic Development Corporation (LAEDC)
Los Angeles Metro Hispanic Chamber of Commerce
Los Kitos Produce, LLC
MicroCool
Newmark Grubb Knight Frank
Nimbus Water International
Noble House Entertainment Pictures, Inc.
Northern California District Export Council
Open Spectrum Inc.
Orange County Business Council
Orange County Technology Alliance
Oxnard Chamber of Commerce
Pacific Mercantile Bank
Palm Desert Area Chamber of Commerce
Palos Verdes Peninsula Chamber of Commerce
Paramount Chamber of Commerce
Parker Aerospace
Pasadena Chamber of Commerce
PLC International Consulting
Price Pump Company
Rabobank, N.A.
Redondo Beach Chamber of Commerce
Remedy Interactive
Riverside County Manufacturers & Exporters Association
Sacramento Center for International Trade Development
Sacramento Metropolitan Chamber of Commerce
San Diego & Imperial District Export Council
San Diego Regional Chamber of Commerce
San Francisco Chamber of Commerce
San Gabriel Valley Economic Partnership
San Jose Silicon Valley Chamber of Commerce
San Leandro Chamber of Commerce
San Marcos Chamber of Commerce
Santa Clara Chamber of Commerce
Seal Beach Chamber of Commerce
Simi Valley Chamber of Commerce
Soilmoisture Equipment Corp.
South Bay Association of Chambers of Commerce
South Orange County Economic Coalition
Southwest California Legislative Council
Space Systems/Loral
SpaceX
Steril-Aire, Inc
Torrance Area Chamber of Commerce (TACC)
TACC Government Affairs Policy (GAP) Group
Team China/California, LLC
Valley Industry & Commerce Association (VICA)
Ventura Chamber of Commerce
Vista Chamber of Commerce
Wells Fargo

Colorado
Accelerate Colorado
Ball Corporation
Colorado Association of Commerce & Industry
Colorado Space Coalition
Colorado Springs Regional Business Alliance
Colorado Technology Association
Denver Metro Chamber of Commerce
Golden Aluminum, Inc.
Hach Company
Holcombe Mixers
International Provider Services, Inc
Rocky Mountain District Export Council
San Anselmo Chamber of Commerce
WRT, LLC

Connecticut
Connecticut Business & Industry Association
Connecticut Technology Council
General Electric
Global Services, Inc.
MetroHartford Alliance
Middlesex County Chamber of Commerce
National Shooting Sports Foundation
Stanley Black & Decker, Inc.
Terex Corporation
United Technologies Corporation
Woodworking Machinery Industry Association

Delaware
Delaware State Chamber of Commerce
DuPont
Solar Energy Industries Association
World Trade Center Delaware

District of Columbia
Apollo Education Group
Bretton Woods Committee
Capitalize LLC
Delphos International
Information Technology Industry Council (ITI)
Kalorama Partners, LLC
McLarty Associates
Mid-Atlantic Hispanic Chamber of Commerce, Inc.
Samuels International Associates, Inc.
TechAmerica, Powered by CompTIA
The Agulhas Group LLC

Florida
Aero Industries
American Boat Builders & Repairers Association
Associated Industries of Florida
Bolivar Trading Inc
Bonita Springs Area Chamber of Commerce
Broward County Office of Economic and Small Business Development

Florida (cont'd)
C3 Business Information, Inc.
Central Florida District Export Council
Chamber of Commerce of the Palm Beaches
Dessau International Inc.
Doral Business Council
Economic Development Commission of Florida's Space Coast
Energy Equipment and Infrastructure Alliance
Florida Chamber of Commerce
Florida District Export Council
Florida Export Finance Corporation
Gainesville Area Chamber of Commerce
Greater Boca Raton Chamber of Commerce
Greater Miami Chamber
Greater Tampa Chamber of Commerce
Healthcare International Partners LLC
Hialeah Metal Spinning, Inc.
Homestead & Florida City Chamber of Commerce
JAX Chamber of Commerce
KC&MO Premium Products
Lakeland Area Chamber of Commerce
Latin America Connection
Manufacturers Association of Florida
Melbourne Regional Chamber of East Central Florida
MFZ Management Corporation
National Entrepreneur Center
North Miami Beach of Commerce
Orlando, Inc - Orlando Regional Chamber of Commerce
Parkwood Partners LLC
Pelican Wire Company
Ryder System, Inc.
South Florida Hispanic Chamber of Commerce
Space Age Coatings Concepts, Inc.
Sparks Media and Content Inc
Tampa Bay Trade and Protocol Council
The Manufacturing Consortium
The Miami-Dade Beacon Council
Unified Energy Solutions, Inc.
Versaci Group International, Inc.

Georgia
Acuity Brands Lighting, Inc.
AGCO Corporation
Agio Press Inc.
Barrow County Chamber of Commerce
Georgia Association of Manufacturers
Georgia District Export Council
Greater Rome Chamber of Commerce
International Trade Center, Georgia SBDC
Purafil
Seydel Companies
Smith, Currie & Hancock LLP
Unit Load Systems LLC

Hawaii
Chamber of Commerce of Hawaii
Hawaii Pacific Export Council
Insight interAsia LLC

Idaho
Boise Metro Chamber of Commerce
Dynamis Energy LLC
Hess Pumice Products, Inc.
Idaho Association of Commerce and Industry
Idaho District Export Council
Meridian Chamber of Commerce
PCS Edventures, Inc.
Pocatello-Chubbuck Chamber of Commerce
Post Falls Chamber of Commerce

Illinois
AHW LLC
Aqua-Aerobic Systems, Inc.
Arrow Gear Co.
BLS Enterprises, Inc.
Caterpillar Inc.
Chicagoland Chamber of Commerce
CNH Industrial
Crystal Lake Chamber of Commerce
Daubert Cromwell
Deere & Company
Forest City Gear
Greater Oak Brook Chamber of Commerce and Economic Development Partnership
Illinois Chamber of Commerce
Illinois District Export Council
Illinois Manufacturers' Association
International Trade Association of Greater Chicago
J.A.M. International Co., Ltd.
Lanco Trading
MB Financial bank
Medgyn Products, Inc.
Metals Service Center Institute
Micro Products Company
Murphysboro Chamber of Commerce
Naperville Area Chamber of Commerce
Navistar
Non-Ferrous Founders' Society
North American Die Casting Association
North American Tool
North Chicago Chamber of Commerce
NOW Health Group, Inc.
PolyBrite International
ProStuff
Quality Float Works, Inc.
Red Bud Industries, Inc.
Rust-Oleum Corp
Schaumburg Business Association
Summit Industries, LLC
Superior Graphite Co.

Illinois (cont'd)
Tenneco Inc.
The Boeing Company
The Toney Watkins Company
Trade Acceptance Group, Ltd.
Valley Industrial Association
Western DuPage Chamber of Commerce

Indiana
Cummins Inc.
Draper, Inc.
Greater La Porte Chamber of Commerce
Indiana Chamber of Commerce
Jeco Plastic Products
Remy International
St. Joseph County Chamber of Commerce
TOMAD International, Inc.
Wabash County Chamber of Commerce
Warsaw/Kosciusko County Chamber of Commerce

Iowa
Al-jon Manufacturing LLC
Clear Lake Iowa Chamber of Commerce
Eagle Iron Works LLC
Export Experts LLC
Iowa Association of Business and Industry
Iowa Business Council
Kent Corporation
Kuder, Inc.
Mason City Chamber of Commerce
Quad Cities Chamber of Commerce
Ruan Transportation Management Systems
Sukup Manufacturing Co.
Vermeer Corporation

Kansas
Bio Microbics
Black & Veatch
Mid-America District Export Council
Overland Park Chamber of Commerce
Smith & Loveless, Inc.
The Kansas Chamber
United Industries, Inc.
Wichita Metro Chamber of Commerce

Kentucky
Big Ass Solutions
Bluegrass Dairy and Food, Inc.
Christian County Chamber of Commerce
District Export Council of Kentucky and Southern Indiana
F. N. Sheppard & Co.
Givens International Drilling Supplies, Inc.
ISCO Industries, Inc.
Kentucky Association of Manufacturers
Kentucky Chamber of Commerce
Northern Kentucky Chamber of Commerce

Louisiana
Algiers Economic Development Foundation
Chamber Southwest Louisiana
Committee of 100 for Economic Development, Inc.
DSC Dredge, LLC
Greater New Orleans, Inc.
It Straps On, Inc.
Louisiana Association of Business & Industry
Minden-South Webster Chamber of Commerce
New Orleans Chamber of Commerce
Omni Industries
River Region Chamber of Commerce
World Trade Center New Orleans

Maine
Auburn Manufacturing, Inc.
Maine State Chamber of Commerce

Maryland
BTE Technologies, Inc.
Ellicott Dredge Enterprises
Lockheed Martin
Maryland Chamber of Commerce
Maryland/DC District Export Council
Mohammad Vossoughi CPA
Patton Electronics Company
T. Thomson & Associates, LLC
TradeMoves LLC

Massachusetts
Associated Industries of Massachusetts
Metro South Chamber of Commerce
The New England Council

Michigan
Acme Manufacturing Company
American Axle & Manufacturing
Carter Products Co., Inc.
Dearborn Area Chamber of Commerce
Detroit Regional Chamber of Commerce
DOW
Duperon Corporation
Jackson Area Manufacturers Association
Lansing Regional Chamber of Commerce
Michigan Manufacturers Association
Sebright Products, Inc.
Traverse City Area Chamber of Commerce
Zeeland Farm Services, Inc.

Minnesota
Aeration Industries International, LLC
Bauer's Hardware & Rental
Dakota County Regional Chamber of Commerce
EJ Ajax Metal Forming Solutions

Minnesota (cont'd)
Fargo Moorhead West Fargo Chamber of Commerce
Holmes Corporation
Lion Precision
Marshall Area Chamber of Commerce
MGK
Minnesota High Tech Association
PERMAC Industries
Solutions Technologies, Inc.
St. Cloud Area Chamber of Commerce
Twin City Die Castings Company

Mississippi
J.T. Shannon Lumber Co., Inc.
Mississippi Economic Council - The State Chamber of Commerce
Mississippi Manufacturers Association
Trinity Yachts

Missouri
Ace Manufacturing and Parts Co.
Associated Industries of Missouri
DuraComm Corp
Greater St. Charles County Chamber of Commerce
InterMark3, Inc.
Leggett & Platt, Incorporated
Missouri Association of Manufacturers
North American Equipment Dealers Association
Porta-King Building Systems
Pro Concepts Inc.
RAD-Planning
Scarbrough International Ltd.
Springfield Area Chamber of Commerce
St. Louis Regional Chamber
US International Foods LLC
Vektek, Inc.
World Trade Consult, LLC

Montana
Kalispell Chamber of Commerce
Montana Chamber of Commerce
Montana District Export Council
Montana Manufacturing Council

Nebraska
American Shizuki Corporation
Conductix Inc.
Hastings Area Chamber of Commerce
Nebraska Chamber of Commerce & Industry
Nebraska District Export Council
North Platte Chamber of Commerce and Development Corp
Preferred Popcorn LLC

Nevada
Carson Valley Chamber of Commerce
Click Bond, Inc.
District Export Council of Nevada
Interliance Capital, LLC
Las Vegas Metro Chamber of Commerce
Nevada District Export Council
Nevada Industry Excellence
Nevada Manufacturers Association
Sable Systems International
The Chamber of Reno, Sparks, and Northern Nevada
Toney Watkins Corporation
White Pine Chamber of Commerce

New Hampshire
Astronics AeroSat Corp.
Business and Industry Association of New Hampshire
Campus Compact for New Hampshire
Firebrand International LLC
Granite State District Export Council
iCAD, Inc.
NH International Trade Resource Center
Ransmeier & Spellman, P.C.
Welch Manufacturing Technologies, Ltd

New Jersey
Ampal,Inc.
Chamber of Commerce Southern New Jersey
Cozzoli Machine Company
Gateway Regional Chamber of Commerce
Global Business Dimensions Inc.
Global Commerce Education, Inc.
Honeywell
iDiverse Export Consultants
MIDJersey Chamber of Commerce
Morris County Chamber of Commerce
New Jersey State Chamber of Commerce
Pathfinder LLC
ResinTech Inc.
Unex Manufacturing Inc.
Weiss-Aug Co. Inc.
Worldwide Logistics Limited

New Mexico
Association of Commerce & Industry of New Mexico
Greater Albuquerque Chamber of Commerce
Lectrosonics, Inc.

New York
Adirondack Regional Chamber of Commerce
Albany-Colonie Regional Chamber
Alcoa
Audubon Machinery Corp
BioSand Bag Filter Co
Blank Rome LLP
Buffalo Niagara Partnership

New York (cont'd)
Central New York International Business Alliance
Constech Consulting
Corning Incorporated
Council of Industry of Southeastern New York
Environment One Corporation
Global Commerce Education
Herzfeld & Rubin PC
HSBC
IBM Corporation
MACNY - The Manufacturers Association
Manhattan Chamber of Commerce
New York District Export Council Inc.
New York Technology Council (NYTECH)
North Country Chamber of Commerce
Rochester Business Alliance
Sentry Group
SPX
The Chamber of Schenectady County
Toy Industry Association
Troup Environmental Alternatives LLC
Upstate New York District Export Council

North Carolina
Advanced Superabrasives Inc.
American Home Furnishings Alliance
Barnhardt Manufacturing Company
Charlotte Chamber of Commerce
Fayetteville Regional Chamber of Commerce
Greater Raleigh Chamber of Commerce
Greenville-Pitt County Chamber of Commerce
North Carolina Chamber of Commerce
North Carolina District Export Council
Power Curbers Inc.
Rocky Mount Cord, Co.
The Babcock & Wilcox Company
Thermcraft, Inc.
Volvo Group North America

North Dakota
Greater North Dakota Chamber of Commerce
Healthy Oilseeds, LLC
SB&B Foods Inc.
Spectrum Aeromed
WCCO Belting, Inc.

Ohio
Bannockburn Global Forex, LLC
Bard Manufacturing Company
Barsplice Products, Inc.
Best Practice Advisors
BriskHeat Corporation
Cauffiel Corporation
Cincinnati USA Regional Chamber
Columbus 2020
Columbus Chamber of Commerce
Dura-Belt, Inc.
Forging Industry Association
Glass Manufacturing Industry Council
Industrial Fasteners Institute (IFI)
Jet, Inc.
Jim Rowland & Associates
Lake County Chambers of Commerce
Law Offices of Jon P. Yormick Co. LPA
Miami Valley Marketing Group
Nordson Corporation
Northern Ohio District Export Council
NOSHOK, Inc.
Ohio Chamber of Commerce
Ohio Manufacturers' Association
Ohio Society of CPAs
Owens-Illinois, Inc.
Phoenix Products, Inc.
Precision Machined Products Association
The Ohio Manufacturers' Association
The Sisto Company II, LLC
Unverferth Manufacturing Company Inc.
Willoughby Western Lake County Chamber of Commerce
Wright Tool Company
Youngstown Warren Regional Chamber
Zaclon LLC

Oklahoma
CCK Strategies
Cushing Chamber of Commerce & Industry
Devon Energy Corporation
Duncan Chamber of Commerce & Industry
Frontier Electronic Systems Corp.
Heat Transfer Equipment Co.
Joshi Technologies International, Inc.
Mills Machine Co.
National Association of Government Guaranteed Lenders
Oklahoma District Export Council
Petroleum Equipment Company, Inc.
Stillwater Chamber of Commerce
The State Chamber of Oklahoma
Tulsa Regional Chamber

Oregon
Associated Oregon Industries
Columbia Bank
Pacific Northwest Waterways Association
Pacific Stainless Products, Inc.
Portland Business Alliance
R.J. Housman Trade Consulting
South Columbia County Chamber of Commerce
Technology Association of Oregon
The Chamber of Medford/Jackson County
Wilsonville Chamber of Commerce
Wm. H. Reilly & Co.

Pennsylvania
Action Manufacturing Company
Air Products and Chemicals, Inc.
Cardinal Resources Inc
Delaware County Chamber of Commerce
Erie Regional Chamber & Growth Partnership
Global Sales Initiatives
Greater Philadelphia Chamber of Commerce
Greater Pittsburgh Chamber of Commerce
Kingsbury, Inc.
Midatlantic Employers Association
Mobile Lifts, Inc
Northeast PA Manufacturers & Employers Association
PA Chamber of Business and Industry
Pennsylvania Business Council
Pennsylvania Chamber of Business and Industry
Pennsylvania Manufacturers' Association
PPG Industries, Inc.
Punxsutawney Area Chamber of Commerce
SB Global Foods Inc.
Schuylkill Chamber of Commerce
SKF USA Inc.
United States Steel Corporation
Westinghouse Electric Company
World Trade Center of Greater Philadelphia
Zippo Manufacturing Company

Rhode Island
Commerce Rhode Island
E2SOL LLC
Greater Providence Chamber of Commerce
John H. Chafee Center for International Trade at Bryant University
Materion Technical Materials
Northern Rhode Island Chamber of Commerce
Rhode Island Chamber of Commerce Coalition

South Carolina
AME, Inc.
American Shipping & Logistics Group
Be Green Packaging
Beacon Allied Resources, Inc.
Bridge to Life, Inc.
Charleston Metro Chamber of Commerce
Chester County Chamber of Commerce
Compass International Company Inc.
Customs Brokers & Freight Forwarders Association of Charleston, SC
Duer/Carolina Coil, Inc.
Greater Columbia Chamber of Commerce
Greater Summerville/Dorchester County Chamber of Commerce
Greenville Chamber of Commerce
Hilton Head Island-Bluffton Chamber of Commerce
Innovative Global Supply, LLC
John S. James Co.
Kershaw County Chamber of Commerce
Myrtle Beach Area Chamber of Commerce
Scout Boats
Shipco Transport
South Carolina Chamber of Commerce
South Carolina Manufacturers Alliance
South Carolina Ports Authority
Spartanburg Area Chamber of Commerce
Tri-County Regional Chamber of Commerce

South Dakota
Daktronics, Inc
Rosenbauer America, LLC
Sioux Corporation
Yankton Area Chamber of Commerce

Tennessee
Ace Pump Corporation
Bartlett Area Chamber Of Commerce
Chattanooga Area Chamber of Commerce
Classic American Hardwoods, Inc.
Cleveland/Bradley Chamber of Commerce
Control Technology, Inc
Gibson Brands, Inc.
Greater Memphis Chamber
Hermitage Hardwood Lumber Sales, Inc.
Johnson City/Jonesborough/Washington County TN Chamber
KB International LLC
Kingsport Chamber of Commerce
Knoxville Chamber
La Palma International, Inc.
Nashville Area Chamber of Commerce
Nucsafe Inc.
Quality Filtration, LLC
Tennessee Association of Manufacturers
Tennessee Chamber of Commerce & Industry

Texas
A&K Railroad Materials, Inc.
Afton Pumps, Inc.
Air Tractor, Inc.
Alternate Power Technology, LLC
Amegy Bank of Texas
American Loggers Council
Arlington Chamber of Commerce
Bay Area Houston Economic Partnership
Bay City Chamber of Commerce and Agriculture
Baytown Chamber of Commerce
Brownsville Chamber of Commerce
Busby Maintenance & Construction Company
Cameron International Corporation
Camino Real District Export Council
CB&I
Century Freight Corporation

Texas (cont'd)
Dalhart Area Chamber of Commerce
Dallas Regional Chamber
Deer Park Chamber of Commerce
Devasco International, Inc
Early Economic Development Corp
Economic Alliance Houston Port Region
Entrematic
Export Connector
Expotech USA, Inc.
Fluor
Fort Worth Chamer of Commerce
Frisco Chamber of Commerce
Fritz-Pak Corporation
Granbury Chamber of Texas
Greater Beaumont Chamber of Commerce
Greater Houston Partnership
Greater Irving-Las Colinas Chamber of Commerce
Greater Tomball Area Chamber of Commerce
Group Lamerica, L.L.C.
Halliburton
Headworks International Inc.
Houston District Export Council
Houston Northwest Chamber of Commerce
Howorth International, LLC
International Trade Center
JCM Industries, Inc.
Kingsville Economic Development Council
Lake Houston Area Chamber of Commerce
Lamesa Area Chamber of Commerce
Laredo Chamber of Commerce
League City Chamber of Commerce
Leeco Spring International, Inc.
Letter of Credit Collection.com
Longview Chamber of Commerce
Lubbock Chamber of Commerce
Lynxs Group
Materials Transportation Company
Mobil Steel International, Inc.
Myron F Steves & Company
North San Antonio Chamber
North Texas Commission
North Texas District Export Council
North Texas Gay Lesbian Bisexual Transgender Chamber of Commerce
North Texas Urban Services LLC
Odin Industrial, Inc.
Plano Chamber of Commerce
Polyguard Products
Ram Energy Inc.
REM Pipeline Consultants, LLC
San Antonio Hispanic Chamber of Commerce
San Antonio Manufacturers Association
Sealy Chamber of Commerce and Visitor Center
Seguin Area Chamber of Commerce
Sherman Chamber of Commerce
South Belt-Ellington Chamber of Commerce
South Padre Island Chamber of Commerce
South San Antonio Chamber of Commerce
Summit Financial Group, Inc.
Texas Alliance of Energy Producers
Texas Association of Business
Texas Association of Manufacturers
Texas Capital Bank
Texas City - La Marque Chamber of Commerce
Texas Independent Producers and Royalty Owners Association
Texas Oil and Gas Association
The Gabriela Noemi Smith Law Firm, PLLC
The Greater El Paso Chamber of Commerce
The San Antonio Chamber of Commerce
TOBIDA International Inc
TransNational ATM
United Risk Consultants
UTSA International Trade Center
Washington County Chamber of Commerce
West Chambers County Chamber of Commerce
West Texas District Export Council
Wharton Chamber of Commerce and Agriculture
Unitron

Utah
Alpine Technical Services, LLC
Davis Chamber of Commerce
Hycomp, Inc.
KOSMO Corporation
Lehi Area Chamber of Commerce
Rio Tinto
Salt Lake Chamber of Commerce
Sandy Area Chamber of Commerce
Utah Manufacturers Association

Vermont
Associated Industries of Vermont
Clear Lake Area Chamber of Commerce
Vermont Chamber of Commerce

Virginia
Altrius Group, LLC
Fulton Bank
Global Language Translation, Inc.
Greater Richmond Chamber of Commerce
Hampton Roads Chamber of Commerce
Infilco Degremont, Inc.
Markel Corp
Meridian Imaging Solutions
Optical Cable Corporation
Polaris Asset Corporation
Precision Tune Auto Care
R. K. Graves Associates
Strongwell
Team Askin Technologies, Inc.

Virginia (cont'd)
TMEIC Corporation
Towpath Group International, LLC
Virginia Chamber of Commerce
Virginia Manufacturers Association
Virginia Transformer Corporation
Virginia-Washington, DC District Export Council
Water and Wastewater Equipment Manufacturers Association

Washington
Advantage Environmental Technologies
Alpha Technologies, Inc.
Association of Washington Business
Auburn Area Chamber of Commerce
California Chrome Company
DiverseAmerica Network
Economic Alliance Snohomish County
First Sound Bank
Greater Pasco Area Chamber of Commerce
Greater Renton Chamber of Commerce
Greater Spokane Incorporated
Greater Yakima Chamber of Commerce
Greenwood Clean Energy, Inc.
Harlowe & Falk LLP
Hobart Machined Products Inc
Mason/Hull Associates Inc.
Moses Lake Chamber of Commerce
Pacific Continental Bank
Pacific Northwest Advisors, LLC
Port of Tacoma
Seattle Metropolitan Chamber of Commerce
Southwest King County Chamber of Commerce
Tacoma-Pierce County Chamber
Tri-City Regional Chamber of Commerce
Waddell & Reed
Washington Council on International Trade
Washington Retail Association
Washington Roundtable
Washington State District Export Council
World Logistics Inc.

West Virginia
Direct Online Marketing
West Virginia Manufacturers Association
Wheeling Truck Center

Wisconsin
Appleton Marine, Inc.
Beaver Dam Chamber of Commerce
CMD Corporation
Eau Claire Chamber of Commerce
ExportAble LLC
Fox Cities Chamber of Commerce & Industry
Greater Beloit Chamber of Commerce
HUSCO International
Metropolitan Milwaukee Association of Commerce
Middleton Chamber of Commerce
Modine Manufacturing Co.
Neenah Enterprises, Inc.
Oshkosh Chamber of Commerce
The Manitowoc Company, Inc.
Wisconsin District Export Council
Wisconsin Manufacturers & Commerce
Association of Equipment Manufacturers

Wyoming
Manufacturing-Works

March 19, 2014

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Hensarling & Ranking Member Waters:

The undersigned associations view the U.S. Export-Import Bank (Ex-Im), with its mission to provide competitive financing in order to create or sustain U.S. jobs, as one of the most important tools available to promote economic growth through exports. Accordingly, we strongly support the swift reauthorization of Ex-Im Bank. We would appreciate your efforts to expedite legislation to reauthorize the Bank before its authorization expires on September 30. Exports are more important than ever to U.S. manufacturers, and access to competitive export financing terms plays a vital role in securing overseas sales and facilitating exports.

During FY2013, Ex-Im Bank enabled more than $37 billion in export sales from more than 3,800 U.S. companies, supporting approximately 205,000 export-related American jobs. The Bank also set a record in its support of small business, approving more than 3,400 small business transactions. In fact, small business accounted for nearly 90 percent of the Bank's transactions last year.

Ex-Im Bank plays a vital role in leveling the global playing field by helping U.S. companies to offset some of the financing support that foreign competitors receive from their governments. In other cases, the Bank helps U.S. companies to secure new customers and increase market share in emerging markets. With the U.S. economy and export growth still improving slowly, it is vital that the United States maintain every tool we have to enhance the competitiveness of U.S. exporters in a very tough global economy.

Reliable access to export financing is vital part to U.S. competitiveness in global markets, particularly in today's unsettled financial environment. Overseas customers are financially stretched and U.S. exporters often face difficulties in obtaining credit and working capital – conferring a decisive advantage on exporters who can provide better financial terms.

Failure to reauthorize Ex-Im would amount to unilateral disarmament in the face of other nations' aggressive trade finance programs. For example, Germany and France extended roughly two and a half times as much official export financing (measured as a share of GDP) as Ex-Im Bank did in 2012. India provided nearly three times as much as the United States, and Korea ten times as much. Over the past six years, China has invested nearly three times as much in export credit financing as the United States in current dollars, and more than five times as much as a share of GDP.

Chairman Hensarling and Ranking Member Waters
March 19, 2014
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Without Ex-Im Bank acting as a "lender of last resort" to fill market gaps, many foreign customers may turn to non-U.S. suppliers that already have significant support from their own official export credit agencies. There are at least 59 other export credit agencies around the world, and many more that are aggressive in promoting their domestic companies and industries.

We urge you to move swiftly on legislation that will provide a long-term reauthorization for Ex-Im Bank and ensure it effectively fulfills its principal mission to support U.S. jobs through exports. Ex-Im Bank's policies and guidelines should enable the Bank to fill market gaps left by private sector lenders, be competitive with other export credit agencies, encourage appropriate risk management to facilitate sound transactions and avoid targeting a single sector or industry for punitive treatment.

Delaying Ex-Im Bank reauthorization would hurt U.S. manufacturers of every size and sector, threatening the export sales of thousands of U.S. companies and the security of hundreds of thousands of American jobs that depend directly or indirectly on the Ex-Im Bank's export financing. We appreciate your consideration, and we stand ready to work with you to expand America's exports.

American Chemistry Council
Aerospace Industries Association
Association of Equipment Manufacturers
Business Roundtable
Coalition for Employment Through Exports
Financial Services Roundtable
General Aviation Manufacturers Association
National Association of Manufacturers
National Foreign Trade Council
National Small Business Association
Nuclear Energy Institute
Satellite Industry Association
Small Business Exporters Association
TechAmerica
U.S. Chamber of Commerce
U.S. Hispanic Chamber of Commerce

Statement of the U.S. Chamber of Commerce

ON: **Reauthorization of the Export-Import Bank of the United States**

TO: **U.S. House of Representatives Committee on Financial Services**

DATE: **June 25, 2014**

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on issues are developed by Chamber members serving on committees, subcommittees, councils, and task forces. Nearly 1,900 businesspeople participate in this process.

The U.S. Chamber of Commerce is pleased to take this opportunity to strongly urge Congress to approve legislation reauthorizing the Export-Import Bank of the United States (Ex-Im) before its charter lapses on September 30. The Chamber is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations, and is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 20 million Americans are unemployed, underemployed, or have given up looking for work. As a nation, the biggest policy challenge we face is to create the millions of jobs needed in this decade to get these Americans back to work.

World trade must play a central role in reaching this job-creation goal. After all, outside our borders are markets that represent 80% of the world's purchasing power, 92% of its economic growth, and 95% of its consumers. The resulting opportunities are immense, and many Americans are already seizing them: One in three manufacturing jobs depends on exports, and one in three acres on American farms is planted for hungry consumers overseas.

In this context, Ex-Im is one of the most important tools at the disposal of U.S. companies to level the playing field as they seek to increase exports and create jobs. The benefits of its programs to the U.S. economy are plain: In fiscal year 2013, Ex-Im provided financing or guarantees for $37.4 billion in U.S. exports, thereby supporting more than 200,000 American jobs.

Ex-Im is especially important to U.S. small- and medium-sized businesses, which account for nearly 90% of Ex-Im's transactions. In fiscal year 2013, the Bank approved a record-high 3,413 small business authorizations. In addition to these direct beneficiaries, tens of thousands of smaller companies that supply goods and services to large exporters also benefit from Ex-Im's activities.

Underscoring this broad support, the Chamber joined with the National Association of Manufacturers on June 23 to release a letter signed by more than 800 companies of every size, sector, and state, as well as state and local chambers of commerce and industry associations, backing Ex-Im's reauthorization before September 30.

Competitiveness at Stake

Unilateral disarmament is rarely a good idea, but this is precisely what refusing to reauthorize Ex-Im beyond September 30 would accomplish. Sixty official export credit agencies (ECAs) maintained by foreign governments have extended more than $1 trillion in trade finance in recent years, according to the Organization for Economic Cooperation and Development (OECD). For the United States *not* to have an operating export-import bank would put U.S. exporters at an absolutely unique disadvantage.

In fact, these foreign ECAs typically provide much larger volumes of export financing than Ex-Im. German, French, and Korean ECAs extended two to ten times as much export financing — measured as a share of GDP — as Ex-Im did in 2012. The same year, Canada's equivalent of Ex-Im provided 30 times more export finance to its exporters than Ex-Im does to U.S. firms, relative to the size of its economy.

However, the competitive challenge is even more daunting in the developing world. ECAs in developing countries, which in most cases do not abide by the rules of the OECD Arrangement on Officially Supported Export Credits, provide far more export financing on much more generous terms than Ex-Im does.

This was especially pronounced during and immediately after the 2008-2009 financial crisis: In 2008, China's ECAs provided Chinese exporters seventeen times more export credit as a share of GDP than Ex-Im did. As late as 2010, Chinese and Brazilian ECAs provided ten times more financing to domestic exporters as a share of GDP than Ex-Im did. Even today, ECAs based in China, India, and Brazil far outpace Ex-Im in lending volumes.

Some critics contend that closing Ex-Im would set an example for others, or that negotiations could induce other countries to close their 59 ECAs. This is pure fantasy. In discussions at the OECD and in other fora, governments from Germany to China have shown zero interest in shuttering their ECAs. Even the conservative government of Canada, which is widely recognized for its free-market, free-trade approach to economic policy, has shown no interest in placing new limits on its ECA.

The fact that the Treasury has not been able to negotiate an agreement to wind down other countries' ECAs is not a valid reason to penalize U.S. exporters. U.S. companies produce many of the world's best goods and services but, without Ex-Im, they would often find themselves at an unfair disadvantage when competing with foreign enterprises backed by official export credit agencies.

Head to Head

Indeed, it is par for the course for Canadian planes, Chinese trains, and Russian nuclear reactors to be sold worldwide with unashamed backing from these firm's national export credit agencies.

For example, when Maryland-based Chindex sells U.S.-made medical equipment in the Chinese market, it absolutely needs Ex-Im. As Chindex Vice President for U.S. Operations Judy Zakreski explains, "If we lost access to Ex-Im loan guarantees, which helped us sell $85 million worth of medical devices in China over the past 15 years, we could not hope to compete with the vast financing available from European and Israeli ECAs. Chinese hospitals would have purchased equipment from other countries instead of medical devices made in America."

In another example, South African railway Transnet recently put out a bid for 466 diesel electric locomotives at a total contract price of $750 million. As is common in such bids, one requirement was that the supplier must finance a significant portion of the transaction.

Backed by aggressive export financing provided by China's export credit agency, Chinese locomotive manufacturers won half the order. In March, General Electric won the order for the other 233 locomotives but only because Ex-Im support was available to level the financial playing field. Without Ex-Im, GE would have lost the entire order — with real world consequences for workers at its Erie, Pennsylvania plant.

A Key Tool for Small Businesses

Looking at the real world experiences of small business exporters is instructive. To offer one example, João and Leah Simoes launched their aircraft parts distribution business, Davenport Aviation, Inc., shortly after the 2008-2009 financial crisis. Four years later, this Columbus, Ohio, company has seen tremendous growth and does business all over the world, from Colombia to Cape Verde.

Davenport Aviation's business depends on exports. "My husband, João, is originally from Brazil, and we both speak Portuguese. We began selling aircraft parts to Portuguese-speaking African countries, including Angola, Mozambique, and Cape Verde," explains Leah.

As business expanded, so did the company's payroll. Davenport Aviation expanded to nine employees in 2014, and its sales provide hundreds of employment opportunities to the American manufacturers from whom it purchases its products. "Besides Africa, we're making inroads into Asia, the Middle East, and South America. As we grow, we'll continue to add jobs," Leah explains.

Ex-Im has been central to Davenport Aviation's growth. Davenport sells everything from nuts and bolts to aircraft structures; for these expensive parts, Ex-Im's accounts receivable insurance gives Leah and João the backing they need to export pricey goods. In addition, Davenport Aviation has also opened up a line of credit with Ex-Im. Leah explains: "Cash lifecycles can be long when dealing with markets in developing countries — up to 120 days. Private banks simply do not offer a large enough line of credit to small companies such as ours that would let us fill our overseas orders."

These are the realities facing small businesses that export to developing countries: Private banks are often unable or unwilling to provide the financial services small companies need to be able to compete with foreign firms that enjoy backing from their own national ECAs. Without Ex-Im's accounts receivables insurance and lines of credit, firms such as Davenport Aviation would be unable to extend terms to foreign buyers and would have to ask for cash-in-advance. Simoes has a message for Congress: "Our business needs, uses, and has had great success with Ex-Im Bank. It's necessary for small business."

Operating at No Cost to the Taxpayer

Ex-Im operates at no cost to the American taxpayer and has amassed a loan-loss reserve that provides more than adequate protection against losses. Ex-Im loans expose the U.S. taxpayer to little risk as they are backed by the collateral of the goods being exported. Far from being a subsidy for corporations, Ex-Im charges fees for its services that have generated billions of dollars in revenue for the U.S. Treasury. Consider these facts, which are not in dispute:

- Ex-Im returned $1.057 billion to the U.S. Treasury after covering all its expenses in fiscal year 2013.
- Since 1990, Ex-Im has sent to the Treasury $6.7 billion more than it received in appropriations for program and administrative costs.
- Ex-Im's overall active default rate for the last quarter of fiscal year 2013 was less than one-quarter of one percent.

- Ex-Im has a $4 billion loan-loss reserve fund to cover any claims, more than meeting OMB requirements.

According to the Merriam-Webster Dictionary, a subsidy is "money that is paid usually by a government to keep the price of a product or service low or to help a business or organization to continue to function." Ex-Im provides no such subsidy to the private sector. On the contrary, it charges fees — which have risen in recent years — that more than cover its operating costs and regularly allow it to return funds dubbed a "negative subsidy" to the Treasury as noted above.

Some critics charge that Ex-Im picks winners and losers, skewing the marketplace. On the contrary, Ex-Im extends loans and guarantees to all applicants that meet its strict lending requirements but does so only when commercial credit is unavailable or when it is necessary to counteract below-market credit from foreign ECAs.

Ex-Im also acted to fill the void when the availability of private-sector trade finance fell by 40% during the 2008-2009 financial crisis. In the aircraft sector, a new 2011 multilateral agreement doubled the fees for export credit financing, thereby addressing the concern that some export credit financing was below market rates.

Rebutting CBO

Recently, the Congressional Budget Office (CBO) issued a report presenting cost estimates for Ex-Im's export finance programs using two different accounting methods. Using the accounting method required by current law, CBO estimated that Ex-Im's activities would generate budgetary savings of $14 billion between fiscal years 2015 and 2024. However, CBO estimated Ex-Im's programs would cost taxpayers $2 billion during this period under an alternative "fair-value" accounting method.

While critics opposed to Ex-Im's reauthorization seized on the report's alternative accounting method, the CBO did not look at Ex-Im's record. Indeed, as noted above, it is not in dispute that Ex-Im has imposed no cost on the American taxpayer or that it boasts an extremely low default rate and an ample loan-loss reserve.

Rather, the report made assumptions about Ex-Im's 2015 lending profile and extrapolated over a ten-year period to arrive at the $2 billion estimate. This approach is very different from examining Ex-Im's eight decades of real-world experience. There is every reason — from Ex-Im's rock-bottom default rate to its ample loan-loss reserve — to expect that it will continue to generate a "negative subsidy" for the Treasury (i.e., a profit).

The CBO report works from some questionable assumptions. For instance, it assumes Ex-Im will make $37.6 billion in loans per year. That's significantly more than most experts anticipate and well above recent lending, which has been declining as the financial crisis of 2008-2009 recedes. In fiscal year 2013, for example, Ex-Im authorized $27.3 billion in loans, down from its record high of $35.8 billion one year earlier. Moreover, in 2012, CBO released a similar report in which it estimated that Ex-Im would generate a "negative subsidy" for taxpayers even under the fair-value methodology. It is unclear what changed in CBO's approach.

Ex-Im's current accounting method follows the law, as laid out in the Federal Credit Reform Act (FCRA). Congress chose this approach, and has not adopted the fair-value method considered by CBO. This is one reason why the widely-respected Peterson Institute for International Economics recently issued an analysis debunking similar claims that Ex-Im somehow imposes hidden costs on the taxpayer.

Conclusion

As the campaign opposing Ex-Im's reauthorization continues, the narrow vision of the Bank's critics becomes clearer. None of them seems to be looking outside America's borders — or, for that matter, outside Washington.

The aforementioned letter signed by more than 800 companies of every size, sector, and state, as well as state and local chambers of commerce and industry associations, shows the breadth and depth of support for Ex-Im's reauthorization. With Americans overwhelmingly focused on the need to create jobs and grow our economy, business owners are perplexed by the inside-the-Beltway campaign against Ex-Im. In particular, the thousands of small businesses that depend on Ex-Im to be able to access foreign markets are stunned at the threat that Washington could let its charter lapse.

For those who support American industry and jobs, unilateral disarmament cannot be an option. Ex-Im does not skew the playing field — it levels it for U.S. exporters facing head-to-head competition with foreign firms backed by their own ECAs. Ex-Im doesn't pick winners and losers — but refusing to reauthorize Ex-Im is picking foreign companies as winners and U.S. exporters as losers.

Ex-Im's critics need to take a broader look at the global economy and the serious threats to U.S. industrial competitiveness — including in many national security-sensitive sectors. America's modestly-scaled, properly limited Ex-Im Bank plays a vital role in this context.

The Chamber appreciates the opportunity to submit this statement for the record. We are committed to working with Congress to secure Ex-Im's reauthorization before September 30.

International Association of Machinists and Aerospace Workers

9000 Machinists Place
Upper Marlboro, Maryland 20772-2687

Area Code 301
967-4500

OFFICE OF THE INTERNATIONAL PRESIDENT

June 24, 2014

Dear Representative,

As the largest North American union in both the airline and aerospace industries, the International Association of Machinists and Aerospace Workers (IAM) fully supports a full reauthorization of the U.S. Export-Import (Ex-Im) Bank that includes a multiyear reauthorization, an increase in the exposure cap, and a continuation of the strong job creating domestic content provisions. Attempts to weaken the Ex-Im Bank's ability to support thousands of aerospace jobs critical to our nation's economy must be rejected.

We are dismayed by the spurious objections from the Ex-Im Bank's opponents. We can only conclude that opposition to a highly successful government program that provides valuable financing for the purchase of U.S. made products, supports over 200,000 American jobs, and helps to reduce both the trade and federal deficit without cost to the taxpayer, can only be based on ideological grounds. We know that some believe that the government can do nothing right and that the continued success of the Ex-Im Bank challenges the ideological based assumptions of these opponents of the Ex-Im Bank.

The Ex-Im Bank is the only federal institution that makes it possible for U.S. manufacturers and workers to compete fairly with our global competitors in Europe and Asia, particularly in the aerospace industry, one of the last sectors in which the U.S. enjoys a positive balance of trade with the rest of the world.

The Ex-Im Bank's mission is " to assist in financing the export of U.S. goods and services to international markets", enabling "large and small companies to turn export opportunities into real sales that help to maintain and create U.S. jobs and contribute to a stronger national economy". Historically, the Ex-Im Bank's mission is directed at facilitating exports that support U.S. jobs, and not in balancing the interests of U.S. exporters against the interests of an airline like Delta, which, it should be noted, has also availed itself of Ex-Im Bank financing.

Some have claimed that Delta lost out on the New York to Mumbai route to Air India because of the Ex-Im Bank's help in financing a "flood" of an American made Boeing 777 aircraft. It should be noted that Air India flies one daily flight between New York (JFK) and Mumbai. That numbers rises to two flights per day if Newark is included. This hardly constitutes a "flood" of aircraft. What is missing from the "flood" analogy is the acknowledgement that if Air India is prevented from utilizing Ex-Im Bank financing for the purchase of Boeing aircraft, then it has only one other company to purchase long-haul aircraft from, Boeing's European competitor, Airbus, which would provide financial support from a European export financing authority. Consequently, Air India would still be flying the same routes—only with European produced wide body aircraft produced by European workers and Delta's competitive position would be unchanged.

Simply stated, U.S. airline workers have not been hurt by the use of Ex-Im Bank financing by foreign airlines, and, as the largest union in the airline industry, the IAM would never support government policies that would harm our members at U.S. airlines.

If the small number of organizations that want to stifle Ex-Im Bank's ability to support U.S. workers were truly interested in supporting U.S. workers, they would argue that the Ex-Im Bank's rules be changed so that it could be permitted to assist U.S. airlines in the purchase of domestically produced aircraft. Sadly, it seems that these isolated groups may be more interested in destroying one of the U.S. government's most effective tools for spurring export growth and creating American jobs by pursuing language in the Ex-Im Bank reauthorization that could lead to the elimination of export financing for aircraft.

Additionally, it is disingenuous to claim to support a robust manufacturing industry and at the same time press for legislation that would undermine the Ex-Im Bank's ability to simply provide loan guarantees for the sale of U.S. manufactured aircraft, including wide-body aircraft. If the Bank is hindered, or prevented from supporting the export of aircraft made by U.S. workers, then U.S. workers, the communities where they live, and our nation's economy will lose—and lose big. Valuable jobs will be lost as foreign airlines purchase aircraft made from global competitors whose governments' willingly provide financing.

According to the U.S. Chamber of Commerce, small businesses make up 87 percent of Ex-Im Bank transactions. If the Ex-Im Bank is prevented from supporting U.S. manufacturers, thousands of additional American jobs will be lost as U.S. companies ship more production work abroad where they can take advantage of the financing provided by other countries' export credit agencies—financing that they would have preferred to obtain from the Ex-Im Bank.

Efforts to eliminate export credit financing with all export credit agencies in OECD and non-OECD countries presumes that these countries are like the U.S. and rely solely on export credit to support exports. Without Ex-Im Bank financing, the U.S aerospace industry will be at severe disadvantage as European and non-European competitors would continue supporting their companies through their comprehensive industrial policies. Lastly, as China's export credit agency grows dramatically, why would we want to eliminate one of the only effective tools the U.S. has to compete with China?

Similarly, attempts to weaken the Ex-Im Bank's domestic content requirements are dangerous and misguided. Greater domestic content means that a greater percentage of the product for export is made here in the U.S. by American workers. If anything, the Ex-Im Bank's domestic content requirement should be strengthened. Multinational corporations that seek to lower domestic content requirements are the same corporations that have shifted thousands of production jobs outside of the U.S.

America's global competitors know that exports, and particularly aerospace exports, are vital to a strong economy and have repeatedly demonstrated a resolve to provide all necessary means of support to enhance export growth. Now is not the time for America to unilaterally disarm and surrender one of our last remaining engines of export growth, the aerospace industry. The Ex-Im Bank needs to be fully reauthorized with its exposure cap at adequate levels. It also needs to be reauthorized without language limiting its ability to support any manufacturing industry, including aerospace, and without damaging language that could lead to weakening its domestic content requirements.

If you have any questions, please contact Legislative Director Hasan Solomon at (301) 967-4575.

Sincerely,

R. Thomas Buffenbarger

R. Thomas Buffenbarger
International President

INTERNATIONAL FEDERATION OF
PROFESSIONAL & TECHNICAL ENGINEERS
AFL-CIO & CLC

501 3rd Street, NW, Suite 701, Washington, DC 20001
202-239-4880 • FAX 202-239-4881 • www.ifpte.org

June 23, 2014

Dear Representative,

As President of the International Federation of Professional and Technical Engineers (IFPTE), I am writing in support of the reauthorization of the Export-Import Bank. As a member of the House Financial Services Committee, and in anticipation of Wednesday's hearing on this matter, IFPTE felt it important to weigh-in with you directly regarding the importance of this issue to American workers.

As a union representing over 24,000 engineering and technical workers employed in the aerospace industry, IFPTE is keenly aware of the Export-Import Bank's simple and explicit mission: to support American jobs through increased exports. The mission of the bank ensures American workers, along with American industries, benefit from Export-Import Bank investments. In this day and age of offshoring American work across the globe to the cheapest bidder, it is important now more than ever to support a clean reauthorization that will actually help keep and grow jobs here in the United States. To add icing to the cake, it will not cost American taxpayers a penny because it is a fully self-sustaining entity.

The Export-Import Bank will help in opening the door to increased domestic exports, including American made airplanes built by Boeing workers. This is obviously essential in sustaining America's number one export, commercial aircraft, while bolstering good paying and highly skilled U.S. jobs here at home. In addition to aerospace manufacturing many other American industries will also benefit from this reauthorization. In fact, the Export-Import Bank has responded to concerns previously expressed by legislators by working aggressively to extend its services to small and medium sized businesses, and through reviews and audits by the Government Accountability Office (GAO), internal and external auditors.

It is our understanding that there is an effort by some in the domestic airline industry to limit the Bank's underwriting authority. For example, Delta Airlines – an opponent of a clean reauthorization - receives export assistance from other countries for some of its airplanes. IFPTE cautions Congress to be dubious of such efforts. If Delta wants the United States to reduce export assistance, perhaps they should lead by example with respect to their own purchasing decisions. Simply stated, limiting the Export-Import Bank would frustrate foreign industry's attempts to purchase American made goods and result in significant job losses for American manufacturing workers.

Extending the lending authority of the Export-Import Bank is a responsible and sound reinvestment in the American workforce, and IFPTE urges the House Financial Services Committee to move quickly in passing a responsible reauthorization bill similar to that being sponsored by Washington Congressman, Denny Heck.

Thank you for your consideration. Should you have any questions please contact IFPTE Legislative Director, Matt Biggs, at (202) 239-4880.

Sincerely,

Gregory J. Junemann

Gregory J. Junemann,
President

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

815 Sixteenth Street, N.W. • Washington, D.C. 20006 • (202) 637-5000 • www.aflcio.org

LEGISLATIVE**ALERT**

June 24, 2014

Dear Representative:

The AFL-CIO strongly urges you to support the reauthorization of the Export-Import Bank. This vital institution has a decades-long track record of success in supporting United States exports, jobs, and economic competitiveness.

In a highly-globalized economy filled with foreign firms striving to capture market share held by U.S. firms, often with the assistance of targeted public polices, and often acting through state-owned or state-supported enterprises, the Export-Import Bank helps level the international playing field.

Maintaining and increasing exports of manufactured products, agricultural goods, and services is a key growth strategy for the U.S. economy. At a time when job growth has been anemic at best, failing to reauthorize the Bank would do irreparable harm to the U.S. economy and would jeopardize the economic future of thousands of American families.

The activities of the Export-Import Bank support the national interest of the United States, our international competitiveness and the economic wellbeing of citizens in every state. The Bank should be reauthorized without delay.

Sincerely,

William Samuel, Director
Government Affairs Department

MARITIME TRADES DEPARTMENT

AMERICAN FEDERATION OF LABOR and CONGRESS OF INDUSTRIAL ORGANIZATIONS

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MICHAEL SACCO
PRESIDENT

SCOTT A. WINTER
VICE PRESIDENT

DANIEL W. DUNCAN
EXECUTIVE SECRETARY-TREASURER

June 24, 2014

Dear Representative:

On behalf of the 21 international unions (with membership of more than 5 million working men and women) affiliated with the Maritime Trades Department, AFL-CIO, we seek your support for the reauthorization of the U.S. Export-Import Bank.

The Export-Import Bank is a valued source for decent American jobs within the U.S-flag merchant fleet. Cargo generated by Ex-Im Bank funding must be transported aboard U.S.-flag vessels. This means tens of thousands of jobs for American citizens throughout the country. These ships and their crews are a vital part of our country's national security. They are a portion of the fleet that meets Defense Department national security requirements. U.S.-flag vessels crewed by American citizen mariners delivered more than 90 percent of the equipment and supplies to our troops in Iraq and Afghanistan.

In addition to its support of the U.S. Merchant Marine, the Export-Import Bank has supported 1.2 million American jobs overall since 2009 according to numbers provided by the Bureau of Labor Statistics.

The Export-Import Bank does not cost American taxpayers a cent. It covers its activities through the fees and interest charged for its services. In fact, it has returned money to the U.S. Treasury that has been used to reduce the national debt.

Finally, support for the Ex-Im Bank is one issue where labor and business see eye-to-eye as its reauthorization is backed by the U.S. Chamber of Commerce.

The Maritime Trades Department, AFL-CIO thanks you for your consideration to support the reauthorization of the Export-Import Bank.

Sincerely,

Michael Sacco

Michael Sacco
President

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E. James (Jim) Ferland
President & Chief Executive Officer

July 2, 2014

The Honorable Jeb Hensarling
Chair
Financial Services Committee
United States House of Representatives
2170 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Financial Services Committee
United States House of Representatives
B360 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters:

I am writing to express The Babcock & Wilcox Company's (B&W) support for reauthorization of the U.S. Export-Import Bank (Ex-Im) before its charter expires on September 30, and to ask your consideration of one additional policy adjustment to the banks operations.

For more than 145 years, B&W has been dedicated to developing and producing innovative energy products for the advancement of American industry and national security. B&W's expertise includes nuclear, renewable, waste-to-energy and fossil fuel fired power generation technologies and employs over 12,000 workers across the world. Headquartered in Charlotte, NC, B&W's commitment to advancing clean power technologies is rivaled only by its dedication to ensuring these same technologies are helping to bolster and maintain our country's national security.

I would especially call your attention to the Ex-Im Bank restriction on financing coal projects. This is an unfair barrier that keeps us from competing to win work in the growing market for clean coal technologies worldwide. After decades of investment by B&W to produce the best clean combustion technologies in the world, policies like this technology ban only serve to ensure that technology leadership in this sector is transferred to other nations. Members of Congress should find areas of agreement in preserving the Bank's important mission while protecting a true "all of the above" energy policy and eliminate this barrier.

As foreign competition grows, the Bank's services are leveling the playing field and enabling U.S. businesses to benefit from a growing export business. For instance, bringing national finance to any power plant project is often a pre-condition to bid and if there were no Ex-Im Bank, B&W would effectively be excluded from many new business opportunities.

Historically supported by both sides of the political aisle, the Bank is a fundamental driver of American business and ultimately supports our reviving economy. This past year, the Bank sent more than $1 billion in revenue to the U.S. Treasury. Supporting thousands of jobs at no cost to the tax-payer, the Ex-Im Bank is a critical tool for companies of all sizes as they embark upon the global marketplace.
Last year, Ex-Im supported $37 billion in exports that in turn sustained more than 200,000 American jobs at 3,400 companies.

Failure to reauthorize Ex-Im would amount to unilateral disarmament in the face of other governments' far more aggressive export credit programs, which have provided their own exporters with an estimated $1 trillion in financing support in recent years. Export credit agencies in China, France, Germany, Brazil, and Korea have provided significantly more support for their exporters than Ex-Im has provided to U.S. exporters — in some cases, more than seven times what Ex-Im Bank has provided on an annual basis.

If Ex-Im is not reauthorized before September 30, B&W and other American companies would be put at a unique disadvantage in global markets, resulting immediately in lost sales and lost jobs. U.S. businesses of all sizes would be deprived of a vital financing source at a time when boosting exports is increasingly vital to growing our nation's economy and jobs.

We urge you to support Ex-Im's swift reauthorization.

Sincerely,

E. James Ferland
President & CEO

Testimony for the Record
Marvin S. Fertel
President and Chief Executive Officer
Nuclear Energy Institute

Committee on Financial Services
U.S. House of Representatives

June 25, 2014

The Nuclear Energy Institute[1] (NEI) appreciates the opportunity to provide testimony on the reauthorization of the Export-Import Bank of the United States ("Ex-Im Bank" or "the Bank").

Ex-Im Bank is one of the most important tools available to promote U.S. nuclear energy exports to the large and growing global market. When a U.S. supplier wins a major nuclear power plant tender, it establishes relationships that can endure for decades through the supply of fuel, equipment and services.

Beyond their substantial benefits to U.S. exports and job creation, U.S. nuclear exports promote nuclear safety, security and nonproliferation. Further, they enable U.S. partners to protect their energy security interests through diversification of energy technologies and supply relationships.

With Ex-Im Bank support, U.S. nuclear energy suppliers can compete for and win key international nuclear energy tenders, and advance these multiple U.S. national interests. Accordingly, we strongly support the swift reauthorization of Ex-Im Bank that ensures its long-term viability with a sufficient lending cap that enables strategic nuclear energy exports to proceed.

U.S. Nuclear Exports Promote Multiple National Interests

U.S. commercial nuclear exports provide the United States with substantial influence over other nations' nonproliferation policies and practices, and help to ensure the highest possible levels of nuclear power plant safety and reliability around the world. U.S. commercial nuclear exports also maintain U.S. leadership in nuclear energy technology and support the U.S. manufacturing base.

Nuclear energy supply arrangements enable the United States to promote the energy security interests of its partners through diversification of technologies and suppliers. Overreliance on Russian energy supply, in particular, has proved to be a significant energy security risk for certain U.S. partners in Europe. Russia's growing presence in the global nuclear energy market poses a similar risk to Russia's dominance in oil and gas markets.

Russia has a made a strategic priority of capturing a larger share of the global nuclear energy market.[2] With a target of 70 percent growth in nuclear energy exports by 2020, Russia aims to

[1] NEI is responsible for establishing nuclear industry policy on matters affecting the nuclear energy industry, including regulatory, financial, technical and legislative issues. NEI members include all companies licensed to operate commercial nuclear power plants in the United States, nuclear plant designers, engineering/construction firms, fuel facilities, and other organizations and individuals involved in the nuclear energy industry.

increase export revenue while also strengthening its overall position as an energy supplier.[3] Russia uses its supply of nuclear energy, like its supply of oil and gas, to ensure long-term relationships with the countries that rely on it. Even without financing, Rosatom, Russia's state-owned nuclear supplier, has multiple advantages over U.S. nuclear companies – including consolidated supply of all nuclear technology, equipment and services, and the ability to take back used fuel. Rosatom is currently building 19 reactors around the world.[4]

Ukraine provides a vivid example of the market power that Russia can achieve in the energy market – and not just as a supplier of natural gas. Russia has also supplied Ukraine with virtually all of the fuel and services required by its fleet of 15 Russian-designed nuclear power plants. These plants generate about half of Ukraine's power, with the balance generated mostly using Russian gas.

Russia is aggressively seeking to expand its nuclear supply within Europe and worldwide. Recent nuclear energy deals with Hungary and Finland will increase the influence that Russia already wields as a result of its supply of natural gas to those nations. Nuclear supply arrangements that Russia is pursuing with the United Kingdom and the Czech Republic would do the same. Outside Europe, Russia is aggressively seeking to extend its influence through nuclear supply to the strategically important regions of Asia (two plants on order in Vietnam) and the Near and Middle East (one plant planned in Jordan, two plants on order in Turkey).

U.S. Nuclear Energy Suppliers Compete Against Nations

U.S. suppliers of nuclear technology, equipment and services compete against a growing number of foreign firms – many of which are state-owned and benefit from various forms of state support. All foreign nuclear energy competitors are backed by national export credit agencies or other state financing.

On a level playing field, U.S. nuclear energy suppliers can compete and win. Advanced U.S. reactor technology, world-leading U.S. operational expertise, and broader partnership with the United States in nuclear energy have strong appeal to international nuclear energy customers.

U.S. nuclear suppliers cannot succeed in international markets if the United States is perceived as an unreliable supplier. Nuclear energy projects typically require years to mature. Uncertainty about the ability of U.S. suppliers to provide competitive financing for nuclear energy projects can be fatal to U.S. competitiveness.

Prospective U.S. Nuclear Exports Require a Robust Ex-Im Bank

Today, there are 72 new nuclear power plants under construction worldwide, of which only five are under construction in the United States. An additional 172 plants are in the licensing and

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[2] Javier E. David, "The Real Front in U.S.-Russia 'Cold War': Nuclear Power," CNBC, March 23, 2014, http://www.cnbc.com/id/101507755.
[3] "Nuclear Power in Russia," World Nuclear Association," April 2014, http://www.world-nuclear.org/info/Country-Profiles/Countries-O-S/Russia--Nuclear-Power/.
[4] Keith Johnson, "Europe's Nuclear Option," Foreign Policy, April 17, 2014, http://www.foreignpolicy.com/articles/2014/04/17/europe_nuclear_option_rosatom_moscow_energy_ukraine_crimea.

advanced planning stages. Virtually all of these plants will be built abroad, where the demand for reliable, affordable and clean baseload electricity is growing.

Although many of the 172 planned reactors will be constructed in markets that are closed to U.S. exports or that may not require export credit agency support, Ex-Im support will play a pivotal role in key markets. Over the next decade, exports of up to 15 new nuclear plants could hinge on the availability of Ex-Im Bank products. At roughly $3 billion to $5 billion per plant, the projects represent a potential $45 billion to $75 billion in U.S. exports in need of Ex-Im Bank support. Four nuclear power projects – including up to seven plants – are already in Ex-Im Bank's project pipeline. These projects represent $21 billion to $35 billion in potential business that could become committed orders within the next 2-3 years. The Department of Commerce is currently managing 49 active nuclear energy trade advocacy campaigns in 22 markets around the world. These campaigns range in value from $1 million to $25 billion and cover everything from site selection consulting services to complete reactor construction. The total value of the nuclear energy campaigns under management is $234 billion, with $62 billion in U.S. export content. If U.S. companies achieve a modest share of this market, they will contribute billions of dollars to U.S. exports and support tens of thousands of high-paying American jobs.

Export Credit Agencies Play an Essential Role in Financing Nuclear Power

For multiple reasons, export credit agency support is critical in the global nuclear energy market.

- Export credit agency support is almost always a bidding requirement for international nuclear power plant tenders. Ex-Im Bank is therefore vital to the success of U.S. exports even in cases where the customer ultimately elects not to use Ex-Im financing. Without Ex-Im Bank, U.S. commercial nuclear suppliers would suffer a major competitive disadvantage or be excluded for failure to meet tender requirements.
- In the emerging markets where commercial nuclear energy opportunities are concentrated – such as Brazil, India and Vietnam – capital markets are not developed. This makes competitive financing from a foreign export credit agency vital.
- Participation of Ex-Im Bank enables commercial lenders to assume a role in financing nuclear power plants that they would not otherwise accept. Risk in nuclear power plant finance is typically low. But commercial lenders are averse to financing nuclear power projects for regulatory reasons – specifically, the higher capital requirements mandated under the Basel III accord.

Through leverage provided by Ex-Im Bank, the United States has successfully imposed discipline on other export credit agencies in multiple business sectors, including nuclear energy. Under the Nuclear Sector Understanding of the Organization for Economic Cooperation and Development (OECD), export credit financing terms and trade-related aid in the nuclear energy sector must conform to agreed limits.[5] If the United States shuts down the Bank, it would lose its greatest source of leverage for disciplining the 59 export credit agencies operating worldwide.

[5] Notably absent from the discipline of the OECD are China and Russia. Russia has used aggressive financing terms, utilizing funds from the Russian treasury rather than an export credit agency, to increase its share of the global nuclear energy market. According to reports, Russia is providing 85% of the financing for the completion of two plants in Ukraine, and 85% of the financing for two plants in Vietnam. Hungary cited below-market interest rates for its recent award to Rosatom of a $13.5-billion

The U.S. Nuclear Industry Recommends a Long-Term Reauthorization of a Robust Ex-Im Bank

We recommend that the Committee approve long-term reauthorization of Ex-Im Bank. We understand from our member companies that foreign competitors are already using uncertainty over Ex-Im Bank's future as reasons not to buy from the United States. Short-term authorizations have played into this uncertainty about the Bank's reliability, to the detriment of U.S. competitiveness.

We would also recommend that, as the Committee considers reforms to the Bank, it pursue only measures that would enhance the Bank's operations and usefulness to U.S. exporters. This means ensuring that the Bank will be able to provide financing for multiple, multi-billion-dollar nuclear power projects if U.S. suppliers succeed on the tenders. More generally, the Bank should be made more competitive with other export credit agencies. Initiatives that would impair Ex-Im Bank's ability to support increased U.S. exports and American jobs would not be "reforms."

A strong and reliable Ex-Im Bank will enable U.S. nuclear energy suppliers to compete for and win international nuclear energy tenders, add billions of dollars of U.S. exports and tens of thousands of American jobs, and promote other U.S. national interests. For these reasons, we would appreciate your support for a long-term reauthorization of Ex-Im Bank.

■

tender for two new nuclear plants – the largest construction deal in Hungary's post-communist history. See "Hungary, Russia agree on financing deal for nuclear plant," Reuters, February 5, 2014, http://www.reuters.com/article/2014/02/05/hungary-nulcear-financing-idUSL5N0LA4DJ20140205.

PPG Industries
Bringing innovation to the surface.™

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Bryan Iams
Vice President
Corporate and Government Affairs
412.434.2181
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June 24, 2014

PPG Industries urges Congress to swiftly reauthorize the U.S. Export-Import (Ex-Im) Bank. The access to export financing that the Ex-Im Bank provides to American businesses of all sizes is vital to our international competitiveness. Thousands of American businesses and hundreds of thousands of jobs depend on the Ex-Im Bank to compete in the world market.

Allowing the Bank's charter to expire would pose a serious threat to these businesses and their ability to access foreign markets. As a supplier, PPG is committed to the reauthorization of the Ex-Im Bank. The Bank allows our customers to thrive, which helps sustain our business.

In the meantime, if I am able to serve as a resource on this important issue, I may be reached at (412) 434-2181.

Sincerely,

Bryan Iams
Vice President
Corporate and Government Affairs

AIR TRACTOR INC. • P. O. BOX 485 • OLNEY, TEXAS 76374
940-564-5616 • 940-564-2348 (FAX)

June 20, 2014
Congresswoman Maxine Waters
Ranking Member – House Financial Services Committee
2221 Rayburn House Office Building
Washington, DC 20515-0543

Dear Congresswoman Waters,

In your capacity as ranking member of the House Financial Services Committee, and on behalf of Air Tractor, Inc., we urge you to support a timely reauthorization of the Export Import Bank of the United States ("Ex-Im Bank"). A lapse or forfeiture of Ex-Im Bank would have a negative impact on thousands of businesses across the nation.

Air Tractor relies on the Ex-Im Bank for support in a very competitive, and sometimes unfair, global marketplace. We sell approximately 50% of our agricultural and firefighting planes to countries throughout the world and 25% of those sales are made possible with the financing tools Ex-Im Bank provides. As a small business that employs 265 people, 25% of those employees are supported by the Ex-Im Bank. We use Ex-Im Bank to create jobs in rural America. Ex-Im Bank levels the playing field so that small businesses can grow.

Ex-Im Bank is a self sustaining operation that has a solid history of making money for U.S. taxpayers. It has created millions of new jobs in the United States. Reauthorization of the Ex-Im Bank is a simple issue. Ex-Im Bank creates and sustains jobs, strengthens the brand of American made goods, and reduces our national deficit. If Ex-Im Bank ceases to exist, the deficit will increase, and we will lose jobs in Olney, TX. Please support U.S. companies like ours by advocating for the reauthorization of Ex-Im Bank.

Sincerely,

David Ickert, Vice President – Finance

Tyler Schroeder, Financial Analyst

How EXIM Bank Helped Save My Business
by Gabriel Ojeda, President of Fritz-Pak Corporation
June 17th, 2014

In 1998, I began the American Dream. I had been working for another company for over 14 years when I decided it was time that I work for myself. I was managing the concrete admixtures division there, and when it came up for sale, I borrowed money from everywhere I could and purchased it. I incorporated my new business, Fritz-Pak Corporation, in the state of Texas, where we are proud to manufacture all of our products to this day.

Concrete admixtures are chemicals used in construction to make handling, placing, and creating high performance concrete easily and efficiently. The most obvious examples are retarders and accelerators. During the summer, concrete will start to set faster due to the heat, so you use a retarder to slow down the setting time. In the winter, concrete will set slower due to the cold, so you use an accelerator to speed it up. Those are just two examples, and in total, we sell about 40 different specialty products.

Back in 1998, the sales distribution was only 15% international. To be honest, I only maintained the international accounts I inherited from the original sale of the business. We were fortunate that concrete construction in the USA started to take off, so I didn't really have a need to expand internationally. I grew the business from less than $1 million in sales to over $3 million by 2007. However, the recession that began in '07/'08 hit the construction industry hard.

Data from the US Geological Survey shows that US cement consumption in 2007 was 117 million metric tons (MMT), falling to 99 MMT in 2008 and 72 MMT in 2009. Likewise, our sales fell from over $3 million to under $2 million. Concrete construction in the US was deteriorating rapidly, along with our profits, sales, and our workforce. After a particularly hard round of layoffs in 2009, we were in complete survival mode, and I was beginning to consider selling the company.

With the American construction market failing, my son came to me with the idea to start promoting our products overseas to compensate for the loss in revenue. Expanding internationally had always appealed to us, but trying to come up with a cost efficient and safe method for selling our products in other countries during the worst recession in our lifetime seemed like a pipe dream. How can we sell $50,000 worth of goods to customers half way around the world we've never even met? How can we increase our payment cycle from 30 days to 60 days when we are struggling just to make payroll every month?

However, after speaking with our bankers at Comerica, we were put in touch with EXIM Bank. With the help of EXIM Bank, we were able to insure our international receivables at minimal cost. With an affordable safety net, we were able to sell more volume with increased terms to compensate for international shipping. During the past 5 years, we've grown our international sales from 15% to over 35% of our business. We now have major trading partners in over 30 different countries including Brazil, Russia, India, and Taiwan. Most recently, we exhibited our products at the BAUMA International Trade Fair in Munich, Germany. In addition, our products were used in the construction of the Sochi Winter Olympics in Russia.

So what is Fritz-Pak Corporation today? We're an American manufacturer of the best concrete admixtures in the world, and we sell them as far north as Yellowknife, Canada and as far south as Wellington, New Zealand. We may be small, but we think big. In an age where everything seems to be made some place else, we're thriving here in the USA. And it is in no small part due to the services provided by EXIM Bank.

Fritz-Pak Corporation
Gabriel M. Ojeda, President
4821 Eastover Circle
Mesquite, Texas 75149 USA

greenergy solutions inc.
www.greenergyph.com

June 23,2014

MR. STEVE WILBURN
Chief Executive Officer
FirmGreen, Inc.
2901 W. Coast Highway, Suite 200
Newport Beach, CA 92663
949-285-4567 Fax 949-203-2130.

Dear Mr. Wilburn,

In view of the uncertainty of the reauthorization of the Exim Bank, and project finance structure you proposed had become problematic, we have made the decision in May this year not to proceed with your project offering.

Our previous partner-developer has provided us assurance of the certainty of obtaining satisfactory finance from the Export Import Bank of Korea for our Cavite Biomass-Waste-to-Energy Project.

With previous discussion with you, we had the impression that your company, FirmGreen can provide the best technology for our project, but without terms similar to what being offered by the Exim Bank of Korea, it will be impossible for our company to conclude a transaction.

If you can produce a Letter of Interest (LOI) from the ExIm Bank of the of the United States by June 30, 2014, our company will reconsider using FirmGreen technology for the project and reconsider retaining FirmGreen as the project Technical Operator for this important project.

The roadmap to obtaining the long term project finance commitment on favorable terms is critical in our decision making process.

We hope that this all be worked out to the satisfaction of both our companies.

Very truly yours,

RUTH P BRIONES
President/CEO, Greenergy Solutions Inc.
Proponent, Philippine Waste-to-energy Project

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Congressional Budget Office

OCTOBER 6, 2014

Answers to Questions for the Record Following a Hearing on the Export-Import Bank Conducted by the House Committee on Financial Services

On June 25, 2014, the House Committee on Financial Services convened a hearing at which Douglas W. Elmendorf, Director of the Congressional Budget Office, testified about CBO's report Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024 *(May 2014), www.cbo.gov/publication/45383.*[1] *Following that hearing, Congressman Ed Royce submitted questions for the record. This document provides CBO's answers.*

Question: [CBO's] June 2012 report anticipated that for 2013, under fair-value accounting (FVA), the Export-Import Bank (Ex-Im Bank) would show a small negative subsidy. The June 2014 projection indicates that going forward, CBO calculates a positive subsidy of $200 million per year over 10 years, or $2 billion. As I mentioned in my oral questioning of you, I am trying to understand where these differences in numbers originate.

In terms of applying FVA to Ex-Im Bank, what kind of assumptions have you used in terms of defaults/losses? Given the unique scale and duration of Ex-Im Bank's loans, have you used their historical experience? Or have you used commercial bank experience, and if so, why is that assumption appropriate? Also, how do you factor in loss reserves and capital?

Answer: In its analysis, CBO computed subsidy costs for Ex-Im Bank using the bank's projections of defaults and losses, which presumably reflect its historical experience.[2] For example, in its estimates of Ex-Im Bank's long-term loan guarantee program, CBO used a projected default rate of 6.12 percent and an estimated net cost of defaults of 1.91 percent of the initial principal balance, based on Ex-Im Bank's own projections of its cash flows as reported in the Office of Management and Budget's 2015 *Federal Credit Supplement*.[3]

The bank's loss reserves and capital do not directly affect projected gains or losses on the bank's new credit activity. Rather, they *reflect* those projections because Ex-Im Bank determines the amount of capital it holds and the size of its loss reserves based on its expectation of future defaults and losses.

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1. Testimony of Douglas W. Elmendorf, Congressional Budget Office, before the House Committee on Financial Services, *Estimates of the Cost of Credit Programs of the Export-Import Bank* (June 25, 2014), www.cbo.gov/publication/45468.

2. See Congressional Budget Office, *Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024* (May 2014), www.cbo.gov/publication/45383.

3. The net cost of defaults (that is, the component of the total subsidy cost that is attributable to default losses) is the present value of the defaults, after recoveries, discounted using the rates specified in the Federal Credit Reform Act. For Ex-Im Bank's projections, see Office of Management and Budget, *Federal Credit Supplement, Fiscal Year 2015* (March 2014), Table 6, www.whitehouse.gov/omb/budget/Supplemental.

Question: What has been the recent experience with collateralization of loans by Ex-Im Bank?

Answer: In general, collateralization (the pledging of assets as security for repayment of a loan) reduces expected losses on a bank's portfolio, but CBO has not specifically examined Ex-Im Bank's experience with loan collateralization. CBO's estimate of subsidy costs does, however, incorporate the bank's updated projections of its losses from loans, which should reflect its recent experience with collateralization.

Question: The direct loan program is required to charge a rate of one percent above Treasuries. After you do the discount calculation required by FVA, would this program be above commercial rates? In 2012 when the CBO showed the program with a surplus, were commercial bank rates higher than today?

Answer: Under fair-value accounting, CBO estimates that Ex-Im Bank's export-financing direct loan program would have a negative subsidy cost. A negative fair-value subsidy cost suggests that Ex-Im Bank is charging rates that are close to or higher than the rates available from commercial banks. That may not actually be the case, however, because CBO's subsidy estimate does not include Ex-Im Bank's administrative expenses, whereas commercial banks' interest rates and fees account for such expenses. Because CBO relied on summary data reported by Ex-Im Bank and did not obtain detailed data on the bank's loan portfolio to make its estimates, providing a more precise comparison of the rates that Ex-Im Bank is likely to charge with those that commercial banks will charge on loans of comparable risk is not feasible.

In June 2012, CBO projected that the aggregate fair-value subsidy cost for Ex-Im Bank's programs would be negative for fiscal year 2013, but in May 2014 it estimated that those programs would have a small positive fair-value subsidy over the 2015–2024 period.[4] That difference stems mainly from CBO's use of a higher discount rate in its 2014 estimates for the long-term loan guarantee program. Although the type of credit and loan maturity associated with the long-term guarantee program did not change, CBO used a higher discount rate in 2014 because the Administration's projections of the default rate and the net cost of defaults had increased. In the 2013 *Federal Credit Supplement*, which was the basis for CBO's 2012 estimates, the Administration reported an expected default rate of 1.35 percent, no recoveries, and a net cost of defaults of 1.29 percent of the initial principal balance for the long-term guarantee program.[5] In the 2015 *Federal Credit Supplement*, which was the basis for CBO's 2014 estimates, the expected default rate increased to 6.12 percent, the recovery rate increased to 66.93 percent, and the net cost of defaults increased to 1.91 percent.[6]

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4. CBO's 2012 report did not include an analysis of Ex-Im Bank's export-financing direct loan program because the President's budget request for fiscal year 2013 did not include obligations for that program. The only Ex-Im Bank direct loan program analyzed in CBO's 2012 report was the Tied Aid War Chest. See Congressional Budget Office, *Fair-Value Estimates of the Cost of Federal Credit Programs in 2013* (June 2012), www.cbo.gov/publication/43352; and Congressional Budget Office, *Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024* (May 2014), www.cbo.gov/publication/45383.

5. Office of Management and Budget, *Federal Credit Supplement, Fiscal Year 2013* (February 2012), Table 6, http://go.usa.gov/ddJe.

6. Office of Management and Budget, *Federal Credit Supplement, Fiscal Year 2015* (March 2014), Table 6, www.whitehouse.gov/omb/budget/Supplemental.

Question: The Aircraft Sector Understanding (ASU) requires above-market fees as well as shorter loan durations than are available from private lenders. What has been the impact of the ASU on Ex-Im Bank's aircraft lending and overall demand for loans? Would these changes impact the assumptions for Ex-Im Bank's overall risk exposure?

Answer: CBO did not perform an independent analysis of the potential effects of the ASU. To the extent that the bank's projections of cash flows reflect the impact of the ASU, that experience is incorporated in CBO's estimated subsidy costs.

In general, requiring higher fees and imposing more restrictive loan terms (such as shorter durations or higher collateralization requirements) each have offsetting effects on subsidy costs. Higher fees reduce subsidy costs because increased fee revenues cover more losses, and more restrictive loan terms reduce subsidy costs if those terms reduce defaults or losses. However, higher fees or more restrictive terms could also change the composition of the loans made or guaranteed by driving out the most credit-worthy borrowers, who have better access to private financing. If that happened, losses from defaults might increase, potentially offsetting the benefits of higher fees.

Chairman Hensarling

Questions for the Record

1) In the Ex-Im Bank's data set, the second largest overall exporter beneficiary is listed as "Unknown." It appears most of these unidentified exporters have received insurance assistance from the Bank. By some accounts, almost $3 billion in Bank activity during FY 2013 cannot be accounted for with this data set. Please provide the list of exporters classified under the "Unknown" category and a justification for not disclosing the name of the exporter.

Ex-Im Response: Often, when Ex-Im Bank authorizes short-term insurance policies for commercial banks, the commercial banks have not yet identified the exporters who will be using the Ex-Im Bank insured financing. Thus at the time of approval, the exporter is "Unknown." The insurance policy requires the commercial banks to only use the insured financing for U.S. exporters who are exporting U.S. goods and services. Ex-Im Bank verifies that the insured financing is only provided to U.S. exporters by requiring monthly reporting of the exporters and goods and services that benefitted from the insured financing. Therefore, it is not until the insurance is used that Ex-Im Bank can identify the specific exporters supported. The attached list reflects the exporters that were reported as benefitting from the commercial bank's insured financing for those policies where the exporter was initially recorded as "Unknown."

In addition to the list provided, these exporters are identified on Ex-Im Bank's Congressional map, which is available at exim.gov.

2) Does the Bank, in any way, measure or evaluate the performance of staff, including Ex-Im Bank staff located in field offices, based upon the amount of new business generated by the employee for the Bank?

Ex-Im Bank Response: To comply with the congressional mandate as outlined in Sec. 2(b)(1)(E)(v) of the Charter of the Export-Import Bank of the United States, the Bank is directed to make available 20% of the fiscal year authorizations for direct small business. The Bank's Export Finance Managers, who work in the regional field offices, are responsible for prospecting and identifying instances where the private sector is "unwilling or unable" to provide financing and/or trade credit insurance to small business exporters. The Export Finance Managers receive annual performance plans and are evaluated each year on their ability to reach their goals. To align employee recognition with the value Ex-Im places on supporting small businesses unable to secure private sources of financing, we evaluate the field staff on several factors, which include the number of appointments with small businesses, the number of outreach events, the number of closed transactions and the number of referrals to other export related government agencies on an annual basis.

3) The Office of the Inspector General has noted that prior to the second quarter of fiscal year 2011; the Ex-Im Bank disclosed its impaired assets. However, the Bank no longer reports this information. The impaired asset ratio increased from 74% in 2009 to 85% in 2010. The rate dipped in the second quarter of 2011 to 67%; however, it decreased only because of a massive $775 million write-off. Even though the Ex-Im Bank is not technically required to report under federal accounting standards, isn't the impaired asset ratio helpful information for Congress, the public, and stakeholders to assess the risk the Ex-Im Bank has taken on? Didn't hiding the exposure in potentially troubled assets help exacerbate the financial crisis of 2008? Isn't this doing the same thing?

Ex-Im Bank Response: The Bank's comprehensive risk management framework protects the U.S. taxpayer. This framework starts with effective underwriting to ensure a reasonable assurance of repayment. More than 80% of the Bank's entire portfolio is backed by some form of collateral or a sovereign guarantee. Our comprehensive risk management program includes detailed documentation to ensure the Bank's rights are protected legally and that the transaction is not in violation of U.S. government policy, including Iran sanctions. And it continues after a transaction is approved with pro-active monitoring efforts to minimize defaults. The Bank believes that a comprehensive risk management framework with strong emphasis on continuous improvement minimizes claims and defaults. This comprehensive risk management framework, which was noted in a 2013 Government Accountability Office (GAO) audit, has been effective in protecting the U.S. taxpayer. Since FY 2006, the Bank's default rate has dropped from 1.6% to 0.194% as of June, 2014. This default rate is different than the default rates published in the annual Budget Appendix due to differing definitions. The reported rate in the Budget Appendix reflects projected defaults over the life of the loan while the default rate in this report reflects actual defaults at a particular point in time.

The Ex-Im Bank is completely transparent on exposure and impaired assets. In each Annual Report, the Bank's total allowance for losses is disclosed. These statements and notes, including the Bank's allowances, are audited by the external auditing firm Deloitte and Touche managed by the Office of the Inspector General. Since the start of Credit Reform in 1992, the Bank has received unqualified or "clean" audit opinions. In the FY 2013 Annual Report, this audit information is located in Section VI on page 51. The Bank also discloses major impaired assets which largely included all borrowers with exposure above $1 million which represents approximately 93% of all borrowers. . The Annual Report is distributed to the U.S. Congress as well as posted on the Bank's internet webpage.

The Bank also provides a quarterly default report to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Service House Committee. The Bank also maintains and reviews a monthly impaired credit and watch list report with senior management and Bank staff this review occurs during the Bank's monthly Enterprise Risk Committee meetings. In the same 2013 Audit, the GAO noted that the monthly report tracks "transactions that are impaired."

4) While both disclosure of the major impaired assets and loss reserves is helpful, given the emphasis in the most recent reauthorization on supporting small business, couldn't several smaller impaired assets impose a substantial risk on the Bank? In essence, shouldn't the Bank pay attention to

and disclose this aggregation risk of all impaired debt relative to loss reserves as well, especially since it is the taxpayers that will have to bail out the Ex-Im Bank should its defaults exceed the reserves?

Ex-Im Bank Response: Ex-Im Bank does disclose the aggregate risk of all impaired debt relative to the allowance for loan losses. In each Annual Report, the Bank total allowance for losses is disclosed. This information includes all programs, including small business transactions. These statements and notes, including the Bank's allowances, are audited by the external auditing firm Deloitte and Touche engaged and managed by the Office of the Inspector General. Since the start of Credit Reform in 1992, the Bank has received unqualified or "clean" audit opinions. In the FY 2013 Annual Report, this information is located in Section VI on page 51. The Annual Report is distributed to the U.S. Congress as well as posted on the Bank's webpage, www.exim.gov. The Bank's major impaired asset analysis largely includes all borrowers with exposure above $1 million which represents approximately 93% of all borrowers. For those borrowers below $1 million in exposure, these are primarily short term (1 year or less) transactions. Given that the timing from impairment to default occurs during this short time frame, the Bank's allowance for loan losses for defaulted loans includes these transactions.

Per the Federal Credit Reform Act, the Bank estimates and accounts for the full lifetime cost of all loans and loan guarantees up-front, including expected or forecasted defaults, and is backed by the full faith and credit of the United States. Bank lending in FY 2014 is expected to decrease the Federal deficit by an estimated $845 million.

5) The Ex-Im Bank has rejected the Inspector General's recommendation to impose soft portfolio sub-limits and has argued that this will hinder the Bank's ability to meet demand for financing as it arises. Since these are only soft portfolio sub-limits, and will enhance the Bank's ability to make informed decisions about pricing and risk management, why is the Bank reluctant to implement the recommendation?

Ex-Im Bank Response: After submission of their inspection audit, the Office of Inspector General (OIG) clarified their recommendation on soft portfolio sub-limits. As noted in the question for the record, the OIG clarified that soft limits or informal thresholds are "designed to inform future pricing and portfolio concentration levels..." Given this clarification, the Bank has concurred with the recommendation and provided a revised response to the Office of the Inspector General. On June 18, 2014, the Bank communicated to the OIG that the Bank is contracting with The Economist Intelligence Unit in order to identify soft portfolio limits. Among the proposed deliverables is to measure the Bank's portfolio against these soft limits, and recommend mitigation tools when the soft limits are reached. The contract was awarded in July 2014.

6) The current risk management function of the Bank is fragmented and neither addresses the totality of enterprise risk, nor how risks may interrelate. Given the Bank's recent risk trends - a decline in total loss reserves, an increase in impaired assets compared to its total loss reserves, increased

portfolio concentrations in specific industries and with specific companies, a migration from sovereign to private sector exposure, and the increased authority to extend credit from $100 billion to $140 billion -what additional procedures is the Bank putting in place to ensure a central risk management structure?

<u>Ex-Im Response:</u> In 2013, the President of the Bank executed a major management reorganization aimed specifically at strengthening comprehensive risk management at Ex-Im Bank. Consistent with recommendations made by the GAO and the Bank's Inspector General, this reorganization was centered on a separation of transaction underwriting and risk management through the creation of the Chief Banking Officer and Chief Risk Officer positions. Previously, both transaction underwriting and risk management were functions under the purview of a Chief Operating Officer. Effective transaction risk management clearly begins with rigorous credit standards applied during the underwriting and due diligence processes. The new CBO/CRO structure, however, results in a dynamic where risk management groups, not under the same line management as the transaction underwriting groups, are responsible for additional review and ongoing management of transactions through their life cycles. This change has significantly strengthened the credit risk management regime at Ex-Im Bank.

Additionally, the Chief Risk Officer position at Ex-Im Bank is responsible for the comprehensive and systematic management of risk at the agency. The position was designed specifically to address the totality of enterprise risk listed in the ERC charter, with a view of how the various risks interrelate with one another. As evidence of that approach, the Enterprise Risk Committee is chaired by the Chief Risk Officer, and the first act of the ERC under the Bank's new CRO was to approve a risk hierarchy and nomenclature document intended to define the complete range of risks facing Ex-Im Bank in order to raise awareness within management and further the comprehensive and systematic management of risk at the agency.

Finally, in the area of portfolio credit risk management, the Office of the Chief Financial Officer is continually improving the approaches taken to the continual monitoring and evaluation of portfolio risk. These improvements include stress testing of the portfolio and ageing of delinquencies, and are fully described in Ex-Im Bank's Quarterly Default Rate Report provided to Congress. Under the 2013 management reorganization of Ex-Im Bank, the Chief Financial Officer reports to the Chief Risk Officer.

7) Given the GAO's analysis and recommendation to incorporate a longer term analysis into the Loan Loss Model, what steps is the Bank taking to enhance its Loan Loss Model to ensure the model appropriately incorporates all risk of default?

<u>Ex-Im Bank Response:</u> The Ex-Im Bank has fully implemented the GAO recommendation to incorporate a longer term analysis. The GAO recommended that that "to help improve the reliability of its loss estimation model, the Chairman of the Export-Import Bank of the United States should assess whether it is using the best available data for adjusting loss estimates for longer-term transactions to account for global economic risk."

In response, the Bank, in November 2013 incorporated a 5-year forecast of global economic change into its loss estimation model, compared to the 1-year forecast that the Bank had used previously. The Bank's action has been reviewed and validated by the GAO. The GAO reports that the status for the recommendation is "closed – implemented."

8) In response to the OIG's recommendation to develop a systematic approach to stress testing, the Bank anticipated completion of the implementation in early Fiscal Year 2013, with the first stress test to be done on the aircraft portfolio. Has the stress test been successfully completed? If so, what were the results on the aircraft portfolio? If not, what is holding up implementation and what does the updated timeline look like?

Ex-Im Bank Response: It is important to note that the U.S. economy and the Export-Import Bank performed well in perhaps the most stressful test of all – the financial crisis and its aftermath over the last six years. The U.S. has not experienced an economic crisis of that magnitude since the Great Depression. During that time, the Bank's default rate dropped from 1.1% in 2008 to 0.2% in 2013. This default rate is different than the default rates published in the annual Budget Appendix due to differing definitions. The reported rate in the Budget Appendix reflects projected defaults over the life of the loan while the default rate in this report reflects actual defaults at a particular point in time. Total claims paid in 2008 were $203 million falling to $49 million in 2013 even while the overall portfolio grew from $58 billion to $114 billion.

The Bank has successfully completed its stress test of the aircraft portfolio using data at the end of FY 2013. The Bank completed both a top down and bottom up stress test. For the top down stress test the Bank used a Monte Carlo simulation approach, consistent with best practice. This approach allows the Bank to look at numerous scenarios. The Society of Actuaries in a report entitled "Effective Stress Testing in Enterprise Risk Management" stated that "the Monte Carlo simulation is one of the most widely used methods of stress testing." This allows the Bank to use a forward looking approach that looks at numerous scenarios. The simulation takes every transaction in the Bank's exposure and simulates whether it would defaulted or not during the remainder of its term, based on the Bank's most current credit loss factors. The Bank's September 2013 default rate report submitted to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Service includes a detailed discussion on the Bank's stress test methodology.

Using the Monte Carlo approach results in a variety of outcomes and creates a distribution of possible losses. As a result, the Bank established probabilities around the chance of different default rates. The median expected default rate for these simulations for the aircraft portfolio was 0.44%. The Bank then looked at the tail of the distribution to see how the portfolio would perform under periods of stress. Ninety-five percent of all simulations had a default rate below 0.92%.

Additionally, the Bank performed a bottom up analysis where the Bank examined specific large aircraft obligors and used applicable data from the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR) adverse and severely adverse scenarios. These scenarios were applied to particular obligors and for each scenario the change in credit rating was measured. The Bank uses a credit rating scale similar to a Moody's or S&P credit rating but uses a 1-8 scale. The results of the adverse and severely adverse stress test on these obligors were between 1-2.5 notch downgrades respectively. After looking at the large obligors, the Bank applied a two notch downgrade to all obligors and re-ran its Monte Carlo simulation with this added level of stress. The median expected default rate increased from 0.44% to 0.70%. When looking at the tails of this stressed scenario, 95% of all simulations had a default rate below 1.30%.

9) The Ex-Im Bank claims that it is filling "lending gaps," that the Bank provides financing when the private sector is "unwilling or unable to do so," but how does the Bank know this, how does the Bank know that it is not crowding out the private market? The Committee understands that companies can claim that they cannot get credit elsewhere, but what measures does the Bank take to verify the veracity of a company's claims that it could not obtain credit elsewhere on its application form?

Ex-Im Bank Response: The Bank adheres to its statutory mandate that "the Bank in the exercise of its functions should supplement and encourage, and not compete with, private capital." Ex-Im Bank is confident that its procedures and policies are appropriate for ensuring that Ex-Im Bank meets such mandate at both (i) the "macro" level – through periodic studies of the trade finance market, and meetings with various trade groups and individual financial institutions involved in trade finance, and (ii) the "micro" level – through policies and procedures applied to specific transactions, while at the same time meeting its other statutory mandates.

Ex-Im Bank has conducted a number of different studies of the financial environment in which it operates. The most recent study occurred in 2013, which looked at the availability of export and trade finance solutions from a variety of different types of financial institutions (including U.S. money center commercial banks, U.S. regional commercial banks, U.S. savings banks, international money center commercial banks, investment banks and other sources of capital). The results of that study continue to reinforce Ex-Im Bank's understanding of the availability of private capital – namely, that while there are a number of different potential funding sources, the group that is most widely and commonly used for export and trade finance is the commercial banking sector. Commercial banks are generally willing to structure, intermediate and administer financing for individual export transactions, subject to their internal credit policies, risk exposure limitations, and provided they are not too small. Similarly, now that the commercial banking industry has generally recovered from the credit crisis of 2008 and 2009, commercial banks are more often willing to fund export and trade finance transactions (under an Ex-Im Bank guarantee) assuming they are (i) not too large, (ii) not too small, and (iii) not too long. Other funding sources, such as the capital markets, hedge funds, private equity, etc. are willing to provide funds but are generally not in the business of structuring and administering financing for individual transactions and support a very small subset of select transactions.

10) According to the Ex-Im Bank's annual Competitiveness Report, nearly two- thirds of Ex-Im Bank financing fills so-called financing gaps, but how is this number derived? Does the Bank make any effort to verify the claim?

Ex-Im Bank Response: Ex-Im Bank has established procedures to ensure that it is filling financing gaps at both (i) the "macro" level – through periodic studies of the trade finance market, and meetings with various trade groups and individual financial institutions involved in trade finance, and (ii) the "micro" level – through policies and procedures applied to specific transactions, while at the same time meeting its other statutory mandates.

Ex-Im Bank documents these procedures in its Loan, Guarantee and Insurance Manual and include steps such as: requiring appropriate certifications and information from applicants on its application forms; documenting such information in the memorandum recommending approval of financing support; and subjecting the information to review by supervisors, and, in the case of long-term transactions, senior management and the Board of Directors.

Loan officers are responsible for: (i) reviewing the information provided by the applicant; (ii) determining if that information is consistent with their experience and knowledge of the market (international and local banks); and (iii) preparing a justification for Ex-Im Bank's involvement in the transaction. The written justification is reviewed by the loan officer's supervisor, then by senior management and then by the Board of Directors.

Il)The Small Business Administration also extends export financing to small businesses. The Small Business Administration Act stipulates that, in general, "No financial assistance shall be extended...if the applicant can obtain credit elsewhere." Does the Ex-Im Bank have a similar requirement? If not, why not?

Ex-Im Bank Response: While at times the application information describing why the transaction needs Ex-Im Bank support includes information on denials received from private financing sources, that specific information is not required by Ex-Im Bank. This is because there is a concern that imposing such a requirement would make Ex-Im Bank non-competitive with other export credit agencies supporting foreign exporters, resulting in losses in U.S. exports and U.S. jobs. Likewise, the application information may include information on the unreasonable commercial terms offered by private financing sources. That specific information also is not required by Ex-Im Bank for similar reasons.

12) The Ex-Im Bank is requesting a $20 billion increase in the Bank's exposure limit. During Congress consideration of the 2012 reauthorization request the administration submitted information to Congress that included a pipeline forecast. Why has the Bank not provided any forecasting to Congress in order to justify this request? Please provide a pipeline forecast to justify this increase.

Ex-Im Bank Response: Ex-Im Bank's reauthorization proposal requests an exposure cap of $160 billion. This proposal reflects an increase of $20 billion above the FY 2014 exposure cap, with a 2.9% annual increase totaling a 14% increase over all 5 years. The Bank's mission is to support jobs in the United States by facilitating the export of U.S. goods and services. The reauthorization of the Bank at the $160 billion cap supports an estimated 1.3 million U.S. jobs between 2015 and 2019.

From 2008 – 2012, Ex-Im Bank witnessed a drastic increase in demand and thus new direct loan and guarantee levels. Ex-Im Bank's new loan originations went from $14,398.9 million in FY 2008 to a height of $35,784.3 million in FY 2012. Ex-Im Bank loans decreased to $27,347.6 million in FY 2013, as private-sector financing grew, consistent with Ex-Im Bank's policy to not compete with private sector lenders but provide export financing that fills gaps in trade financing. The Government Accountability Office (GAO) found Ex-Im Bank's recent growth is associated with "reduced private sector financing following the financial crisis" and Ex-Im Bank's ability "to fill the gap in private-sector lending."

The Bank has looked at the current and expected macroeconomic environment and identified 4 main macroeconomic factors (competition from other Export Credit Agencies (ECAs), financing for small business exporters, financing for developing/emerging markets, and increasing regulations) that show the continued need for Ex-Im Bank financing support for U.S. exports and U.S. jobs. These factors along with an analytical framework informed the Bank on the expected exposure cap level necessary to support the financing needs of U.S. exporters.

Meeting Competition of other ECAs

The United States competes against approximately 60 other ECAs around the world for export sales. In 2012, the G6 (excluding the U.S.), Brazil, India, and China provided $100.9 billion in officially supported export financing, which is up by 47% since 2007. Ex-Im Bank provides financing to compete with the financing of these foreign ECAs. Ex-Im Bank levels the playing field for U.S. exporters by matching credit support that other nations provide to their exporters, thus preventing foreign exporters from enjoying undue advantage. This ensures that U.S. exporters are able to compete against foreign competitors based on the quality and price of their products and services, and not lose sales because a foreign ECA has helped a foreign competitor by providing superior financing terms to a potential buyer.

Providing Financing for Small Business Exporters

Most small and medium sized enterprises (SMEs) financing does not come from private banks but rather internally generated funds, supplemented by borrowings from family and friends as well as informal sources or moneylenders. The International Trade Centre (ITC) found that "while banks account for about 20 percent of the financing for new investments of large firms, they contribute less than 10 percent of the amount that small firms need for the same purpose." The limited role private banks play in SME financing is due to high costs and low return on investment. In FY 2013 Ex-Im Bank's smallest small business transaction was $10,175. Small loans are more costly to monitor and administer and driving down the profit margins for private banks. Additionally, imperfect information and limited collateral make SME loans riskier and thus avoided by private banks.

These low profit margins make small business lending difficult, especially during an economic downturn as they are the most vulnerable to macroeconomic shifts. Ex-Im Bank's short and medium term guarantee and insurance products change the costs and returns of private financing and mitigate risk concerns. Guarantees are financed through private banks, but are accompanied with an explicit Ex-Im guarantee, decreasing the costs to private banks in the event of a default. This assurance is true in all Ex-Im Bank products and makes SME financing more attractive for private banks.

The need for Ex-Im insurance guarantees is exemplified by Ex-Im Bank's ability to reach more small businesses than ever before. Furthermore, the amount of small businesses exporting is growing. According to a 2013 National Small Business Association and Small Business Exporters Association survey 64% of small businesses have exported in CY 2013, a 23% increase over CY 2010. In addition, among exporters the largest challenge to selling their goods and/or services to foreign customers is the worry about getting paid. Ex-Im insurance guarantees ease the payment concerns of U.S. exporters, enabling them to focus on additional export opportunities. If a foreign customer does not pay, Ex-Im guarantees payment to the U.S. exporter while using established procedures to recover payment from the foreign customer. In FY 2009 the Bank approved 2,540 transactions. In FY 2013, the Bank approved a record-high 3,413 small-business loans and loan guarantees – 89 percent of the total number of Ex-Im loans and loan guarantees and a 34% increase over FY 2009.

Providing Financing for Developing/Emerging Markets

As a result of the various global financial crises since 1997, many commercial banks have been less willing to take on emerging market risk without guarantees offered by ECAs. As these developing countries grow beyond the ability to tap World Bank resources, ECAs are a growing proportion of their trade finances. According to a 2013 McKinsey Global Institute the global infrastructure investment between 2013 – 2030 is $57 trillion. Furthermore, the report states:

"If these institutional investors reached their current target allocations of around 6 percent – on average, based on data from Preqin – from 3 percent today, it would result in an additional $2.5 trillion in infrastructure investment capital through 2030. While substantial, this would still be only a fraction of the $57 trillion (or more) that the world needs over this period."

Ex-Im Bank has played an important role in filling financing gaps for U.S. exports to reach the markets of emerging countries. Total financing in FY 2013 to emerging markets represented 59 percent of all loans and loan guarantees. In FY 2013, Ex-Im Bank financed an estimated 50.4 percent of the value of exports to Ethiopia, 5.2 percent to South Africa, 5.3 percent to Indonesia, 2.3 percent to India, 5.8 percent to Ghana, and 3.8 percent to Turkey, while supporting approximately 2 percent of overall U.S. exports.

In the case of project financing, ECAs such as Ex-Im play an important role in financing the growing number of infrastructure projects in emerging economies. Most projects are of large scale, requiring various lenders and extensive documentation coupled with moderate to high political risk. Richard Drummond in The Role of Export Credit Agencies in Project Financing found that "The use of credit agencies was and is helpful to exporters in those markets where the political situation is more risky. Credit agencies can provide appropriate cover when commercial lenders are more reluctant to take political risks." The large size of these project financing deals means Ex-Im Bank is often working with private banks to provide a financing package large enough for a project's development. An ECA partner in these deals is often a driving force of a deal's success. Ex-Im presence in project finance has grown alongside the increase of infrastructure projects in emerging economies. Ex-Im financing fills a financing gap due to the large sums of long-term funds needed to finance these projects.

Analysis of Basel III and other regulations

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

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

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

- The Equity Ratio: Banks will have to increase their Equity Ratio, which compares Equity with Risk Weighted Assets (RWA), from 8% to 10.5%.
- The Net Stable Funding Ratio (NSFR): Banks will be required to compare the long-term financial resources of a bank (over one year) with its long term commitments (also over one year).
- The Leverage Ratio will compare the Tier 1 Equity with total assets (including off-balance sheet commitments). The target ratio is 3%.

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

- The Loans to Deposits Ratio (LTDR): LTDR is defined as the unsecured loans made by a bank divided by deposits made by clients of the bank. Banks that have a ratio above 100% have to go to the capital markets to cover their funding gap.

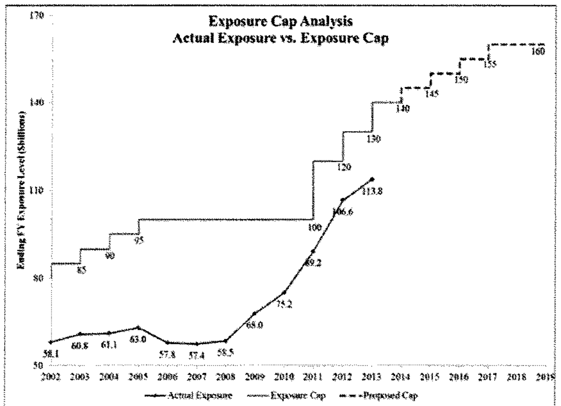
- Preventing mismatch in geographic locations of funding: National regulators are increasingly trying to limit the volume of funds raised in a country (e.g. the U.S.) and flowing to another one (e.g. any country in Europe) within the same bank. In addition, central banks will only consider the utilization of an export credit as collateral if the loan is booked in domestic country and covered by the domestic ECA.

<u>Other factors</u>

- All banks have been down-graded since 2007. As a consequence, their credit default swap (CDS) spreads increased dramatically, from a few bps in 2007 to 200-300 bps in 2012, and the raising of funds via the capital markets is more expensive.

Given these regulatory and other changes, the Bank expects increasing demand for ECA financing as commercial banks reduce the amount of funds available for overall lending. In addition, the last few years has shown that as liquidity decreases the amount of lending decreases, especially for large infrastructure and other international trade finance projects.

Exposure Cap Analytical Summary



These factors —competition from other ECAs financing for small business exporters, financing for developing/emerging markets, and increasing regulations—justify a continued need for the Bank to provide financing for U.S. exporters. The Bank created an analytical framework that took into consideration these policy expectations, the projects in the Bank's pipeline, Ex-Im's historical experience in originations and the mix of projects it undertakes, the potential growth in total US exports, and estimated repayment on the current portfolio. This framework helped inform the Bank's exposure cap request, which will give us flexibility to pursue policy goals as well as respond to future market conditions.

The Bank provided this framework to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Service on January 10, 2014, updating on FY 2013 and FY 2014 activity. Within this framework, the Bank used several quantitative models, consistent with recommendations received by the Bank from the Government Accountability Office, to estimate new transactions and expected repayments, resulting in a range of potential of forecasts for the change in total exposure. The Bank found that the requested exposure cap level of $160 billion by FY 2019 is an appropriate level to allow Ex-Im to fill gaps in trade export financing and support for small businesses.

13) The Ex-Im Bank's authorization levels are going down from the peak that it reached in 2012 when the Bank authorized $35.7 billion in new transactions. In 2013 that number dropped by about $7 billion to $27.3 billion. If the Bank's authorization can rise during a time of financial crisis, shouldn't the exposure cap be able to fall when economic conditions improve?

Ex-Im Bank Response: The exposure cap is the aggregate level of exposure the Bank has within its portfolio. As reported in the Bank's 2013 Annual Report, the level of aggregate exposure rose from $68.0 billion at the end of FY 2009 to $113.8 billion at the end of FY 2013. From FY 2012 to FY 2013 the exposure rose from $106.6 billion to the $113.8 billion. As noted, authorizations decreased from $35.7 billion to $27.3 billion. In general, the exposure is driven by the difference between the amount authorized in a given fiscal year compared to how much was repaid in that fiscal year. In 2013 overall exposure increased as new authorizations of $27.3 billion exceeded the repayments for that year. If authorizations are less than repayments, exposure decreases. The Bank anticipates authorizations will be greater than repayments.

14) In March 2012, the Bank predicted that the authorization amount of aircraft transactions would decrease. However, the Business Plan's estimates elevated the authorizations by $200 million from FY2012 to FY 2013 and $1.7 billion from FY 2013 and 2014. No explanation or analysis was given in the Business Plan for the discrepancy. What steps is the Bank putting in place to ensure that the Business Plan includes commentary on the projections, as well as explanations of any changed conditions?

Ex-Im Bank Response: Ex-Im Bank's projections are dynamic in nature and market based projections may, and likely will, change over time. In a letter, sent on November 26, 2012 to Congressman Eric Cantor, Congressman Spencer Bachus, and Congressman Jim Jordan, the Bank provided an explanation for the change in estimates.

Ex-Im Bank also provides a Congressional Budget Justification provided to the Senate and House Appropriation Committees. This Justification, submitted annually, provides a re-evaluation of forecast, a review of the methodology, and an overview on the forecast. Going forward, the Bank will include an explanation for changes in the estimate as part of this re-evaluation process. The next submission is expected in March 2015.

15) The Ex-Im Bank's Business Plan concluded that there would be no increase to Ex-Im's risk of loss associated with complying with the sub-Saharan Africa mandate under the new exposure limit because the Bank primarily engages with profitable companies in growing sectors and well-managed African governments. However, the Committee understands that the Ex-Im Bank Board of Directors decided to loosen its lending standards and create a carve- out for sub-Saharan African countries, allowing the Bank to do business where it otherwise would not. Furthermore, the Ex-Im Bank wrote off a $775 million receivable from the Democratic Republic of the Congo in 2011 as uncollectible. Please elaborate on the update in Bank policy which allows the Bank to conclude that risk is not increased by the sub-Saharan Africa mandate. Does the Bank relax any non-risk related standards when considering whether to do business in sub-Saharan African countries?

Ex-Im Bank Response: Ex-Im's Charter states very clearly (Sec. 2(b)(9)(A)) that the sub-Saharan Africa mandate should be executed by "prompt measures, consistent with the credit standards otherwise required by law..." Those legally-mandated credit standards are "reasonable assurance of repayment" from the Charter Sec. 2(b)(1)(B) and "sufficient likelihood of repayment" from 12 U.S.C. §635j. Neither "reasonable assurance of repayment" nor "sufficient likelihood of repayment" is defined, but both have been historically interpreted to equate to investment grade creditworthiness. The difference is more in the methodology than in the standard. When Congress added the "sufficient likelihood" standard, it was basically saying that – as a mission-oriented institution – Ex-Im Bank should be open to more indicators of high creditworthiness the more 'mission accomplishment' was involved in a case. Buyers from U.S. small business exporters, or buyers in sub-Saharan Africa, or environmental buyers are likely not to have the clean and full financial background typically considered in reasonable assurance of repayment. However, developing creditworthiness indicators that are sector/region-specific (a sufficient likelihood approach) could generate enough information for a credit manager to reach the same level of credit comfort. Nevertheless, a sufficient likelihood approach does not relax any non-risk related criteria or standards that Exim applies to transactions. These standards are the ones which should govern the operations of the Bank in sub-Saharan Africa, as elsewhere in the world.

The Bank has found no evidence that a different standard is applied to transactions in sub-Saharan Africa.

16) The 2012 authorization requires the Bank to monitor and report not less than quarterly on its overall default rate and its default rates by product, market, and industry sector. If the overall default rate equals or exceeds 2% the Bank must implement a corrective plan and provide monthly updates to Congress; if the situation is not corrected a third party is brought in to audit the Bank. The Bank noted in its most recent quarterly report that the current default rate is substantially lower than the 2% limit Congress placed on the Bank. However, the downward trend can be attributed more to the recent authorization of long term loans whose peak default periods don't start until nearly four years after authorization[1]. What analysis has been done on the projected default rate taking into account the likelihood of any defaults for newly entered into long-term loans? What is the updated figure?

Ex-Im Bank Response: As reported in the September 2013 default rate report submitted to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Service, Ex-Im conducted a stress test analysis of its entire portfolio. Part of this stress test was to analyze the baseline expected default rate on the current portfolio. This takes each transaction and forecasts the expected loss on that transaction. The Bank then aggregates all transactions to determine the expected default rate for the entire portfolio. This is a forward looking analysis. The default rate reported in the September 2013 default rate report was 0.24%. The expected loss on the current portfolio going into the future is 0.59%, which was also included in the September 2013 default rate report.

Furthermore, Ex-Im Bank performed an historical analysis of the long term portfolio for the last 15 years using snapshot information at the end of the fiscal year to determine the number of transactions with a claim paid with exposure. The analysis showed that by the 3rd year from authorization 52% of all defaults had happened and by the 5th year 88% of defaults had occurred. The Bank has no defaults on any long term guarantee authorized since 2009. In addition, consistent with a March 2013 GAO recommendation

[1] Long term loans entered into in the last four years account for over 30% of the Bank's exposure.

the Bank is using this information within its loss model. The GAO reports that the status for the recommendation is "closed – implemented."

17) Ex-Im Bank has a limited definition of default. Even though it is in line with U.S. GAAP, the Bank does not subject troubled borrowers to the same level of scrutiny as private lenders. Since occurrences of non-payment of certain fees, transactions which are restructured in terms less favorable to the Bank, and violations of non-payment covenants are not considered default yet still adversely impact the Bank, shouldn't the Bank apply a broader definition to the term "default"? If not, then shouldn't the Bank subject troubled borrowers to at least the same levels of scrutiny as private lenders do, and be willing to price appropriately?

Ex-Im Bank Response: The Bank does not have a limited definition of default. We have the same definition of default as private lenders. Default is non-compliance with the terms and conditions of a debt obligation, including non-payment.

Separate from whether a given transaction is in default, the Bank takes oversight of troubled borrowers seriously, and maintains and reviews a monthly impaired credit and watch list report with senior management and Bank staff. This review occurs during the Bank's monthly Enterprise Risk Committee meetings. In a 2013 Audit, the GAO noted that the Monthly Report tracks "transactions that are impaired." These credits are subjected to at least (if not higher) level of scrutiny as private lenders and as such they are reserved (or priced) appropriately. Ex-Im Bank's expertise in this area is evidenced by the low claims and high recoveries for those credits where the Bank has paid a claim or a direct loan was in arrears.

In the same 2013 Audit, the GAO also noted that "Ex-Im Bank updates a transaction's risk rating at least annually." As such, the Bank is reserved and priced appropriately for these credits. As noted in an earlier response, the Bank is audited by an external auditing firm, Deloitte and Touche, which is engaged and managed by the Office of the Inspector General. Since the start of credit reform, the Bank has received unqualified or "clean" audit opinions.