

NOMINATION OF FRED P. HOCHBERG

HEARING

BEFORE THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

ON

NOMINATION OF FRED P. HOCHBERG, OF NEW YORK, TO BE
PRESIDENT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

MAY 7, 2013

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NOMINATION OF FRED P. HOCHBERG, OF NEW YORK, TO BE PRESIDENT OF THE EX- PORT-IMPORT BANK OF THE UNITED STATES

TUESDAY, MAY 7, 2013

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:24 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. Good morning. I call this hearing to order. Thanks to all of you for joining us here today, and special thanks to our witness and the assembled Members who are with us.

Today, we consider the nomination of Fred Hochberg to be the President and Chairman of the Export-Import Bank of the United States. President Obama first nominated Mr. Hochberg to be President and Chairman of the Export-Import Bank on April 20, 2009. The Senate confirmed his nomination by unanimous consent on May 14, 2009. Mr. Hochberg was re-nominated by President Obama on March 21, 2013. I am hopeful that the Committee and the Senate will once again move as expeditiously.

When he took over the Bank, the U.S. was still in the midst of the worst financial crisis since the Great Depression. Under his leadership, the Bank was able to expand financing for American exporters when private financing was difficult, if not impossible, to acquire. During President Hochberg's tenure, the Bank's authorizations have increased substantially to a record \$35.8 billion in export financing last year. This financing is important for American business, both small and large. I believe his leadership at the Bank is crucial as we continue on the path to economic recovery.

His nomination is supported by both labor and business, including the Business Roundtable, the Chamber of Commerce, and the National Association of Manufacturers, and I would like to submit these organizations' letters of support for the record.

In 2012, the Export-Import Bank helped to support an estimated 255,000 American jobs at 3,400 companies. In addition, 85 percent of the Export-Import Bank's transactions directly benefited small business.

Of equal importance, since 2008, the Export-Import Bank has been able to send nearly \$1.6 billion in profits to the U.S. Treasury.

As a self-sustaining independent Federal agency, the Export-Import Bank charges fees to cover all of its expenses, creating no cost to the U.S. taxpayers.

Just last year, Congress, with bipartisan support, extended the Export-Import Bank's charter through September 30, 2014. Before we once again consider reauthorization, it is imperative that we ensure that the Bank's leadership is in place. If we do not once again confirm Mr. Hochberg before July 20, we run the risk of leaving the Bank without a quorum to act on many of the transactions before it, which will hurt American workers and exporters.

I look forward to hearing from President Hochberg today.

I now turn to Senator Crapo for any opening remarks he may have for the nominee. Senator Crapo.

STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. Thank you very much, Mr. Chairman. I appreciate you holding this hearing.

Mr. Hochberg is no stranger to confirmation hearings. He has previously been confirmed as Deputy Director of the Small Business Administration in 1998 and then as Chairman and President of the Export-Import Bank again in 2009. And this Committee has had ample opportunity to get to know Mr. Hochberg in this latter role, as he has appeared before us on multiple occasions over the last 4 years.

Last year's Eximbank reauthorization granted both new opportunities and new challenges to the Bank's mission and I look forward to hearing from Mr. Hochberg about how he intends to respond to some of these challenges, specifically, what is currently the most substantial obstacle to private sector financing that the Eximbank is working to overcome? And what steps will Mr. Hochberg take to mitigate the tension between the Bank's support for export transactions and the adverse impact to domestic companies? How will Mr. Hochberg work to address the perception that the Bank is offering so-called corporate welfare in the form of subsidies for big business, and how will he facilitate the financing of small business exports? And, finally, what steps will the Export-Import Bank take to protect taxpayers by prudently managing the risk of the Ex-Im's portfolio, which contains a large volume of recent transactions?

I look forward to hearing Mr. Hochberg's testimony and his answers to these questions, and Mr. Hochberg, I thank you for your service at the Bank and welcome you here today.

Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Senator Crapo.

Does anyone else wish to make a short opening statement before we turn to the nominee for his testimony? Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman.

I only want to add my good words to the comments of the Chair and Senator Crapo about Mr. Hochberg and his leadership. If done right, our Nation's trade policies can create jobs. The work that Mr. Hochberg has done at the Export-Import Bank has been central to achieving this goal. His trips to Ohio, to Perrysburg to First Solar,

to Columbus, to Cleveland, to Cincinnati, I think, have been particularly helpful.

I know the President's goal of doubling exports, what is central to that goal is the work that we do with small business. Large businesses know how to do it, know how to generally navigate some of the obstacles. Smaller businesses need that partnership with the Eximbank and SBA and the Export Assistance Centers and all of that, and Mr. Hochberg's Eximbank is a central part of that.

So I thank him and look forward to this hearing.

Chairman JOHNSON. Anybody else?

Senator WARREN. Mr. Chairman, I just—

Chairman JOHNSON. Senator Warren.

STATEMENT OF SENATOR ELIZABETH WARREN

Senator WARREN. Thank you. I just want to add, thank you very much, Mr. Hochberg, for your service, and thank you very much for your many trips to Massachusetts. It means a great deal to the businesses in Massachusetts, particularly our small businesses that are trying to get adequate funding so that they can be involved more vigorously in the export business. Thank you.

Chairman JOHNSON. Senator Warner.

STATEMENT OF SENATOR MARK R. WARNER

Senator WARNER. I would not want to offend President Hochberg, but I also want to make sure I can lay claim. I am glad to see my friend and colleague, Senator Gillibrand, is here to introduce Mr. Hochberg, but let the record also show he has got a deep and abiding connection with the Commonwealth of Virginia, as well, and I appreciate the time we spent together, Fred.

Chairman JOHNSON. We will now proceed to witness introductions. Senators Schumer and Gillibrand will introduce Fred Hochberg. Senator Gillibrand.

STATEMENT OF KIRSTEN E. GILLIBRAND, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator GILLIBRAND. Thank you, Mr. Chairman. Thank you for your leadership and thank you for your dedication. Thank you to Ranking Member Crapo, Members of the Committee, to my colleague, who will be arriving shortly.

It is an honor for me to join you today to introduce Fred Hochberg for a second term as the President and Chair of the U.S. Export-Import Bank.

As a member of the President's Export Council myself, I know Fred is committed to achieving President Obama's goal of doubling America's exports, and I am eager to work closely with him in this effort.

Fred is, without a doubt, the right choice to continue leading the Export-Import Bank. Under Fred's leadership, the Export-Import Bank is doing tremendous work to strengthen our economy and help businesses across the country reach new markets and grow our exports in an increasingly competitive global market. The Export-Import Bank is helping businesses of all sizes in our home State of New York to do just that.

Take the Sensis Corporation in Syracuse, a leading provider of air traffic management solutions for both civil and defense industries. Sensis was in dire need of working capital when lenders were not offering it, putting jobs in Upstate New York at risk. The Export-Import Bank stepped in to give lenders the confidence they needed to invest in Sensis, keeping 700 jobs in Syracuse, and put the company on firm foundation for growth. Today, Sensis's North American presence is stronger than ever, expanding its portfolio with a range of new, innovative products.

Other small businesses, like Love and Quiches on Long Island—small businesses are the most powerful private sector job creator we have. But like many small businesses, this Long Island bakery was struggling to get a line of credit it needed. Again, the Export-Import Bank stepped in with its Small Business Export Credit Insurance. That confidence and security helped take Love and Quiches from the small personal kitchen its founder launched it from and is now selling desserts to countries on the other side of the globe and opening a new state-of-the-art facility in Freeport, New York, supporting more local jobs.

That is the vision for the Export-Import Bank that Fred holds, providing the confidence that businesses need to grow, reach new markets all over the world, while creating new, good paying jobs here at home. New York and all of America is just bursting with economic potential, whether it is groundbreaking research and innovation that we can translate to new businesses and new markets, or manufacturing new clean energy technologies to helping small businesses achieve their dreams.

I am confident that with Fred's leadership, we can harness every ounce of our potential and make sure that this century is another American century leading the global economy and supporting new American jobs for a stronger middle class.

Thank you, Mr. Chairman. Thank you, Mr. Ranking Member. Thank you, Members of the Committee.

Chairman JOHNSON. Thank you, Senator Gillibrand.
Senator Schumer.

STATEMENT OF CHARLES E. SCHUMER, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator SCHUMER. Mr. Chairman, first, let me thank you for being so accommodating and moving the time back a little bit so I could be here to introduce our great Export-Import Bank President and a good friend of mine for decades. We had a very important committee meeting, which Senator Warner attended, as well, the annual meeting of the Joint Committee on the Library, and that was scheduled by our House Chairman at ten o'clock, so I had to be there and I appreciate your accommodating me.

I want to thank Senator Warner. What an instrumental role he played in that meeting and making the Joint Committee work so well.

Senator WARNER. Mr. Chairman—

Chairman JOHNSON. Senator Warner.

Senator WARNER. Mr. Chairman, I just want to correct my distinguished Chair of the Rules Committee. I was actually only there for the Joint Committee on Printing—

Senator SCHUMER. Printing.

Senator WARNER. —not Library.

[Laughter.]

Senator SCHUMER. Right. Excuse me. He was so overwhelming on Printing that it washed over into how good he did on the Library Committee.

[Laughter.]

Senator SCHUMER. Anyway, I am honored to introduce my good friend, Fred Hochberg. Fred is an accomplished businessman. He is a public servant. He is just a fine and honorable person, and as I said, has been a good friend for decades.

I am delighted to support his re-nomination to head the Export-Import Bank. He has had great service to our country in public service, in academia, and in the business world. And throughout, there is one hallmark. He has always dedicated himself to creating jobs here in America and making this country a better place. That is what the Export-Import Bank is all about. He knows how to do this, as I am sure my colleague, Senator Gillibrand, probably mentioned. Well, she is gone, but probably did mention.

She may be going to the Joint Committee on the Library now.

[Laughter.]

Senator SCHUMER. He spent two decades of his career with the Lillian Vernon Corporation, founded by his mother. His mom was an immigrant. She fled Nazi Germany, founded the company with \$2,000 in wedding gift money. And under Fred's leadership, the company was transformed from a small mail-order company to a wildly successful publicly traded corporation that employed more than 1,000 people, many in New York.

From Lillian Vernon, Fred moved on to found and serve as President of Heyday, and that was an investment firm that managed real estate and made venture capital investments.

In 1994, he came to Washington. He joined the—he was always dedicated to public service, even when we first met. That was his goal, not just to become wealthy, but to do some good in the Government. And he joined the Clinton administration as Deputy Administrator and then Acting Administrator of SBA. As we all know, small businesses are engines of our economic growth. His experience and record of accomplishment in both business and Government shows he knows what is important to the success of small business. In fact, under Fred's leadership, the Eximbank approved 3,313 transactions for small business in 2012, \$6 billion in financing and insurance for small business. That is a record for the Export-Import Bank.

He has also used his expertise to improve the operational efficiency of the Bank. The average time to approve transactions dropped by more than—close to 300 percent, from 163 days in 2009 to 60 days in 2012.

Fred has also made an impact in his personal endeavors. He and his long-time partner and my friend, Tom Healy, who is right behind me, are active in numerous philanthropic and civil rights groups. I want to thank them for what they have done to improve the lives of so many New Yorkers.

In conclusion, the Eximbank is a linchpin in creating good and sustaining jobs. Fred's record at the Export-Import Bank speaks for

itself. Four years ago, Mr. Chairman, I said before this Committee, it was clear to me that Fred possesses, quote, “the entrepreneurial spirit, the sense of civic duty, and the chutzpah necessary to excel as head of the Import-Export Bank—Export-Import Bank.” He would have been good at the Import-Export Bank, too. Over the last 4 years, Fred has proven that if I misspoke then, it was only in understating his talent and workmanship.

So I want to thank you, thank the Committee, and Freddie, congratulations on the nomination. I know you are going to continue to do a good job, and I am glad you have decided to serve for a second term.

Chairman JOHNSON. Thank you, Senator Schumer.

We will now proceed to the oath. Will the nominee please rise and raise your right hand.

Do you swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HOCHBERG. I do.

Chairman JOHNSON. Do you agree to appear and testify before any duly constituted committee of the Senate?

Mr. HOCHBERG. I do.

Chairman JOHNSON. Please be seated.

Please be assured that your written statement will be part of the record. Please also note that Members of this Committee may submit written questions to you for the record and you should respond to these questions promptly in order for the Committee to advance your nomination.

Mr. Hochberg, I invite you to introduce your family and friends in attendance before beginning your statement. You may begin.

**STATEMENT OF FRED P. HOCHBERG, OF NEW YORK, TO BE
PRESIDENT OF THE EXPORT-IMPORT BANK OF THE UNITED
STATES**

Mr. HOCHBERG. Well, thank you, Chairman Johnson, Ranking Member Crapo, and Senator Schumer.

Let me introduce my partner, Tom Healy, who is here. My mother actually is recovering in the hospital, but she is watching on video. So my mother, Lillian Vernon, will be watching, and she will have comments for me afterwards.

Chairman JOHNSON. We wish her well.

Mr. HOCHBERG. And I feel very fortunate to have both Senators Schumer and Gillibrand, who I have known for many, many years, before both of them served in the Senate, for their introductions today.

Additionally, I want to thank President Obama for nominating me for a second term as President and Chairman of the Export-Import Bank.

If confirmed, I assure you that I will do my level best to assure that U.S. businesses large and small will be able to better compete on a level playing field in support of American jobs.

As you mentioned, Chairman Johnson, 4 years ago, in the midst of a recession, I was fortunate enough to be nominated and later confirmed by this Committee. At that time, commercial banks were reluctant to lend, making Ex-Im's ability and need to fill the void

all the more critical. Some of those challenging conditions have been arrested, but some are still with us today. And for the past 4 years, thanks to the dedicated staff of Eximbank, we have grown export financing that has translated into more U.S. jobs.

In 2008, it was estimated, using Department of Commerce data, that Eximbank financing supported just over 144,000 jobs. By 2012, our financing supported an estimated 255,000 jobs, or more than 1,000 jobs for each and every working day of the year. And we did that in every State across this country.

These efforts have contributed to President Obama's goal of doubling export the National Export Initiative—to double exports and add two million jobs by the end of 2014.

As has been mentioned before and Senator Schumer commented on, I was in business for 20 years, for two decades, at Lillian Vernon, which began as a small company that my mother started on our kitchen table and ultimately grew to be a publicly traded company on the American Stock Exchange. With my business experience, I know that a critical component of job growth is small businesses.

In fiscal year 2008, Eximbank financed \$3.2 billion in loans, guarantees, and insurance for small businesses. In fiscal year 2012, \$7.5 billion in small business exports, of which \$6.1 billion was direct. And let me just add, we have done more for small business in the past 4 years than the previous 8 years combined—more in the last 4 years than the previous 8 years.

To achieve such growth in small business, we have implemented new products. Let me just mention two. One, Express Insurance, which actually just recently received an award for Innovation in Government from Harvard's Kennedy School of Government. It has helped more than 500 businesses get an answer for their insurance application in 5 days or less.

We have also recently launched, and Senator Sherrod Brown mentioned, U.S. Global Business Solutions. We launched that last month. This is a new program, a pilot program that brings together the SBA, Eximbank, and Commerce to make it more streamlined and easier for small businesses and their lenders to help them on exports.

On top of that, as the Senator mentioned, we have improved customer service. Ninety percent of all transactions are completed in 30 days, 98 percent within 100 days or less, and we are working to improve that even more.

To do that, we need to reach more small businesses. We have partnered with the United States Chamber, the National Association of Manufacturers, many banks, and have held more than 50 small business forums around the country, a number of which Senator Brown mentioned. We have done these from Billings, Montana, to Shreveport, to Charlotte, to San Bernadino, and many, many other cities around this country.

Last, if confirmed, I will assure that the Bank continues its prudent oversight and due diligence standards to protect taxpayers. Every 90 days, we submit a default report to Congress. The report on March 31, 2013, showed a default of less than one-third of 1 percent. On top of that, over the past 5 years, Eximbank has generated \$1.6 billion for U.S. taxpayers, and that is above and beyond

all of our administrative cost, operating costs, claims, and loan loss reserves. We operate at no cost to taxpayers and actually generate revenues for them while supporting U.S. jobs.

Let me close. U.S. businesses face unprecedented competition from around the globe. As a businessman myself, I know that they need to compete on value, on price, on quality. But the good news is, the “Made in America” brand is stronger than ever and is desired by more and more foreign buyers, and that is where Eximbank comes in. If confirmed, I will continue to work with Congress, the Administration, U.S. companies large and small, and their workers to enhance competitiveness and support U.S. jobs.

Thank you, and I look forward to your questions.

Chairman JOHNSON. Thank you.

As we begin questions, I will ask the Clerk to put 5 minutes on the clock for each Member.

Mr. Hochberg, during the most recent economic crisis, the Bank was able to step up and assist American exporters who were finding it difficult to acquire private financing. This assistance by the Bank had a substantial benefit for many American companies and workers. Can you explain the role the Bank played during the crisis and why ensuring the continued stability of the Bank is vital to protect against any unforeseen downturns in the economy?

Mr. HOCHBERG. Well, thank you, Chairman Johnson. One of the things that we do in the middle of a financial crisis, and we tend to be countercyclical, is we fill a void, particularly when commercial banks have their own credit limits, and this is particularly acute in the last three or 4 years with small businesses. It is another reason why we have done more small business volume in 4 years than the previous 8 years.

So small business has been particularly hurt hard, and in addition, at times, different banks have either lending limits by product sector or country of export. So we help fill in those gaps when individual banks have those problems.

Chairman JOHNSON. To continue to protect taxpayers, we must ensure that the Bank has responsible risk management practices in place. What is the Bank doing to assure Congress and the American people that its risk management procedures are appropriate?

Mr. HOCHBERG. First of all, Senator, we take our loan losses, or every time we book a loan on our books, we make a reserve based on a credit evaluation of what that loan could possibly yield in a loss, and that is done by a separate credit policy group. So we have substantial reserves. Our reserves now are over \$4.6 billion to back up loans we have made.

On top of that, we recently received a report from GAO looking at our credit risk policies. We have completely agreed with GAO and are in the midst of implementing all of their recommendations.

Chairman JOHNSON. The Bank is required to ensure that at least 20 percent of its annual authorizations goes toward small business. Under your leadership, the Bank has substantially increased financing for small business, but it can do more. What challenges do small businesses face when seeking export financing, and what can you do to make the Bank more responsive to the needs of U.S. exporters located in rural areas?

Mr. HOCHBERG. Well, Chairman Johnson, as Senator Schumer mentioned, I came from a small business and I worked at the Small Business Administration under President Clinton, so I have taken to heart and made central to the Bank our work in the small business arena.

We have done, for example, about 50 Global Access Forums, seminars in different areas of the country. Senator Brown mentioned I have done a number in Ohio. I have done them in Virginia, Massachusetts, Billings, Montana, with Senator Tester, so in a lot of rural communities.

In South Dakota itself, Rosenbauer, which makes fire trucks, we have worked with them to finance their exports out of South Dakota. So many companies that are not just selling ag products but actual hard capital goods are located in rural America. Rosenbauer is one, and Daktronics, which makes these very high-tech scoreboards, is another company in South Dakota that we help them export.

Chairman JOHNSON. Mr. Hochberg, many other countries devote substantially more resources to their export credit agencies than the U.S. does. What is the Bank doing consistent with its charter and mission to ensure that it remains competitive in relation to other export credit agencies? How does the Bank help to maintain a level playing field for American companies?

Mr. HOCHBERG. In a number of ways. One, the OECD, the Organization for Economic Cooperation and Development, sets a framework on how export loans are made, how long a loan can be made and what kind of fees or points, the way you pay points on a mortgage. That gives a level playing field with the 30-plus countries that are in the OECD.

One of our biggest challenges today is to bring other countries in. Most notably, China is not a member of the OECD, not a part of the framework, nor Brazil, nor India. Russia is moving in that direction. So we have a lot of these very strong and emerging competitors, and China is a formidable competitor that is not a member.

President Obama met with then-Vice President Xi and is working toward a framework by the end of 2014 that would bring them into the OECD so we can better be more transparent and find a way to limit export credit as much as possible. So that is still a large challenge ahead of us and it is a huge challenge, really, for American companies as they compete with countries like that.

Chairman JOHNSON. Senator Crapo.

Senator CRAPO. Thank you very much, Mr. Chairman, and President Hochberg, again, thank you for your service at the Bank and for appearing here with us today.

I would like to ask you to respond to the criticism that I know you are aware of that many are raising now with regard to the Export-Import Bank's functions in the context of the feeling that the Bank is basically providing corporate welfare to some of America's largest corporations and that it truly—that the function of the Bank truly is not needed because these large corporations do not need that kind of assistance, particularly from a Government-backed function.

Mr. HOCHBERG. Senator Crapo, most of the loans we make, the vast majority, are actually to customers of U.S. companies. They are not made to the large U.S. companies you are referring to. They are made to their customers. And when a customer, whether it is in India or Colombia or anywhere in the world, is making a purchase decision, they are going to choose between American products or products made in China or Germany, Japan, Korea, and so forth. Each of those countries provides export support and export loans to support those exports.

We cannot unilaterally disarm by not making sure that we are backing American companies and American jobs, to make sure that if they need our financing to close the sale, it is available. Many times, they do not need it, but when they do, when they are going toe-to-toe with a competitor that has export financing arranged, we need to make sure they have it, as well.

Senator CRAPO. Well, thank you. And in that context, what is the Bank doing, or how do you deal with the issue that arises when you are supporting certain businesses or certain export transactions and the adverse impact that that can have with regard to other American companies who are competitors in that market?

Mr. HOCHBERG. We have at the Export-Import Bank something called an Economic Impact Procedure that does just that. We want to make sure—we are about U.S. jobs. We are about creating, supporting, and sustaining U.S. jobs. So we want to do nothing that is going to hurt U.S. jobs.

So when we evaluate each and every transaction, we review it to make sure that the benefits of that transaction will outweigh any harm. We cannot eliminate harm. We just want to make sure the benefits outweigh the harm, and we do that on all transactions. Depending on the transaction, we will do a more in-depth study if it is warranted.

Senator CRAPO. Thank you. And to change topics just a little bit, you mentioned in your remarks that the Bank operates at no cost to the taxpayer. What liability does the American taxpayer have for the loans that are not repaid, or any other program liability?

Mr. HOCHBERG. Well, currently, as I mentioned, our defaults are running less than one-third of 1 percent, and our reserves are over 2½ percent. So our reserves are well, well in excess of the kind of write-offs that we have had to make on an annual basis.

We do a thorough job to begin with of underwriting. The first step is really to make sure we are underwriting a loan that has a reasonable assurance of repayment. We monitor that loan on an ongoing basis. We true up the portfolio every year at year end. We are audited by Deloitte and Touche on an annual basis and have an unqualified financial statement each and every year. GAO provides oversight. We have a close working relationship with our Inspector General. So there are a lot of control mechanisms in place, but it really starts with good underwriting to begin with.

Senator CRAPO. Thank you. And a number of us have mentioned the value of small business support. What ideas do you have to further facilitate the financing of small business exports?

Mr. HOCHBERG. Small businesses, and I ran a small business, as has been mentioned before, have a challenge receiving credit in any

environment, and particularly in this environment, and particularly when they are looking to sell overseas.

One of the ways we do this is by running these forums that I believe you and I are scheduling to do one in August in Idaho.

Senator CRAPO. Yes.

Mr. HOCHBERG. We have done, as I said, approximately 50 of them, because a lot of it is about getting information out there. Tom Donohue of the Chamber of Commerce has been a partner with us, Jay Timmons at National Association of Manufacturers, and many States, as well as the SBA and others. So part of it is getting the word out.

The other thing is better customer service. You know, we are trying to do our Express Insurance that received this award. We turn around and give a quotation for a customer to get insurance for an overseas sale within 5 days. We are looking to make those kind of innovations that will make sure that small businesses can compete and win globally.

Senator CRAPO. Thank you.

Chairman JOHNSON. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman, and thank you again, Chairman Hochberg, for being here and for your service. Your work has been extraordinary. I know you took over in very hard times and you have been able to accomplish a lot for our businesses and, I am sure, for those who work for those businesses. They are very grateful for your work. I particularly appreciate your focus on small businesses and on streamlining your procedures to make them more accessible.

I want to ask you, though, about something else, and that is in 2011, as you know, Congress negotiated a Korea Free Trade Agreement, and at the time that it was negotiated, the U.S. Trade Representative cheered the agreement for the opportunities it would provide for creating more trade with Korea. I am sure you have noticed, though, that the facts have not worked out so clearly.

Since the agreement went into effect in March 2012, trends in trading patterns with Korea have been alarming, and I checked the numbers between February 12 and March 2013, which is the most recently available data. U.S. imports globally grew by 5 percent, but they increased from Korea by 17 percent. Our exports to the world increased by 11 percent—very good news—but they decreased to Korea by 5 percent. So, looking at this another way, while our Nation's global trade deficit shrunk 5 percent, our deficit with Korea increased by a staggering 170 percent. To put a specific number on it, our trade deficit with Korea was about \$1.5 billion during this time period.

So the question I want to ask is, your job is to increase exports and to reduce our trade deficit. Do you think that the Korea Trade Agreement has made it harder for you to do that, Mr. Chairman?

Mr. HOCHBERG. I do not see an impact in that regard. Our trade that we are engaged with at Eximbank with Korea has primarily been in two areas. It has been in aircraft. Korean Airlines, I am happy to say, is a very strong Boeing customer and we have worked with them on some joint financing. Also in some of the areas of renewable energy, solar panels and solar energy. But we do not have a strong book of business with Korea outside of that.

I actually have planned a trip to Korea later this year because there are a number of Korean infrastructure firms and I want to make sure that they start buying from the United States when they are doing infrastructure in third countries. So that is one of our goals, is to increase that footprint for American companies, because these Korean EPC firms, as they are referred to, engineering procurement and construction, are very formidable and I want to make sure that American companies get their fair share of that.

Senator WARREN. Well, I appreciate that you are trying to do that, because, obviously, just based on the math, something is not working very well for the United States on the Korea Free Trade Agreement and it seems to be working at cross-purposes with what it is that you are trying to accomplish.

As you know, the U.S. Trade Ambassador is currently negotiating the Trans-Pacific Partnership Agreement. Has your office played a role in those negotiations?

Mr. HOCHBERG. We do not. Really, the role of the U.S. Trade Representative is really to formulate the trade agreements. Once they are in place, our goal is to—companies that need our support in those markets, is to work with them in those markets.

Senator WARREN. Do you think it would be helpful—I am a little concerned because of the data out of Korea—if we asked the Trade Representative to involve you more in the negotiations, or do you think that is not an appropriate role?

Mr. HOCHBERG. It is—you know, we are really about implementation at the Eximbank. So in terms of trade policy, that really is somewhat outside of our lane. With the jobs we are trying to sustain and support at Eximbank, I have got my hands pretty full in supporting—

Senator WARREN. Fair enough.

Mr. HOCHBERG. —U.S. exporters in the work we are doing right now.

Senator WARREN. Fair enough. Thank you.

I just have one more, and I want to just try to ask it quickly. There have been some troubling indications that the big banks see the Trans-Pacific Partnership Agreement and the Trans-Atlantic Trade and Investment Partnership as opportunities to weaken financial regulations, a chance for these banks to get something done quietly, out of sight, that they could not accomplish in a public place with the cameras rolling and the lights on. And this is a really serious concern for me.

So I have a question about future negotiations. If you are involved in any way in future negotiations, whether it is formally or informally, as you monitor these negotiations, will you take a close look at the terms and do what you can to make sure that these agreements do not become a back door way to water down financial regulations for the large banks?

Mr. HOCHBERG. Well, I can say the following, also. We have probably some of the strongest banks in the world right now because of the kind of reserves that have been put in and the fact that they have beefed up their balance sheets, and so that is what we need to work with, because most of the loans we make are guaranteed. We work with a bank and we guarantee those loans.

For a number of years, we made a large number of loans with European banks. They have largely exited the market because of their weakened condition. So a stronger banking system is far better for Eximbank because we can work with a lot stronger banks that way.

Senator WARREN. Thank you, and I apologize for running over, Mr. Chairman. Thank you.

Chairman JOHNSON. Senator Warner.

Senator WARNER. Thank you, Mr. Chairman, and President Hochberg, good to see you again.

I want to take a slightly different approach than my colleagues. You know, one of the things that I think you pointed out was the stellar record of the Export-Import Bank, never cost the taxpayer a dollar, and I would think that would be partially because you have created this project finance expertise inside the Export-Import Bank that has provided value to American businesses, value to the American taxpayer.

I mean, I, for one, believe that we need another tool in our tool box as we look at infrastructure and have been a long-time supporter of the bipartisan efforts here in the Senate to put together an Infrastructure Bank, which in many ways would be really a project finance expertise so that those who are critical of efforts like around Solyndra and elsewhere, we could concentrate that project finance expertise in one location. Even good projects where we have got things like TIFIA right now, which has got a good record, but we are finding it is hard to get long-term good people to stay at TIFIA because they are not sure whether it is going to be the long-term career.

Can you just speak for a moment about the value of having a separate independent institution like the Export-Import Bank with professional staff and how that has built the kind of good underwriting standards and project finance expertise in your institution?

Mr. HOCHBERG. I can try. Well, practice does make perfect, and not that we are perfect, but I am very proud of the team that John Schuster, who heads up our Project Finance Group at Eximbank. We now do more project finance loans than transportation. It is actually the largest single area of the bank. And that partly is talking about the global infrastructure boom that we want to make sure U.S. companies participate in. These projects are very large. They are very complex. And having the expertise both on the financial side, on the legal side, I think, has helped us be seen as a leader in that regard and we have brought a lot of business to the United States as a result.

I mean, more than one—a number of projects have said, because of our financing, they have actually moving more procurement and more of the services. Last year, about—we did over \$10 billion worth of service exports in this very area you are talking about.

Senator WARNER. I think, Mr. Chairman, it would show that if we had that capability for transportation, water, energy, in a single location on the domestic side, it would be a great asset, and I, frankly, think the Export-Import Bank is a great model on that project finance side. I mean, I think those of us who have been advocates for Infrastructure Banks have sometimes said we are not creating a new GSE. We are really trying to create a domestic

version of the Export-Import Bank, and I think, again, the record of the Export-Import Bank is a good one to follow.

Let me also follow up on something Senator Brown was mentioning. I applaud what you are doing in terms of trying to help small businesses, and I, like Senator Warren, may be trying to get you a little bit out of your lane here again. But I continue to think that the—if you are a small to mid-size business in America trying to navigate now you are going to export a product or service, it is still kind of a confusing mess between Export-Import, OPIC, USTR, Commerce, all the other various agencies.

Have you thought—I know that the Administration put forward some level of trade consolidation efforts that had maybe a half-day life here on the Hill before it got shot down a year past. Were you involved in any of those conversations about how we might want to rationalize our export activities for small and mid-size businesses?

Mr. HOCHBERG. Well, first of all, we have—not waiting for legislation, we actually have something called U.S. Global Business Solutions that was launched in early April as a pilot—we are going to monitor it between now and the fall—which pulls together the SBA, the Export-Import Bank, and the Commerce Department. So we are finding ways to not wait but to move ahead as best we can, where we can find common ground to make sure we help small businesses and, importantly, their lenders, because if we make it easy for the lenders, we actually make that easier for small businesses.

Senator WARNER. One of the things I hope that we can look at, Mr. Chairman—I do not know, it may be a little bit out of our purview here—but how we get that single portal so that small to mid-size businesses do not have to navigate their way through the jumble of Federal bureaucracy to get that right.

My time is about up. I will just ask one other question for the record. One of the issues that when we were going through the reauthorization we were looking at is asking you to take a look at domestic content. We all want to make sure we have got—obviously, that this is supporting of American businesses. But that definition of domestic content might need a fresh look so that we can really make sure that we are not excluding American businesses. And I know, again, with the discretion of the Chair, if you want to make any quick comment, but if not, you can answer me later. Can you—

Mr. HOCHBERG. Again, the focus of the Export-Import Bank is about U.S. jobs. We are not a national interest export credit agency like most of our competitors are, frankly.

Congress has asked, and we have a content report that is due at the end of this month. We have spent the last 6 months with focus groups, public comment. We have been assembling that and are going to be sending a report to you and your colleagues at the end of May.

Chairman JOHNSON. One last question. Congress has enacted legislation to restrict the Eximbank from making loans or providing guarantees in relation to certain projects or companies that conduct prohibited business in or with Iran. What has the Bank done to ensure that it is in compliance with this legislation?

Mr. HOCHBERG. We take the requirements in the public law in terms of restrictions on Iran. We have fully implemented the—it is referred to as Section 18 in our Reauthorization Act on Iran. We require certification by each company we do business with that it is not doing business with Iran, that we are in compliance with Iran sanctions. All transactions over \$100 million are circulated to the NAC, the National Advisory Council, which includes Treasury, State. So there is a rigorous process to ensure that we are in full compliance with the Iran sanctions that pertain to lending to foreign export finance.

Chairman JOHNSON. Does anyone have any other questions? If not, thank you, Chairman Hochberg, for your testimony today.

We will leave the record open until Thursday, May 9, at noon, so that Members can submit additional questions. Chairman Hochberg, please submit your answers to us as soon as possible.

This hearing is adjourned.

[Whereupon, at 11:08 a.m., the hearing was adjourned.]

[Prepared statement, biographical sketch of nominee, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF FRED P. HOCHBERG
 TO BE PRESIDENT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES
 MAY 7, 2013

I would like to thank President Obama for nominating me for a second term as President and Chairman of the Export-Import Bank of the United States ("Ex-Im Bank" or "Bank"). I also want to thank Chairman Johnson for calling this hearing today and thank the Members of this Committee, including Ranking Member Crapo and others who I met with prior to the hearing. If confirmed, I will do everything in my power to assure that U.S. businesses, large and small, will be able to compete on a level playing field in support of American jobs.

The Ex-Im Bank is the official export credit agency of the United States. The mission of Ex-Im Bank is to enable U.S. companies—large and small—to turn export opportunities into sales that help maintain and create U.S. jobs which contribute to a stronger national economy. The Bank achieves its mission by providing export financing through its loan, guarantee, and insurance programs in cases where the private sector is unable or unwilling to do so. Ex-Im Bank also provides support when necessary to level the playing field when financing is provided by foreign Governments to their companies who compete for export sales with U.S. exporters.

I was fortunate to be nominated and confirmed 4 years ago during a very difficult time for our economy. We were in the midst of a recession and commercial banks were reluctant to lend, making Ex-Im Bank's ability to fill the void all the more critical. Over the past 4 years, thanks to the dedicated staff of Ex-Im Bank, we have grown export financing significantly, supporting more and more U.S. jobs. In 2008, using Department of Commerce data, it was estimated that Ex-Im Bank financing supported 144,800 jobs. By FY2012, our financing supported an estimated 255,000 jobs across the country. These efforts have contributed to the President's National Export Initiative goal of doubling exports by 2015. If confirmed, I look forward to continuing that job growth as our Nation continues its economic recovery.

Before entering Federal service, I was a businessman for 20 years running the Lillian Vernon company. Lillian Vernon was a small mail order catalog company my mother started on our family's kitchen table and it grew into a large publicly traded company. Whether at Lillian Vernon or the Export-Import Bank, I have always placed a premium on serving our customers. In providing better service to the Bank's customers, we have reduced the amount of time it takes to approve applications and have offered new products to meet the needs of exporters.

A critical component to job growth is small business, for which Congress has mandated we make available 20 percent of our financing. In FY2008 Ex-Im Bank financed \$3.2 billion in direct small business exports. In FY2012 we financed a total of \$7.5 billion in small business exports of which \$6.1 billion was direct. Total small business exports include those directly exported by small business to a foreign buyer, plus small business inputs into the supply chain of larger U.S. companies' products which are ultimately exported. At Ex-Im Bank, small business accounted for 88 percent of all transactions last year and small business is essential for job growth in coming years.

To address the needs of our small business customers, we have implemented new products such as Supply Chain Finance to increase liquidity for small businesses, Global Credit Express for smaller transactions of half-a-million dollars or less and our most popular product Express Insurance which received an innovation in Government award from Harvard's Kennedy School and has helped more than 500 small businesses get a response to their application within 5 business days.

And we are not stopping there. In April, we launched a new pilot program called U.S. Global Business Solutions. The program streamlines U.S. Government trade-finance products for lenders and exporters. The programs and products will be combined into a single menu of options tailored to the exporter's needs. Working together, Ex-Im Bank, the Small Business Administration, and the U.S. Department of Commerce, make it easier and more cost-effective for exporters and their lenders to avail themselves of the programs and products of multiple agencies.

The key to expanding exports is marketing and communicating to small businesses. To increase awareness, Ex-Im Bank has partnered with the U.S. Chamber of Commerce, the National Association of Manufacturers, Government agencies, and commercial banks to hold more than 50 small business forums that we call Global Access for Small Business. From Billings, Montana, to Shreveport, Louisiana, and from Charlotte, North Carolina, to San Bernardino, California, thousands of businesses have learned how to access foreign markets and use Ex-Im Bank to give them a competitive edge when exporting.

During my tenure at Ex-Im Bank I have worked to ensure that we make significant progress in supporting our other congressional mandates to finance more renewable energy exports and exports to sub-Saharan Africa. Our support for renewable energy has increased more than tenfold from \$30.4 million in FY2008 to \$355.5 million in FY2012.

I am proud of our work in sub-Saharan Africa which is home to 7 of the 10 fastest growing economies in the world. Many countries in sub-Saharan Africa have developed to the point where they are now eligible for Ex-Im Bank financing. The Bank has grown sub-Saharan Africa financing from \$576 million in FY2008 to \$1.5 billion in FY2012. While Ex-Im Bank supports approximately 2 percent of all U.S. exports, we financed approximately 7 percent of all U.S. exports to sub-Saharan Africa.

Lastly, if confirmed, I will ensure that the Bank continues its prudent oversight and due diligence standards to protect taxpayers. As a result of provisions inserted into the Bank's charter during last year's reauthorization, every 90 days Ex-Im Bank submits a default rate report to Congress. I am pleased to inform you that our most recent report dated March 31, 2013, showed a default rate of 0.307 percent. In addition to this low default rate, over the past 5 years Ex-Im Bank has generated \$1.6 billion for U.S. taxpayers, above and beyond all administrative operating costs, claims, and loan loss reserves we have set aside. We operate at no cost to the taxpayers and actually generate revenue for them while supporting U.S. jobs.

As a businessman myself, I know U.S. companies still need to compete globally on the basis of price and quality. The world wants services and products that are made in America. If confirmed, I will continue to work with Congress, the Administration, U.S. businesses and their workforce to enhance competitiveness and support U.S. jobs.

Thank you.

BIOGRAPHICAL SKETCH OF NOMINEE FRED P. HOCHBERG

Fred P. Hochberg is the 23rd president of the Export-Import Bank of the United States, the U.S. Government's official export credit agency.

President Barack Obama first nominated Hochberg to the position on April 20, 2009. The Senate confirmed his nomination by unanimous consent on May 14, 2009, for a term ending on January 20, 2013. He was sworn in as chairman and president on May 21, 2009. His term was extended for 6 months, until July 20, 2013. Mr. Hochberg was renominated by President Obama on March 21, 2013, for a term ending on January 20, 2017.

Mr. Hochberg has more than 30 years of experience in business, Government, and philanthropy. From 1998 through 2001, he served as deputy, and then acting administrator, of the Small Business Administration. Before joining the Clinton administration, Hochberg was president and chief operating officer of the Lillian Vernon Corporation, which was founded by his mother. From 2004 to 2008, he was a dean at The New School in New York. Hochberg received a Bachelor of Arts from New York University and a Master's of Business Administration from Columbia University.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR CRAPO
FROM FRED P. HOCHBERG**

Q.1. There is a perception that the Export-Import Bank is “subsidizing” a discrete number of very large corporations which outwardly appear to not need any form of financial support. The implication is that this constitutes little more than Government-backed corporate welfare, in its purest form.

Please fully respond to the perception and its implication.

A.1. Thank you for asking this question and giving me an opportunity to address this common misconception. Ex-Im Bank does not provide below-market “subsidized” rates. In fact, every financing Ex-Im Bank authorizes is fully consistent with the rules and principles of the World Trade Organization. Ex-Im Bank also does not provide aid, but provides financing in the form of loans, loan guarantees, and credit insurance. We collect a risk-based premium for this service, similar to points on a mortgage, which currently ranges from approximately 0.5 percent to 15.5 percent.

Ex-Im Bank is a self-sustaining agency. The fees and interest we charge customers pay for all operations, claims and loan loss reserves. We actually turn a profit for the taxpayers, last year generating \$1.1 billion to the U.S. Treasury.

The charge that our financing of exports amounts to “corporate welfare” is false. We finance foreign purchasers (or guarantee foreign banks and U.S. banks) of U.S. exports, charging risk-based fees and interest, leveling the playing field so that American exporters can compete on product quality and value. With the exception of our U.S. small business and working capital guarantee programs, we do not provide financing directly to U.S. businesses; we principally provide financing support to the foreign purchasers to of U.S. goods and services.

Q.2. Is the availability of a Bank guarantee encouraging our domestic private financial institutions to stay out of direct lending in the export market?

A.2. No. To the contrary our guarantees don’t compete with commercial institutions; they work with them by providing guarantees to their commercial loans encouraging them to make loans that their customary credit standards might otherwise limit. Therefore, Ex-Im Bank only provides guarantees if the commercial banks are unwilling to lend without our cover. One of the criteria that the Bank considers as part of its due diligence is whether the guarantee provided by Ex-Im Bank results in additional credit required by the commercial institutions to close a transaction.

More than 80 percent of the Ex-Im Bank’s current outstanding exposure (disbursed but not yet repaid) is comprised of guarantees of loans by commercial banks. As of March 31, 2013, the Bank’s outstanding exposure is \$74.6 billion and of that amount \$60 billion is guaranteed lending.

Q.3. In response to the Chairman’s question on the ability of American exporters to acquire private financing in times of crisis, you replied in part that the Bank tends to be countercyclical and acts to fill a void during these times. A few minutes later, however, you were reported by the press to have said, outside the hearing, that

the Bank is unlikely to reduce its support for U.S. exports as the economy improves.

Can you reconcile the two positions?

A.3. There is no conflict between these two statements.

According to the Census Bureau, exports of goods and services are up 39 percent since 2009, so it is not surprising that Ex-Im Bank is being called upon to step up. Banks are still “under-lent”—that’s their word—and banks increasingly only finance exports for preferred, well-established customers.

Also it is worth noting that banks are now required by regulators to reserve more capital for their transactions, even those covered by Ex-Im Bank or other similar ECAs. So while commercial banks will re-enter the market, it may not be at sufficient levels to support U.S. exports. Ex-Im Bank’s role is to fill this gap. Increased exports and a banking system that remains reluctant to lend to overseas buyers and small businesses are two reasons why our support may increase even as the economy improves.

Additionally, more exports are going to the developing world, where banks have their own self-imposed limits as to lending into those markets, which means that they will continue to rely on Ex-Im Bank support to close those sales of U.S. goods and services. It is critically important to U.S. companies that they enter these markets early on so they can capitalize on follow-on sales and build brand loyalty in the emerging countries.

Small businesses will continue to be challenged in obtaining sufficient credit, particularly in the developing world.

Q.4. When the Bank does act on behalf of an overseas buyer, what steps does the bank take to either mitigate or eliminate negative economic impact on other domestic manufacturers or suppliers of services?

A.4. The Bank’s actions are always on behalf of U.S. exports and the related U.S. jobs. Every application submitted to the Bank is subject to economic impact scrutiny. Staff quickly determines economic impact applicability and subjects only those applications that meet stated criteria to detailed economic analysis. For example, applications valued at \$10 million or less seeking support for the export of noncapital goods and services (e.g., spare parts and commodities), are screened out early in the economic impact review process.

On the other hand, applications for capital goods and services exceeding \$10 million in Ex-Im Bank financing for projects that will establish or expand foreign production capacity (e.g., a petrochemical project) by 1 percent or more of comparable U.S. production, are subject to detailed economic impact analyses. For such applications, the Bank: (1) issues a notice in the *Federal Register* seeking comments from the public, (2) prepares an analysis of the likely impact of the new foreign production on U.S. producers, (3) obtains input from other USG agencies; and (4) provides the Board with all relevant information gathered in the three previous steps. In sum, the Bank has created a transparent and comprehensive process to evaluate any potential negative impact on U.S. producers.

The tests used to determine whether a detailed economic impact analysis is necessary are usually called “screens” or “filters.” The screens used in the foregoing example are applied to transactions in which the exported goods or services are used to manufacture goods. The screens are different for transactions in which the exported goods or services result in services rather than goods. Different screens are necessary because of the inherent differences between goods and services.

Q.5. What will become of the relative distribution of Bank support in an improving world economy, where private markets and rates become more attractive to the best credit risks?

A.5. Our goal and mission is to be available only when needed. As the economy improves, there will be those sectors of the export economy that will be more adequately served by commercial banks. Although Ex-Im Bank tends to be countercyclical, two other factors today are at play—increased exports and globally a weakened financial system with higher capital requirements. In a changing global economy the Bank’s portfolio distribution may change reflecting underlying financial needs. Some sectors may increase their need for Bank financing while others may decrease. We will also be challenged to finance more marginal credits that remain less attractive to banks—that is to countries that are hard to finance and products that are difficult to finance. While we may face more marginal transactions, that will not change our extensive due diligence and underwriting practices. Thanks to our stringent underwriting and aggressive collection processes, we have a very low 0.307 percent default rate as of March 31st.

Q.6. The 2012 reauthorization required the Government Accountability Office (GAO) to review the Bank’s risk management practices to determine what if any inherent risks there are to the American taxpayer. The report was issued in March 2013.

Are you willing to accept and implement procedures or processes for each of GAO’s recommendations?

A.6. Yes. The Bank provided a very inclusive and transparent review of our risk management practices for the GAO. Ex-Im Bank proactively manages risk and is committed to continuous improvement. The Bank agreed with each GAO recommendation on this audit and began this fiscal year to implement all of the Recommendations for Executive Action identified in this GAO audit. Ex-Im Bank will report the implementation status to the U.S. Congress and the GAO within 120 days after officially receiving the Comptroller General report.

Q.7. What are the specific steps that you will take to improve the Bank’s risk-management framework, particularly in light of the bank’s large volume of recent transactions?

A.7. The Ex-Im Bank has been developing a comprehensive risk management framework, recognized by the GAO, which proactively manages risk and is committed to continuous improvement. Ex-Im Bank believes that a comprehensive risk management framework minimizes claims.

First, the Bank already has in place risk-rating systems with stringent credit underwriting procedures for its short, medium, and

long term transactions. These credit standards and risk rating methodologies are applied to transactions under review to determine whether they qualify under Ex-Im Bank's Charter requirements of reasonable assurance of repayment prior to presenting the transaction for final approval.

The risk rating system is also complemented by a country risk evaluation from Ex-Im Bank's in-house country risk evaluation team. Country-risk criteria and risk rating standards applied are the same as the criteria shared and applied by all other USG agencies in their lending protocols. Additionally, the Bank is very proud of the risk management improvements made during the past few years, improvements that protect the U.S. taxpayer. Recently, the Bank has implemented the following important improvements:

- streamlining of credit monitoring functions,
- enhancing the sharing of information and risk evaluation within the Bank to insure sound credit decisions are made,
- evaluating existing programs,
- creating a Special Assets Unit to address emerging credit issues,
- updating the Bank's Credit Manual, and
- using qualitative factors to improve the Bank credit-loss models.

These recent improvements are consistent with industry best practices. In fiscal year 2012, the Bank paid \$37 million in gross claims on a portfolio of \$106 billion. Ex-Im Bank recovers approximately 50 percent on all claims paid, far above commercial bank averages. On March 31, 2013, Ex-Im Bank reported a default rate of 0.307 percent.

The Bank is also committed to further improvements in our risk management practice. To foster the development of enterprise risk awareness, Ex-Im Bank plans to establish an Enterprise Risk Committee (ERC) comprising senior management from the business, financial, legal, policy, resource, and risk management areas.

Thanks to Congress, the Bank is also making significant investments to modernize its IT systems and business processes, including the modernization of the Asset Monitoring System. Ex-Im Bank also is committed to analyzing workload capacity benchmarks on a product and functional basis. This operational risk analysis will allow the Bank to better evaluate its ability to support incremental transactions given current resource allocations. Additionally, the Bank will continuously evaluate and seek to improve our underwriting, monitoring, and recovery efforts using best practices. Ex-Im Bank has a comprehensive risk management framework that proactively manages risk and is committed to continuous improvement.

Q.8. I have long been concerned on this Committee with the situation of small business exporters. Since 2002, Congress has required that the Bank make available at least 20 percent of its annual financing to such business.

What steps is the Bank taking to attract more small business participation, and how effective are those steps?

A.8. I have made small business a key priority during my tenure at Ex-Im Bank. Having run a small family business for 20 years that grew into a large publicly traded company, I know the vital role small businesses play in our economy both through direct exports and through inputs added to other goods for export. Having also served as Deputy Administrator of the Small Business Administration (SBA) and later as Acting Administrator, I have a deep knowledge and commitment to small business.

I am proud of the progress Ex-Im Bank has made over the past 4 years. In 2008 the Bank supported \$3.2 billion in direct small business exports. Thanks to a number of new options for small businesses, we have grown that number to \$7.5 billion in FY2012, of which \$6.1 billion was direct exports.

In fact, Ex-Im Bank financed more small business exports in the last 4 years than it did in the previous 8 years.

Ex-Im Bank has taken aggressive steps on three critical tracks for growing small business:

Expanded Visibility

Ex-Im Bank has developed the Global Access Forums which bring together exporters, representatives of Federal exporting agencies and local banks. These half day forums which are delivered nationally provide product information and contacts for facilitating export transactions. Over 50 of these have been done, with several thousand attendees.

New Financial Products That Fit the Need

Global Credit Express

This fills a critical gap in the market, offering small export working capital loans (up to \$500,000) to high quality credit with limited assets and capital, typically service businesses.

Express Insurance

This simplified policy requires only a one-page application and free credit reports, and are answered within five days. Since it began in April 2011, we have generated 579 policies in the amount of \$278 million using 48 brokers. This received the Bright Ideas in Government Award from Harvard's Kennedy School of Government in 2012.

Supply Chain Finance

This can cut borrowing costs for small business suppliers by more than half while helping them manage cash and their relationships with their largest customers. Initiated in 2010, there have been five SCF transactions that have authorized \$1.2B in available low-cost advance funding to small business suppliers.

Expanding Partnerships With Institutions That Serve Small Businesses

Together with the SBA, Commerce, the USTDA, USDA, and OPIC, Ex-Im Bank has established:

Global Business Solutions

This pilot program aims to increase the number of small business exporters by 50,000 by December 2017—after enlisting 250 banks to provide trade finance services to their clients by December 2015.

It offers two simple menus of products and services from the export agencies that are targeted for specific segments of the small business and small-business lending sectors: the Global Business Solutions for high volume mainstream earlier stage businesses, and the Specialized Global Solutions for more advanced businesses and lenders.

It involves 40 experienced export finance managers nationally selling the same products and services, shared marketing and training for small business lenders and their clients beginning in June, 2013, and interagency referral platform and data base for ensuring optimal service and tracking.

Establishing Infrastructure

Ex-Im Bank has created the Exporter Evaluation risk scoring system, which enables the Bank to deliver its trade credit insurance approvals much more rapidly and systematically. Since 2010 average turnaround has dropped from 30 days to 15 in trade credit insurance, partly as a result of this innovation.

Q.9. What challenges is the Bank facing in its effort to increase small business participation, and what more could be done?

A.9. In Fiscal Year 2012, 88 percent of Ex-Im Bank's transactions were for small businesses. Historically the biggest market for the small business has been right here in the U.S. and, as a result, many small businesses saw little need to export. In the last decade this has changed as domestic growth has slowed while accelerating abroad. Today, 95 percent of the world's customers live outside the United States and, to be more competitive, small U.S. businesses need to tap into that market.

As more small businesses discover demand for their products and services and the need to go overseas, they find that their lenders and service providers are often not up to speed on the products and services they need to successfully export. This is why we created Global Access Forums, to educate small businesses on the financial tools they need to effectively compete overseas.

For example, Jenny Fulton was a laid off stock broker in North Carolina. As a result, she decided to start canning Miss Jenny's Pickles and selling them to local grocers. Jenny came to one of our Global Access Forums, heard my presentation about how we work with small businesses so they can export their products utilizing modern credit tools, such as accounts receivable insurance. As she stated on 60 Minutes recently, that is what inspired her to begin exporting as she grew her company. Jenny became Ex-Im Bank's 500th Express Insurance customer and now she is exporting to China, Mongolia, Canada and other countries.

Aside from getting the word out to small businesses as to how we can help them export, we need to educate U.S. banks about our services. Historically, the trade finance disciplines have been separate from the small business finance disciplines at most banks and this separation is largely consistent across the banking community.

In order to bridge the gap, we have made trade finance products and services fit the specific needs of small businesses and the platforms that their lenders have developed to serve them. This is the primary goal of the Global Business Solutions program developed by the Export Promotion Cabinet.

Q.10. U.S. companies increasingly are challenged by subsidized export financing from China and other non-European countries.

What are some examples of nontraditional financing terms used by China and these other countries to induce buyers to purchase its products?

A.10. From Ex-Im Bank's perspective, any export financing that does not conform to the terms and conditions set forth in the OECD's Arrangement on Officially Supported Export Credits are considered to be "Nontraditional." Therefore, nontraditional officially (Government) supported export credits can come from both OECD and non-OECD countries. For example, the Canadian ECA, Export Development Canada (EDC), an OECD member, offers "market window" financing that EDC states are available terms that mirror the private market (e.g., interest rates, repayment terms). Because of the "market" nature of the market-window financing, this form of financing is not covered by the OECD. As such practices are not subject to OECD reporting, Ex-Im Bank has no specific examples to share.

Another form of financing that is utilized commonly in Asia, but is not covered by the OECD Arrangement is "untied financing" which by its very nature is not supposed to be tied to exports, and therefore falls outside the scope of the OECD. However, Ex-Im Bank has received numerous allegations of lost sales due to untied financing.

Regarding China, China Eximbank provides export credit financing on what appears to be both OECD compliant and non-OECD compliant terms. However, China is not a member of the OECD so it is not required to conform to the OECD guidelines. As a result, the terms of their financings are also not as transparent as OECD compliant loans.

In one case, Ex-Im Bank offered to match a China Eximbank offer in 2010—Pakistan Rail valued the contract at \$477 million. U.S. exporters were competing with Chinese locomotive manufacturers. It was reported to us that China was offering financing terms more generous than generally allowed by OECD rules. China, however, refused to reveal the precise terms of their financing offer, a practice OECD members are required to follow. To level the playing field so that U.S. manufacturers could fairly compete for the order, Ex-Im Bank made available off setting financing terms. In this way, Pakistan Rail could choose the locomotive best suited to their needs and not influenced by nontraditional or one-off financings.

In this transaction, Ex-Im Bank offered to match the Chinese financing of 91 percent of the contract (versus our usual 85 percent); charge a risk premia of 8.2 percent which is lower than the 21 percent OECD premia would have been, and matched extended repayment terms of 12 years (versus OECD's 10 year financing).

Q.11. What measures does the Bank employ to “level the playing field”?

A.11. In support of U.S. jobs, Ex-Im Bank makes available financings to off-set those export credits that foreign Governments provide for their exporters. Ex-Im Bank, acting as the official export credit agency (ECA) of the U.S., actively participates in the OECD discussions and negotiations. These negotiations establish the principles, disciplines and practices allowable by Governments that seek to minimize the use of export credit subsidies and to ensure a level playing field by preventing a “race to the bottom” by different countries. The OECD employs the principle of transparency as the central policing mechanism in which ECAs are expected to notify and provide an explanation when they intend to deviate from the standard guidelines. If Ex-Im Bank or any other ECA determines that the proposed terms are inappropriate, they can challenge the offering ECA with the expectation that the terms will be made compliant, and if not, other ECAs can match those terms to ensure a level playing field.

A similar process is followed when a noncompliant financing offer is alleged to exist from a non-OECD member. The Pakistan case referenced previously is an example.

Finally, Ex-Im Bank also requires applicants to provide the basis for their request for Bank support: to meet foreign ECA completion and/or private financing is not available. If the financing is needed to meet competition, Ex-Im Bank staff collects as much information on the alleged competition as possible in an attempt to confirm. This information is required to be included in the Board memo presented for the board of directors’ approval consideration.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR MENENDEZ FROM FRED P. HOCHBERG**

Q.1. I am pleased Ex-Im Bank has had a carbon management policy in place for several years. As you know, expanding renewable energy exports and increasing support of exports that produce fewer greenhouse gas emissions in energy production not only increases U.S. competitiveness but also improves our environment. However, implementation of this policy has been inconsistent and I have concerns over some of Ex-Im Bank’s fossil fuel projects, including projects that could have significant environmental and public health impacts.

What is Ex-Im Bank doing to better monitor carbon dioxide emissions reporting from projects it finances?

A.1. Ex-Im Bank has made renewable energy exports and environmentally beneficial products and services a top priority of the Bank. In fact, there is a team of people solely dedicated to this effort. Additionally, Ex-Im Bank is the only export credit agency (ECA) that publicly discloses the expected amount of carbon dioxide relating to the applications for financing covering all projects that are expected to produce more than 50,000 tonnes per year. When the Bank adopted Environmental Guidelines applicable to high-carbon intensity power plant projects in March 2010, it did so only after vetting the proposed guidelines with environmental NGOs as well as U.S. exporters.

To date, the Bank has reviewed three high-carbon intensity projects under these guidelines, all of which were power plants fueled by coal. Following a review of these projects against the guidelines for high-carbon intensity projects, the Board authorized financing for two of the projects (coal-fired power projects in South Africa and in India) and a financing decision for the third (a coal-fired power plant proposed for a large copper mine in Mongolia) remains pending.

In all cases, Ex-Im Bank's support has helped sensitize the buyers to address low-carbon growth strategies. In the case of India, the Bank has already provided financing for numerous solar and renewable energy projects. During 2010, I met with Environmental NGOs and discussed their concerns about the projects in India and South Africa. Their concerns were taken into account in the Bank's decision to proceed with financing of these projects, which will help to meet the increasing demand for electric power in these countries. The Bank is carefully monitoring the construction of these projects, and when they become operational, the Bank's staff will conduct a rigorous monitoring regime of their environmental performance, including the level of carbon dioxide emissions. The Bank has taken measures to address concerns raised by NGOs last year relating to environmental and social compliance issues of the SASAN project in India.

Q.2. What measures are being taken to encourage foreign buyers to reduce the impact of fossil fuel projects?

A.2. Ex-Im Bank is the only ECA in the world that has special environmental guidelines addressing high-carbon intensity projects applicable to coal-fired power plants. These guidelines impose requirements on foreign buyers that are intended to sensitize them to the environmental effects of such projects, while encouraging them to address low-carbon alternative projects such as solar and wind energy. The guidelines include requirements for offsets for projects having very high-carbon intensity levels, the preparation of an analysis demonstrating that low-carbon alternatives to the project were addressed, and information showing that the project, as designed, is employing the best appropriate technology with respect to carbon emissions.

In 2010, the Board of Directors initially voted to withhold financing for U.S. exports destined for the SASAN coal-fired power project in India, based on the project's high-carbon intensity and its projected levels of carbon dioxide production. Shortly after this action the owner of the project both improved the performance of the power plant and informed the Bank that it was prepared to commit to build solar power projects totaling 250 MW in capacity. With this new information stating the buyer's commitment to invest in renewable energy, the Board of Directors reviewed for a second time the transaction's impact on greenhouse gas production and it subsequently voted to finance the project. I am pleased to report that Ex-Im Bank has already supported U.S. exporters involved in several solar projects for this buyer, totaling approximately 150 MW. Furthermore, it has financed more than 250 MW in solar energy projects throughout India since 2010, and we continue to address applications for renewable energy in that market.

Ex-Im Bank also offers financing incentives specifically applicable to renewable energy projects, incentives that include financing repayment terms that can be extended to 18 years, well above the maximum terms available to conventional power projects. These financing incentives have helped the Bank increase its portfolio of renewable energy projects by hundreds of millions of dollars since 2008. In the case of India and South Africa where Ex-Im Bank provided financing for coal-fired power plants, those plants would have gone forward with or without Ex-Im Bank financing. However, through the leverage it has gained by applying its high-carbon intensity guidelines to these projects, Ex-Im Bank believes that the projects will be operated in a more environmentally responsible manner, with measures taken to control the level of greenhouse gases that they will produce. Finally, there continues to be evidence that the owners of these projects are also directing more attention and resources to the development of alternative low-carbon producing projects.

Q.3. As you know, the Equator Principles were agreed to by over 70 financial institutions, including Ex-Im Bank, setting standards to assess and manage social and environmental risks in financing projects. How have these standards been applied to Ex-Im Bank's work?

A.3. Ex-Im Bank has integrated the Equator Principles into its Environmental Procedures and Guidelines. Before joining the Equator Principles the Bank's environmental specialists and staff from its Office of the General Counsel interfaced extensively with members of the various committees of the Equator Principles Financial Institutions to ensure that Ex-Im Bank understood and was prepared to properly implement the various standards and procedures of the Equator Principles.

The Bank successfully implements and manages the Equator Principles standards on all transactions covered by these Principles. For example, the Bank requires, and conducts due diligence to ensure that all projects structured as project finance comply with the Performance Standards on Environmental and Social Sustainability of the IFC, as required by the Equator Principles, and it engages independent environmental and social consultants to advise the Bank on elements pertaining to the environmental and social risk and impacts associated with the project.

In addition, in keeping with procedures of the Equator Principles, Ex-Im Bank disclosed the environmental categorizations of all the project finance transactions it authorized during 2012, and it included the appropriate environmental and social covenants in the financing documents of these projects in compliance with the Equator Principles. Finally, Ex-Im Bank staff, including its Environmental Specialists, continue to participate in committees with other members of Equator Principles as they work to prepare a third revision to the Principles, and to that end the Bank currently cochairs the Equator Principles Association's Climate Change Working Group to promote further measures to advance the level of environmental stewardship among members of the Equator Principles.

Q.4. As you know, greenhouse gas pollution has the same impact on global warming regardless of the point of origin. Further, the EPA is currently working on greenhouse gas emission rules for new power plants. Should we apply those same rules to power plants you finance?

A.4. While we work to encourage ECAs around the world to follow more stringent environmental rules, many of them operate under their own rules and regulations, while other ECAs like Ex-Im Bank operate within the framework of the Organization for Economic Co-operation and Development (OECD).

Ex-Im Bank works to support U.S. jobs by ensuring a level playing field for U.S. exporters competing for foreign projects. The Bank is negotiating with other Export Credit Agencies within the OECD to establish common guidelines to address climate issues that would be applicable to all high-carbon intensity projects.

This is a strategy similar to that adopted by Ex-Im Bank over 15 years ago at the OECD which resulted in the ratification by all ECAs of a common set of environmental guidelines applicable to all projects that are based on the environmental standards of the World Bank Group.

When we participate in financing projects, we are in a position of influence and can negotiate to improve the environmental performance of those projects, which in practically all cases, would be built anyway, possibly without U.S. exports or environmental improvements.

Q.5. I am also pleased to see in your official testimony that the Export Import Bank is focused on supporting the President's National Export Initiative goal of doubling U.S. exports by the end of 2014, and that Ex-Im Bank is promoting export opportunities with U.S. companies, including through its initiative, "Global Access for Small Business." Ex-Im Bank is responsible for supporting thousands of U.S. companies and billions of dollars of U.S. exports of goods and services, and plays a critical role in our broad effort to increase American exports. Nevertheless, while total goods and services exports have increased approximately 40 percent since 2009, supporting an additional million jobs, this is below the pace we need to see for a doubling of exports. Furthermore, less than 1 percent of American companies export their products, and this is well below the average in other developed economies. I would appreciate Ex-Im Bank's comments on what it is doing to address these shortcomings and how the Administration as a whole can do better on export promotion, especially with small businesses.

A.5. Ex-Im Bank plays an important role, but we are not a development or aid agency. Ex-Im Bank's role is to fill financing gaps and level the playing field so exporters can compete based on the price and quality of their goods and services. Other agencies including Commerce, TDA, and OPIC develop markets for U.S. exporters. We finance those who need us with reasonable assurance of repayment.

Given that 95 percent of the world's consumers are outside the U.S., it is critical to do outreach, meet foreign competition, and encourage businesses that are not exporting, to do so. The Export Promotion Cabinet Report of July 2012, proposes a segmentation of the small business sector by stage of development and need, sys-

tematically allocating resources to meet those needs. The Ex-Im Bank role is to deliver finance and insurance products to the appropriate segments in coordination with the SBA, Commerce, USTDA, USDA, and OPIC under the Global Business Solutions program. Ex-Im Bank's internal small business strategic plan is completely aligned with this formal consolidated focus of resources and effort. Our new Global Business Solutions pilot program calls for adding 250 small business lenders to the trade finance arena by December 2015, and 50,000 new small business exporters to the current 296,000 by December 2017.

Q.6. With so few American companies exporting, as a percentage of the total, what actions are Ex-Im Bank and the Administration taking to educate and orient potential exporters, what are the main obstacles that inhibit or prevent American companies from taking advantage of overseas opportunities, and what legislative, regulatory, or monetary impediments complicate Government agencies' efforts to increase exports and support exporters?

A.6. Ex-Im Bank and USG agencies throughout the Administration are working to support President Obama's National Export Initiative, which is renewing and revitalizing the efforts of the U.S. to promote exports abroad. These efforts have been paying off, as U.S. exports of goods and services reached an all-time high, totaling \$2.2 trillion in 2012—which represents 39.7 percent above the level of exports in 2009 (according to Department of Commerce released figures). However, despite the success to date of the National Export Initiative, there are many U.S. companies that are still not capitalizing on the opportunities that exist abroad, and Ex-Im Bank and the Administration have more to do in order to reach these U.S. companies to educate them about how selling overseas can grow their companies and increase jobs.

To help get the word out to small businesses around the country, Ex-Im Bank has developed Global Access Forums, which bring together exporters, representatives of Federal exporting agencies and local banks. These half-day forums, which are held across the Nation, provide product information and contacts for facilitating export transactions. More than 50 of these have been done, with several thousand attendees, including forums in Newark and West Long Branch, New Jersey. When small business owners come to a Global Access Forum and they hear from other businesses in the local area that are exporting using our services, they see that they too can overcome the fear of exporting.

Every month I send a letter to the Members of Congress and governors whose States or districts we have provided financing. In addition, I have spoken at National Governors' Association annual conferences and National Conference of Mayors to help educate them about Ex-Im Bank's programs and how they can help their constituent businesses export.

In addition, Ex-Im Bank has undertaken a number of other measures to bring awareness to U.S. companies of how its products and services can help mitigate the risks of doing business abroad. The Bank's efforts include:

- dedicating a Web portal to educate small business customers on the Bank's resources and linking prospective exporters to

BusinessUSA to inform them of the resources of other USG trade agencies,

- hosting Ex-Im 101 seminars open to members of the public in order to learn more about the Bank,
- leveraging partnerships with cities and States entities in order to leverage the Bank's resources and expand its reach into more regional markets,
- hosting outreach listening sessions with local business leaders across the country to talk about exporting, and
- opening four new regional offices in the last year in order to expand Ex-Im Bank's direct reach to more small businesses around the country.

In addition, Ex-Im Bank is an active participant in interagency efforts to raise awareness of export opportunities. These efforts include:

- working with Commerce on the BusinessUSA and export.gov Web portals,
- supporting Commerce's Doing Business in Africa domestic exporter outreach campaign,
- partnering with SBA and Commerce on the Global Business Solutions program to co-offer products and services,
- assisting with U.S. commercial trade advocacy efforts with foreign Government officials abroad, and
- participating with Commerce in trade missions and the sharing of trade leads.
- Through its outreach efforts to U.S. companies, Ex-Im Bank has learned of certain obstacles that inhibit companies from taking advantage of opportunities abroad. These obstacles include access to capital, the uncertainties of doing business in riskier markets abroad, knowledge of opportunities that exist in foreign markets, and fear of doing business in countries where the American exporter does not know the system. Getting the word out about how Ex-Im Bank can give exporters peace of mind when exporting, and can help alleviate some of these concerns. For example, small businesses know how to follow up and get paid if they are selling to New Jersey or New Mexico, but they often don't know what to do if they are selling to New Delhi or New Zealand. That is where Ex-Im Bank comes in.

Budgetary concerns are another impediment complicating Ex-Im Bank's efforts to support U.S. exports. Ex-Im Bank is a self-sustaining agency that has generated nearly \$1.6 billion in excess revenues above and beyond all operating expenses, loan loss reserves, and claims. If Congress would allow the Bank to retain more of the money it earns, we would be able to increase our efforts to reach small businesses and continue to generate significant revenues for taxpayers.

While we are best equipped to speak only to the efforts of the Ex-Im Bank to reach more U.S. companies as well as the obstacles that Ex-Im Bank is aware of that inhibit American companies from taking advantage of overseas opportunities—other agencies would

certainly be able to contribute thoughts to this important conversation.

Q.7. Promoting exports and supporting U.S. companies involved in exporting requires a whole-of-Government approach, including such agencies as the Departments of State and Commerce, USTR, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, and many others, in addition to Ex-Im Bank. However, it is not always clear that the whole is greater than the sum of the parts and that all of these agencies are coordinating in a comprehensive effort to support exporters along the entire value chain. I would appreciate, therefore, your candid assessment of how well U.S. Government agencies are doing collectively to identify opportunities in overseas markets, promote these opportunities domestically, support U.S. exporters' efforts to take advantage of these opportunities, and then ensuring their overseas business deals are supported and protected. How does Ex-Im contribute to this process? Please explain the coordination procedures and mechanisms with other key agencies, and what initiatives are Ex-Im and the Administration doing to improve our success rate?

A.7. Given the collective efforts of the U.S. Government to help support an all-time record level of U.S. exports, the work of the U.S. Government to help identify opportunities, promote them domestically, support U.S. exporters, and advocate for them abroad has been a huge success. However, we are committed to ensuring an even larger share of our companies are capitalizing on the opportunities abroad as well.

To address the needs of U.S. exports and enable them to compete effectively, the Bank has many innovative tools to provide U.S. companies with a competitive advantage, including capital markets financing, cofinancing, and direct loan products. In addition, the Bank has helped U.S. companies identify opportunities by focusing its business development efforts on key markets abroad—which allows for stronger foreign Government engagement, fosters an awareness of Ex-Im Bank by foreign buyers in key markets and demonstrates the strong backing of the U.S. Government in support of its companies.

There are several coordinated mechanisms and procedures with key trade agencies to help improve our success rate.

First, through the President's Export Council, Ex-Im Bank participates in high-level engagement with the business community, other key agencies and Members of Congress in order to work to further identify priorities and initiatives. At the conclusion of 2012, the President's Export Council published a report making recommendations to the USG and which tracked the progress of identified priorities.

Second, through a number of coordinated interagency groups spearheaded by Commerce, the Bank shares information on its engagement abroad, including trade leads and advocacy priorities.

Third, Ex-Im Bank is an active participant in trade missions and other USG conferences and summits, both domestically and abroad, in order to make available the coordinated resources of the U.S. Government to support the efforts of U.S. companies.

Fourth, the Bank is working with key agencies to copromote (both domestically and abroad) its products and services, thereby capitalizing on the collective resources and reach of the USG.

A few illustrative examples of this work include:

1. a joint effort by SBA, Commerce and Ex-Im Bank to copromote the products and services offered by each agency in offices all around the country; and
2. work with State to better train foreign commercial service officers in Ex-Im Bank product offerings to better enable them to identify trade leads and speak directly the Bank's resources in the market
3. the opening of the U.S.–Africa Clean Energy Development and Finance Center, an initiative by USTDA, OPIC, and Ex-Im Bank to provide a coordinated approach to clean energy project development in sub-Saharan Africa

Coordination and communication among the various agencies that support exports is also critical. Each month, along with my counterparts from USTR, Commerce, TDA, State, and OPIC, I meet to discuss pressing issues and ensure that we update each other regarding problems or progress at the various agencies. I am also a part of the Trade Promotion Coordinating Committee (TPCC), an interagency task force that meets regularly and to ensure the coordination and development of a Government-wide export promotion plan. It is comprised of 20 agencies with a core of seven agencies—Ex-Im Bank, Commerce, OPIC, TDA, State, USDA, and SBA.

Ex-Im Bank also works closely with the State Department overseas where the Foreign Commercial Service officers promote Ex-Im Bank and send referrals to the Bank. Also, most of Ex-Im Bank's field offices are colocated with Commerce Department and SBA offices, which provides cost efficiencies as well as increased communication and one-stop services for customers.

Under the Global Business Solutions pilot, Ex-Im Bank is marketing seven services provided by Commerce and the USTDA that specifically help small businesses develop export strategies, get market research, identify buyers, research buyers, visit target countries, and meet buyers. Together with the SBA, Ex-Im Bank targets the users of these services with a menu of products that cover the full range of financing needs from purchase orders to investment in plant and equipment.

Q.8. Export Credit Agencies (ECAs) are the largest source of official financing for developing countries. Increasingly, many Governments of emerging market countries are using their own ECA's to promote exports of goods and services. However, many of these ECAs operate outside of global coordinating mechanisms, such as the OECD arrangement on export credits. Is this a concern for ensuring that American exporters enjoy a level playing field when competing in overseas export markets, and what actions is the Administration pursuing to ensure that all ECAs play by the same rules?

A.8. Yes, emerging market country activity is growing in scope and scale. A number of these foreign Government-supported programs

are outside the scope of the OECD rules. They are difficult to monitor since the terms and conditions of their financings are generally not transparent yet at the same time they have a direct impact on the ability of U.S. exporters to compete.

Activity by these non-OECD member emerging market exporters ranges between a conservative estimate of \$53.8 billion to a higher estimate of \$83.8 billion. Ex-Im Bank has examined these programs and has tried to identify their implications in its 2011 Competitiveness Report and will further inform Congress of its findings in the 2012 report due June 30.

Following up on discussions with President Obama and now President Xi Jinping of China in 2012, the U.S. and China started bilateral discussions on a new order of export credit parameters that has now turned into multilateral negotiations—the International Working Group (IWG). The goal is to have some framework agreed to by 2014.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR VITTER
FROM FRED P. HOCHBERG**

Q.1. Please submit any and all economic analysis documents on harm to any other U.S. companies that was conducted all wide body aircraft financing done in 2012.

A.1. The Economic Impact Procedures for aircraft went into effect on April 1, 2013. In 2001, the Bank considered the lack of any U.S. airline concern for the preceding 15 years to be a sufficient basis for introducing—purely as an operating efficiency measure—a screen that filtered all airline purchases of aircraft from any consideration of detailed economic impact analysis. Hence, in 2012 the applicable Ex-Im Bank economic impact procedures precluded there being any detailed economic impact analysis done on any wide-bodied aircraft authorized in that year. As such, there were no economic analyses done on any wide-body aircraft transactions in 2012 and therefore there are no documents on harm to U.S. companies from this period we are able to provide.

Q.2. In your past Testimony Mr. Hochberg, you stated that the Bank’s “prudent oversight and due diligence standards” is limited to monitoring the default rate. I would have a different opinion, I would say that your prudent oversight and due diligence should also include “insuring that full consideration is given to the extent to which any loan or financial guarantee is likely to have an adverse effect on U.S. industry or employment.” Can you please explain why that is not a part of your interpretation?

A.2. To be absolutely clear, I never made the statement that oversight and due diligence standards “are limited to monitoring the default rate.” Those are your words that you have attached to a small snippet of my testimony. For the record and to provide factual context to your question, my testimony was:

Lastly, if confirmed, I will ensure that the Bank continues its prudent oversight and due diligence standards to protect taxpayers. As a result of provisions inserted into the Bank’s Charter during last year’s re-authorization, every 90 days Ex-Im Bank submits a default rate report to Con-

gress. I am pleased to inform you that our most recent report dated March 31, 2013, showed a default rate of 0.307 percent. In addition to this low default rate, over the past 5 years Ex-Im Bank has generated \$1.6 billion for U.S. taxpayers, above and beyond all administrative operating costs, claims and loan loss reserves we have set aside. We operate at no cost to the taxpayers and actually generate revenue for them while supporting U.S. jobs.

I have always held the position that prudent oversight and due diligence standards encompass a wide array of factors, not simply monitoring the default rate. The low default rate, however, is the ultimate test of the Bank's due diligence. The Bank's due diligence includes wide gathering of financial and nonfinancial information, including information related to both relevant environmental and economic impact considerations.

The Ex-Im Bank has a comprehensive risk management framework that we believe minimizes claims. This framework starts with strong underwriting and documentation and continues with proactive monitoring and, if necessary, with aggressive recovery efforts. Ex-Im Bank is very proud of our efforts in these areas, efforts that in fiscal year 2012 resulted in the payment of \$37 million in gross claims on a portfolio of \$106 billion while collecting \$1 billion in fee income. The Bank has a current default rate (March 31, 2013) of 0.307 percent and recovery efforts of approximately 50 percent on all claims paid. These results are due to the Bank's prudent oversight and due diligence standards.

Separately, the Bank also has comprehensive, transparent procedures to evaluate the potential economic impact of a transaction on U.S. industries and employment. This is an important part of the Bank's procedures, but is separate from its credit risk analysis.

Q.3. Under what circumstances, other than bad credit, should the Bank deny an application for financing? Can you give me an example of a situation where the Bank would deny an application?

A.3. Our Charter instructs us to review applications for financing for a list of reasons, including creditworthiness, adverse economic impact on the U.S. economy, consistency with U.S. law (most notably our prohibition against financing defense articles and prohibition against financing sanctioned countries) and environmental concerns. Under language added to its Charter in 1993, the Bank was directed to establish environmental procedures that permitted the Board of Directors to withhold financing from a project for environmental reasons or to approve financing after considering the potential environmental effects of a project.

In 2010, the Board of Directors initially voted to withhold financing for U.S. exports destined for the SASAN coal-fired power project in India, based on the project's high carbon intensity and its projected levels of carbon dioxide production. Shortly after this action, the owner of the project informed the Bank that it was prepared to commit to building solar power projects totaling 250 MW in capacity. With this new information stating the buyer's commitment to invest in renewable energy, the Board of Directors reviewed for a second time the transaction's impact on greenhouse gas production and it subsequently voted to finance the project. I

am pleased to report that Ex-Im Bank has already supported U.S. exporters involved in several solar projects for this buyer, totaling approximately 150 MW. Furthermore, it has financed more than 250 MW in solar energy projects throughout India since 2010, and we continue to address applications for renewable energy in that market.

Over the years there have been few explicit denials on economic impact grounds, but several major cases never made it through the application process. Perhaps the most noteworthy are a D-RAM project in Singapore (SMIC) where the proposed facility would have competed with U.S. production in Idaho and other locations. Members of the Senate Banking Committee and others raised concern about the facility. After the Bank's consideration of these concerns the application was withdrawn and D-RAM was added to Ex-Im Bank's Sensitive Sectors List.

Q.4. Do you read the economic-impact provisions in the Bank's statutory charter as requiring the Bank to conduct economic impact analyses? Or are you free to ignore those provisions?

A.4. We adhere to all statutory requirements in our Charter. Indeed I read the economic impact provisions in the Bank's statutory Charter as requiring the Export-Import Bank to consider in all transactions the extent to which a transaction is likely to have an adverse effect on industries; but to conduct a detailed economic impact analysis on only those transactions where there is a likelihood of substantial adverse economic impact. In FY2012, 88 percent of all transactions were for small business. Detailed economic analyses take a long time to conduct and require significant staff resources. If a detailed economic analysis were required on every transaction, the potential for lost export sales would be enormous; foreign buyers would simply purchase their goods and services from a foreign source where their ECA financing does not require such analysis. The result would be a significant loss of U.S. jobs in States like Louisiana, where since 2007 Ex-Im Bank has authorized \$10 billion in transactions to 143 exporters, 85 of which are small businesses.

Accordingly, all applications are subject to filters designed to: (i) identify those cases associated with specific legislative prohibitions (e.g., cases in which trade measures are applicable), and (ii) determine what applications have the potential to cause substantial injury to the U.S. industry (when the new foreign production equals or exceeds 1 percent of comparable U.S. production).

Q.5. There are some who say you shouldn't be reconfirmed because you are ignoring the letter and definitely the spirit of the Ex-Im reauthorization bill specifically around conducting economic analysis on transactions where there may be economic harm to another U.S. Company, what would you say to that charge?

A.5. I would respectfully disagree with them. I would tell them that no other ECA in the world is as transparent as Ex-Im Bank is. We have policies to protect U.S. businesses from significant economic harm and we follow them judiciously.

The Export-Import Bank has always followed both the historical letter of its Charter language on the nature and scope of its economic impact responsibilities, as well as embraced the spirit of

those Charter provisions. The Bank has had economic impact procedures in place for approximately 40 years and widely published for approximately 15 years. The Bank from time to time updates and modifies those procedures to accommodate changing circumstances. For example, the Bank has worked over the past year to update and implement our revised economic impact procedures. The Economic Impact Procedures and Methodological Guidelines approved on November 19, 2012, were developed by Bank staff and widely vetted with stakeholders and relevant USG agencies. They are available for the entire world, including our competitors, to see.

The current procedure updates the economic impact mandate by: (1) explicitly defining the purpose of the economic impact mandate; (2) codifying the principles that guide the implementation of all economic impact reviews; (3) publishing the analytical methodology that introduces flexibilities to address the limitations of a “one-size fits all” approach; and (4) reintroducing services (specifically passenger airline services) in the scope of the detailed economic impact analysis.

Q.6. Does Ex-Im plan to protect the U.S. airline industry from both predatory competitive practices of foreign airlines (State ownership, subsidies, etc.) and the benefits of Ex-Im support when it finances aircraft?

A.6. Our mission is to support U.S. jobs created or sustained by export sales that require our financing and meet our eligibility standards. Unfortunately, those requirements cannot possibly address all of the inequities or imbalances that might exist in any industry including the airline industry. We do, however, review the economic impact of all transactions to determine if the benefits of any specific transaction outweigh any potential injury to the U.S. economy. I should add no other export credit agency in the world has the requirement to review economic impact. We are the only ECA that has the requirement to protect U.S. industries from the potential harm that other exports might cause.

Foreign carriers have a choice when purchasing large aircraft. Currently, they can choose between Boeing and Airbus and soon other Nations will be competing for these sales as well. Globally aircraft sales rely in part on export credit support to complete those sales. If Ex-Im Bank does not provide financing to the foreign buyers of U.S. aircraft, then Airbus, Embraer, and Bombardier will have a competitive advantage over Boeing since their sales campaigns are generally supported by Government backed financing. The result will be the loss of thousands of U.S. jobs.

Pursuant to the new 2013 Economic Impact Procedures, the Bank, among other things, reintroduced subjecting each aircraft application to a likelihood of substantial injury analysis. If a likelihood of substantial injury is found, the transaction is then subjected to a detailed economic impact analysis. The structure of any detailed economic impact analysis for an aircraft sale carefully balances the benefits accruing to all U.S. manufacturers with any possible cost that may fall on U.S. airlines.

As I mentioned export credit support is critical for airlines globally. When eligible, U.S. airlines avail themselves of financing from foreign ECAs, particularly from Canada and Brazil. Some airlines

also provide services to foreign carriers that directly benefit from Ex-Im Bank financing. One example is a Delta airlines transaction where Ex-Im Bank is supporting an estimated 400 jobs in Atlanta, GA, by providing financing for the export of almost \$200 million of engine overhauls services for their customer and investment partner Gol airlines of Brazil. U.S. carriers are well experienced and regular users of foreign export credit to support their businesses and expansion.

Q.7. Do you believe that an exporter, representing less than 2 percent of U.S. exports, should benefit from 46 percent of Ex-Im's total portfolio? How is this fair to the other export sectors of the U.S. economy, and particularly to small and medium enterprises?

A.7. The 46 percent number you cite is for all aircraft that the Bank finances, not just one exporter. That number includes commercial aircraft, corporate aircraft, helicopters, crop dusters, etc. Ex-Im Bank's mandate is to support U.S. jobs through exports. We are demand-driven and support those applications that meet the Bank's reasonable assurance of repayment threshold as well as our environmental and economic impact policies, in order to level the playing field. Ex-Im Bank only finances roughly 2 percent of the Nation's exports, largely by financing the foreign buyers of our exports, not the exporters themselves. Certain export sectors rely more on export credit support than others to close the sale. They include, the small business sector in general, satellites, locomotives, power plant (particularly nuclear energy), aircraft, and large infrastructure projects.

Ex-Im Bank is called upon to support the foreign purchases of U.S. goods and services that are difficult to finance such as aircraft, infrastructure, satellites, power plants, nuclear power, and small business. Those are the exports that the private sector has been reluctant to finance.

The exporter you appear to reference is the single largest exporter in the United States, exporting tens of billions of dollars' worth of goods each year. They also source from thousands of small U.S. businesses providing them with billions of dollars that support thousands of sustainable U.S. jobs.

Q.8. Does the bank, which cited foreign export credit competition as the reason for 88 percent of its FY2012 commercial aviation transaction financings and which assumes foreign export credit agency support will always be available in its revised Economic Impact Procedures, even consider or investigate the possibility of competitive, market-based financing availability before approving transactions? If so, how does this occur?

A.8. Yes, the Bank does investigate the possibility of competitive, market-based financing availability before approving transactions. As part of the analysis of a transaction and, depending on the likelihood of nonexport credit supported private sector financing being available based upon staff's evaluation of the airline's underlying creditworthiness, the type of aircraft to be exported, and the political and economic country conditions in the airline's country, airlines may be asked to provide information related to other, non-Ex-Im Bank supported financing offers that it received in connection with financing the aircraft. In addition, airlines are always en-

couraged to seek alternative private sector financing for the remainder of the aircraft. For example, just last week the Board approved financing for Gol Airline's (Brazil) purchase of one Boeing 737 aircraft. Gol is taking delivery of nine Boeing 737 aircraft in 2013; however, the Bank strongly encouraged the airline to make other arrangements for the financing or operating lease of the remaining eight aircraft. It is worth noting that Gol is the only major all Boeing narrow body aircraft operator remaining in South America. All of the other major South American airlines operate mixed fleets.

Globally, competition between U.S. manufactured Boeing aircraft and European manufactured Airbus aircraft is intense. During the 6 year period of 2007 through 2012, Airbus won more new orders and delivered more new aircraft than Boeing did in 5 of the 6 years.

Q.9. When Ex-Im finances aircraft for leasing companies, it makes sure that the specific aircraft will not be leased into the Home Markets to protect Boeing sales to Home Market airlines from subsidized financing. Does the Bank take similar steps to ensure that it does not subsidize specific aircraft that will be flown in these Home Markets to disadvantage U.S. airlines?

A.9. Ex-Im Bank undertakes an economic impact process that analyzes every transaction for foreign air carriers. Ex-Im Bank programs do not subsidize any aircraft or airline. Ex-Im Bank always charges a risk premium that is commensurate with the risk that Ex-Im Bank takes. In addition, the 2011 Aircraft Sector Understanding adjusts ECA financing rates and fees every 90 days, so that the financing closely approximates private market rates.

We provide financing on terms within the OECD arrangement and our loans are paid back. Every financing Ex-Im Bank authorizes is fully consistent with the rules and provisions of the WTO.

Ex-Im Bank's mandate is to support U.S. jobs through the export of U.S. manufactured goods and services. Accordingly, Ex-Im Bank's Charter does not permit Ex-Im Bank to support aircraft sales to U.S.-based airlines. As a result, Ex-Im Bank has taken the position that if Ex-Im Bank could not directly finance the sale of aircraft to an airline based in the United States, the Bank should not indirectly finance the aircraft for use by a U.S.-based airline (i.e., through an operating leasing company).

Q.10. How does Ex-Im reach judgment on whether or not foreign ECA competition exists? Does Ex-Im attempt to negotiate a stand-down from European ECAs so that market-based competition can be used by both sides for individual transactions?

A.10. Ex-Im Bank explores the existence of foreign official financing competition and relies on lenders and exporters to inform the Bank as to whether foreign ECA competition exists in any given transaction. Any applicant to Ex-Im Bank must state whether there is foreign ECA competition. Several times over the course of the last two OECD Aircraft Sector Understanding negotiations, U.S. negotiators explored the European willingness to consider market-based options on individual (or types of) cases. Each and every time, the initiative was rejected.

Q.11. In addition, in Ex-Im's 2012 Reauthorization, Congress mandated that the Treasury Department initiate and pursue negotiations to substantially reduce, with the goal of eliminating, aircraft export credit financing by all ECAs, including specifically for wide-body aircraft.

How does Ex-Im determine that market financing is not actually available? What is the process?

A.11. Ex-Im Bank first explores the existence of foreign official financing competition. If such competition exists, we seek the details on the ECA financing offer to determine if there is a private market option and if so, determine if these terms match the foreign ECA terms. However, if it does not, Ex-Im Bank identifies the gap in commercial availability and attempts to shape its support to the gap.

Q.12. Do you believe that Ex-Im should be the lender of last resort or do you want to maintain a certain level of Ex-Im business?

A.12. Ex-Im Bank is the lender of last resort. We finance transactions that the commercial banks are unwilling or unable to finance because of lack of capital, reluctance to lend, exposure limits, etc. Our mission is to support U.S. jobs through exports. The level of Ex-Im Bank activity is determined by the size of gaps (e.g., competition to be met, insufficient amount and terms from the private market) to be filled in any given year.

In the small business sector, we target the transactions that the banks and other insurers don't find economically feasible to do. This does not necessarily mean taking additional credit risk. Because the incidence of exporting is so low in the small business sector, Ex-Im Bank could grow substantially without altering credit standards.

Q.13. The Bank's new Economic Impact Procedures (EIPs) are now in effect and the Board is currently reviewing an Air China transaction for more than \$100 million worth of 777s to Air China. In the notice for this transaction it is stated that these aircraft may result in competition with U.S. airlines. What impact, if any, do you think the new EIPs will have on whether this transaction will be approved? Will the bank agree not to finance aircraft to China that compete with U.S. airlines' business just as you prohibit such financing that compete with Boeing's business in the U.S. (and France, Germany, and the U.K.)?

A.13. The Air China transaction you reference was subject to Ex-Im Bank's new EIPs, and it was determined that although the transaction is more than \$200 million and the supported aircraft will operate two routes that will compete with U.S. carriers, the net addition of aircraft seat capacity does not meet the scale associated with having a potentially substantial impact. As such, the transaction was cleared for credit analysis without further economic impact review in the form of a detailed economic impact analysis. Given this determination, it is anticipated that the new EIPs will not have any impact on whether this transaction will be approved. However, because approval of this transaction is determined by the individual decision of each member of the Board of Directors it is impossible to forecast with certainty whether each

Board member will choose to support or not support this particular transaction.

Q.14. The last Ex-Im reauthorization required the Department of the Treasury to begin negotiations with the European Export Credit Agencies supporting Airbus to “substantially reduce or eliminate” export credit financing for wide body aircraft. The first report on this—which Congress received in November—was far from a report on negotiations and more of a history of Export Credit financing. How will you push these required negotiations moving forward and what kind of substantive reports can we expect to see on the negotiations from the Administration moving forward?

A.14. In Ex-Im Bank’s 2012 Reauthorization, Congress mandated that Treasury initiate and report on the negotiations described in the question, therefore, Ex-Im Bank is not in a position to comment on the content of future Treasury reports. Separately, Ex-Im Bank will continue to play an important role in supporting Treasury and Administration efforts in the International Working Group on Export Credits, which represents an important effort to bring China and other emerging economies into a multilateral rules-based framework for official export credits. Ex-Im Bank agrees with Treasury and the Administration that getting all of the major providers of official export credits to negotiate and ultimately abide by a common set of international guidelines is the first step in the process of reducing, with the ultimate goal of eliminating, trade distorting export financing programs, and will help ensure that official export credit support complements market financing, rather than crowding it out.

Q.15. The report on negotiations with the Europeans included one interesting comment. According to Treasury, “It is important that demand for official export credit support arise only from a lack of market financing and not the mere presence of competing official export credit offers.” How does this statement of policy mesh with the fact that 38 of 43 (88 percent) Ex-Im FY2012 aircraft financings were completed “To meet competition from a foreign officially sponsored export-credit agency.”

A.15. For Ex-Im Bank to consider the authorization of an export credit transaction, the deal must meet one or both of two tests:

1. demand for official export credit support can arise from absence of available private market financing; and/or
2. the existence of foreign ECA competition.

If the underlying product or pricing is not similar, the presence of foreign ECAs is not necessarily a strong stand-alone justification for Ex-Im Bank financing. However, a foreign ECA that is supporting an exported good that has the same technical specifications as the U.S. export and is comparably priced is a clear and strong case for Ex-Im Bank support even when there is potential market financing available. Hence, the head-to-head competition on near identical products, in this case aircraft, justifies Ex-Im Bank’s support based on meeting competition from a foreign officially sponsored export credit agency alone.

Q.16. Chairman Hochberg, since July of 2010 the Ex-Im Board has failed to deny a single financing application which it reviewed. In fact, in your entire tenure, the Board has only denied 16 applications (versus 52 during the term of your immediate predecessor and 174 during the term of Chairman Merrill). How do you explain such a record? Has the world become absent of risk since your confirmation?

A.16. Over the last several years, private sector banks have contracted their lending significantly, shifting stronger credits to Ex-Im Bank. The result is both increased demand for our services as well as stronger credit applications.

In addition, we have improved our underwriting and due diligence, to quickly identify and resolve challenges that transactions face. In some cases, the identified challenges cannot be overcome, which results in the withdrawal of the application. This helps to minimize the amount of resources that the applicant puts into the transaction and increases efficiency of the Bank staff. Lastly, applicants do not want to waste time on applications that have a high likelihood of rejection at the Board and they do not want the embarrassment of having a transaction voted down by the Bank.

Q.17. It appears as though the Bank's Board of Directors has not denied a transaction since the middle of 2010. In no period since 1998 has the Bank had such a low denial rate. Is this part of a conscious effort on your part to ensure that fewer transactions are denied? If so, what have you done to further that effort? Have you examined the potential consequences of that effort, such as an increased incidence of unnecessary Bank involvement or increased risk to U.S. taxpayers?

A.17. There is no conscious effort on Ex-Im Bank's part to deny fewer transactions. As noted in response to your previous question, over the last several years, we have improved our underwriting and due diligence, resulting in identifying challenges that any transaction may experience. As we develop the structure and conditions that are likely to be required for a transaction, frequently a potential borrower will withdraw the credit request. This early identification of our requirements has resulted in a reduced number of declinations by the Board. It should also be noted that over the past 4 years, we have experienced financial crises, and a major withdrawal by the private sector banks (particularly those in Europe), conditions that make the work of the Ex-Im Bank even more necessary.

For every transaction the Bank sets aside adequate reserves which come out of the fees we charge to foreign purchasers of U.S. goods and services. Our due diligence reviews look at every transaction and risk associated with it. We are continually reviewing and improving our risk analysis for transactions.

Q.18. I'm not talking about the Bank's historic default rate, I'm asking whether the Bank has actually evaluated whether its growth under your tenure could have detrimental effects going forward.

A.18. Yes we have. During my tenure we have modified our reserve methodology to increase reserves at the Bank. We also continuously monitor our transactions and we have a stronger rated port-

folio today than we did 4 years ago. Our risk management practices and policies have been audited and reviewed recently by Deloitte & Touche, KPMG, our internal Audit Committee, the GAO, and our Inspector General.

Ex-Im Bank has comprehensive risk management practices, policies, and procedures which was validated in the recent GAO Risk Management Report. This system results in decreasing the likelihood of default and in cases of default it maximizes recoveries. This framework minimizes detrimental effects of a growing portfolio going forward. The Bank has a current default rate (March 31, 2013) of 0.307 percent and recovery efforts of approximately 50 percent on all claims paid.

Ex-Im Bank is very proud of our efforts in these areas, efforts that in fiscal year 2012 resulted in the payment of \$37 million in gross claims on a portfolio of \$106 billion while collecting \$1 billion in fee income.

Q.19. Your Bank recently admitted that ownership is not a factor when providing assistance to companies doing business with foreign companies/countries. In this case it was a Chinese owned company with some manufacturing sites in the United States. Why wouldn't you give preference to American companies, since these foreign companies directly compete with them, and you have said Ex-Im Bank helps "American companies"?

A.19. Our mission is to support U.S. jobs through exports. As long as the goods or services are of U.S. content (and they meet our other financing requirements), we can finance the export. Ex-Im Bank accepts applications from all applicants that are buyers of U.S. exports. Therefore, what matters is the demand for the U.S. export and not the ownership of the buyer. While the U.S. export may be manufactured in the U.S. by a foreign-owned company, the demand for this U.S.-manufactured export supports jobs in the United States and the exported product is being sold to an overseas buyer.

For example, the German company Siemens exported its U.S.-manufactured equipment to a power project in Saudi Arabia. In that deal, the award of the project by the Saudi Electricity Company was subject to the lowest bidder in an intensely competitive process. Japanese, German, Korean, and other bidders had the support of their export credit agencies, some of them offering terms outside of the OECD Arrangement.

Only because Ex-Im Bank was able to respond quickly with competitive terms allowed in the OECD was Siemens' U.S. manufactured equipment (ACWA Power) able to win the bid. As a direct result of our support on this deal, Siemens expanded its U.S. operations, making a permanent and long-term commitment at its Charlotte, North Carolina, facility to U.S.-manufactured goods and U.S. employment. In a similar transaction also in Saudi Arabia, Ex-Im Bank's quick and competitive response to Japanese, German, Korean, and other bidders, meant that GE's equipment was selected for the project. So, we provided financing for the foreign buyer for both GE and Siemens equipment because we do not discriminate amongst U.S. manufacturers and want to support U.S. jobs. It is important to note that when U.S. companies manufacture

offshore, they do not receive Ex-Im Bank financing. We only finance U.S. exports directly tied to U.S. jobs.

Q.20. How many employees now work at the Ex-Im Bank?

A.20. As of May 14, 2013, there are 396 employees at Ex-Im Bank.

Q.21. What foreign companies or Governments have paid for Ex-Im Bank travel in past year?

A.21. Please see Table 1 below.

Table 1

EXPORT IMPORT BANK OF THE UNITED STATES	
ADMINISTRATIVE SPONSOR TRAVEL	
FY 2012	
SPONSOR COMPANY	DESTINATION OF THE TRIP
Air Astana	Russia/Tajikistan
AirChina	U.K.
American Chamber of Commerce of Portugal	Portugal
Asociacion Chilena de Energia Renovable	Chile
Barakah One	Korea
Barrick Gold Corporation	Canada
Boleo	Mexico
Braka Nuclear	UAE
BulgariaSat	Bulgaria
Calgary Economic Development Corporation	Canada
Cargolux	WA
Dinam Airlines	N.Y.
Electrica Valle de Mexico	Mexico
ENEC	UAE
Energia Eolica de Honduras	Honduras
Enka	Turkey
Etileno Petrochemical	Mexico
Euromoney	Germany
Euromoney	Hong Kong
Euromoney	Ireland
Euromoney	FL
Euromoney	Brazil
Euromoney	UAE
Fortesrecue Mining	Australia
Global Foundries	N.Y.
Globelea Mesoamerica	Costa Rica
International Economic Forum for the Americas	FL
International Society Transportation Forum	Arizona
Ivanhoe Mines	UK
Kepeco	Philippines
LAN AIR	Chile
LOT Palmatir Wind	Poland

Nabucco Gas.	Turkey
Oil Refinery	Israel
Orosi Wind Co.	Costa Rica
Oyu Tolgoi Copper	Korea/Mongolia
Palmatir Wind	Uruguay
Pannonia	Hungary
Pascua Lama	Chile
Philippines Airlines	Philippines
Promsvyas Bank	Russia
Pueblo Viejo	D.R.
Quiport	Ecuador
Reficar	Colombia
Reliance	India
Romania Wind Power	Romania
Royal Air Morocco	Morocco
Sadara Chemical	U.K.
Sansan Power	India
Star	Turkey
Tagiast Gold Mining	Canada
TAM Linhas Aereas	N.Y.
Tasiast Gold Mine	Canada
Via Expo	Bulgaria
Vital Training	South Africa
WestJet	Canada

Q.22. Why does the Ex-Im Bank have different rules/regulations than other Government agencies when it comes to allowing staff to accept paid travel by companies with business pending before the bank?

A.22. The Bank can accept sponsor-paid travel under two different legislative authorities. This travel is consistent with industry practice and the primary purpose of this travel is to conduct due diligence and monitor these complex transactions. As chairman of the Bank, I have never taken sponsor-paid travel.

In the Bank's Charter legislation, Congress has granted to the Bank the power to accept reimbursement for travel expenses (12 U.S.C. 635(a)). This is consistent with the practice of international financial institutions and other export credit agencies in processing

credit applications. All official travel by Ex-Im Bank employees and directors are subject to approval in accordance with U.S. Federal regulations.

The Bank is also authorized to accept sponsor-paid travel pursuant to 31 U.S.C. §1353, an executive branch-wide authority that permits an agency to accept a payment of “travel, subsistence, and related expenses” from a non-Federal source for an employee’s official, travel away from the employee’s official station, to attend a “meeting or similar function.” The implementing regulation is published by the General Services Administration at 41 CFR Chapter 304.

Q.23. Why doesn’t the Ex-Im Bank make this information readily available to the public, considering the media has already exposed this practice?

A.23. Agencies are required to submit to the U.S. Office of Government Ethics (OGE) semiannual reports of payments received from non-Federal sources under 31 U.S.C. §1353. Those travel reports are available on the OGE Web site.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR JOHANNIS
FROM FRED P. HOCHBERG**

Q.1. Chairman Hochberg, Section 9 of the Export-Import Bank Reauthorization Act of 2012 requires specific public notices prior to a meeting of the Bank’s Board to consider transactions exceeding \$100 million. However, the Bank’s revised Economic Impact Procedures (required by Section 12 of the same Act) set a \$200 million threshold for review of aircraft transactions. Given Congress’ express sentiment that \$100 million was an appropriate reporting requirement, why did you feel it appropriate to double that amount when determining the level required to trigger a review? Can you explain the rationale for the higher threshold?

A.1. The Bank’s Charter has long required that Ex-Im Bank report to Congress on any transactions greater than \$100 million that Ex-Im Bank intends to consider. The referenced section of the Bank’s recent Reauthorization Act extended a similar notification to the *Federal Register* as well.

Sec. 9 is titled “Notice and Comment for Bank Transactions Exceeding \$100,000,000”. Section 12 is titled “Publication of Guidelines for Economic Impact Analyses and Documentation of Such Analyses”. To be clear, the \$100 million notification requirement found in Section 9 is not connected to the economic impact provisions of the Charter found in Section 12. Section 9 is simply a public notification for transactions of \$100 million or more (regardless of economic impact) whereas Section 12 required the Bank to “develop and make publicly available methodological guidelines to be used by the Bank in conducting economic impact analyses”

Virtually all transactions for the sale of wide-body aircraft exceed \$100 million because a single wide-body aircraft costs at least that much. Nothing in the Bank Reauthorization Act suggests that Congress intended the Bank to conduct a detailed economic impact analysis on every single transaction involving wide-body aircraft. Therefore, the Bank follows precisely the notification requirements

on transactions exceeding \$100 million, and establishes the screens for aircraft transactions based on the likelihood of substantial injury. It is also worth noting that the \$200 million threshold is over a 12-month period. Therefore, an airline cannot circumvent an economic impact analysis by splitting up an order.

The Bank's Charter requires the Bank to conduct a detailed economic impact analysis when the adverse implications are likely to result in substantial injury to the U.S. producers. Congress defined substantial injury as new foreign production that is equal to 1 percent or more of the U.S. production of the same or similar good. In addition, Ex-Im Bank pursues operational efficiency by, among other things, setting minimum transaction size limits as proxy guides of when "substantial" injury is not likely to occur. For goods, this level is \$10 million. Years of evaluation of economic impact have strongly indicated that transactions that involve the export of capital goods where the financed amount requested is less than or equal to \$10 million, do not have the potential to achieve substantial adverse impact.

As referenced in the 2013 Economic Impact Procedures and Methodological Guidelines, it generally requires two aircraft to provide daily, long-range flights on any specific route. Commercial jet aircraft cost no less than \$35–\$50 million for a narrow body aircraft and \$100–\$125 million for a wide body aircraft. Hence, the \$200 million level screen assumes that it would take at least four narrow-body or two wide-body aircraft to create enough alternatives on at least one or two significant routes to potentially have a noticeable impact on the U.S. airline industry. Thus, \$200 million threshold for review of aircraft transactions is an appropriate one.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR TOOMEY FROM FRED P. HOCHBERG

Q.1. Under what circumstances, other than bad credit, should the Bank deny an application for financing? Can you give me a specific example of a situation where the Bank would deny an application?

A.1. Our Charter instructs us to review applications for financing for a list of reasons, including creditworthiness, adverse economic impact on the U.S. economy, consistency with U.S. law (most notably our prohibition against financing defense articles and prohibition against financing sanctioned countries) and environmental concerns. Under language added to its Charter in 1993, the Bank was directed to establish environmental procedures that permitted the Board of Directors to withhold financing from a project for environmental reasons or to approve financing after considering the potential environmental effects of a project.

In 2010, the Board of Directors initially voted to withhold financing for U.S. exports destined for the SASAN coal-fired power project in India, based on the project's high-carbon intensity and its projected levels of carbon dioxide production. Shortly after this action, the owner of the project informed the Bank that it was prepared to commit to building solar power projects totaling 250 MW in capacity. With this new information stating the buyer's commitment to invest in renewable energy, the Board of Directors reviewed for a second time the transaction's impact on greenhouse

gas production and it subsequently voted to finance the project. I am pleased to report that Ex-Im Bank has already supported U.S. exporters involved in several solar projects for this buyer, totaling approximately 150 MW. Furthermore, it has financed more than 250 MW in solar energy projects throughout India since 2010, and we continue to address applications for renewable energy in that market.

Over the years there have been few explicit denials on economic impact grounds, but several major cases never made it through the application process. Perhaps the most noteworthy was a D-RAM project in Singapore (SMIC) where the proposed facility would have competed with U.S. production in Idaho and other locations. Members of the Senate Banking Committee and others raised concern about the facility. After the Bank's consideration of these concerns the application was withdrawn and D-RAM was added to Ex-Im Bank's Sensitive Sectors List.

Q.2. Do you read the economic-impact provisions in the Bank's statutory charter as requiring the Bank to conduct economic impact analyses?

A.2. We adhere to all statutory requirements in our charter. Indeed I read the economic impact provisions in the Bank's statutory charter as requiring the Export-Import Bank to consider the economic impact of all applications; but to conduct a detailed economic impact analysis on only those transactions where there is a likelihood of substantial adverse economic impact. If there were not a system of reasonable filters in place, all transactions at the Bank would require detailed economic analysis.

In FY2012, 88 percent of all transactions were for small business. If a detailed economic analysis were required on every transaction, foreign buyers would simply purchase their goods and services from a foreign source where their ECA financing does not require such analysis. The result would be a significant loss of U.S. jobs in States like Pennsylvania where since 2007 Ex-Im Bank has authorized \$35 billion in transactions to 224 exporters, 140 of which are small businesses. In Pennsylvania we finance everything from GE locomotives to Gamesa wind turbines to SB Global Foods, Inc. in Landsdale, PA, which has grown their gourmet pretzel business from exporting to only one country prior to using Ex-Im up to 60 countries now.

Accordingly, all applications are subject to filters designed to: (i) identify those cases associated with specific legislative prohibitions (e.g., cases in which trade measures are applicable), and (ii) determine what applications have the potential to cause substantial injury to the U.S. industry (when the new foreign production equals or exceeds 1 percent of comparable U.S. production).

Q.3. How does the Bank determine whether or not foreign Export Credit Agency (ECA) competition exists? Does the Bank attempt to negotiate a stand-down from European ECAs so that market-based competition can be used by both sides for individual transactions?

A.3. Ex-Im Bank explores the existence of foreign official financing competition and relies on lenders and exporters to inform the Bank as to whether foreign ECA competition exists in any given transaction. Any applicant to Ex-Im Bank must state whether there is

foreign ECA competition. Several times over the course of the last two OECD Aircraft Sector Understanding negotiations, U.S. negotiators explored the European willingness to consider market-based options on individual (or types of) cases. Each and every time, the initiative was rejected.

Q.4. In addition, in Ex-Im's 2012 Reauthorization, Congress mandated that the Treasury Department initiate and pursue negotiations to substantially reduce, with the goal of eliminating, aircraft export credit financing by all ECAs, including specifically for wide-body aircraft.

It appears as though the Bank's Board of Directors has not denied a transaction since the middle of 2010. In no period since 1998 has the Bank had such a low denial rate. Is this part of a conscious effort on your part to ensure that fewer transactions are denied? If so, what have you done to further that effort? Have you examined the potential consequences of that effort, such as an increased incidence of unnecessary Bank involvement or increased risk to U.S. taxpayers? I am not talking about the Bank's historic default rate. I am asking whether the Bank has actually evaluated whether its growth under your tenure could have detrimental effects going forward.

A.4. Over the last several years, private sector banks have contracted their lending significantly, shifting stronger credits to Ex-Im Bank. The result is both increased demand for our services as well as stronger credit applications.

In addition, we have improved our underwriting and due diligence, to quickly identify and resolve challenges that transactions face. In some cases, the identified challenges cannot be overcome, which results in the withdrawal of the application. This helps to minimize the amount of resources that the applicant puts into the transaction and increases efficiency of the Bank staff. Lastly, applicants do not want to waste time on applications that have a high likelihood of rejection at the Board and they do not want the embarrassment of having a transaction voted down by the Bank.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR COBURN
FROM FRED P. HOCHBERG**

Q.1. Under what circumstances, other than bad credit, should the Bank deny an application for financing? Can you give me an example of a situation where the Bank would deny an application?

A.1. Our Charter instructs us to review applications for financing for a list of reasons, including creditworthiness, adverse economic impact on the U.S. economy, consistency with U.S. law (most notably our prohibition against financing defense articles and prohibition against financing sanctioned countries) and environmental concerns. Under language added to its Charter in 1993, the Bank was directed to establish environmental procedures that that permitted the Board of Directors to withhold financing from a project for environmental reasons or to approve financing after considering the potential environmental effects of a project.

In 2010, the Board of Directors initially voted to withhold financing for U.S. exports destined for the SASAN coal-fired power

project in India, based on the project's high carbon intensity and its projected levels of carbon dioxide production. Shortly after this action, the owner of the project informed the Bank that it was prepared to commit to building solar power projects totaling 250 MW in capacity. With this new information stating the buyer's commitment to invest in renewable energy, the Board of Directors reviewed for a second time the transaction's impact on greenhouse gas production and it subsequently voted to finance the project. I am pleased to report that Ex-Im Bank has already supported U.S. exporters involved in several solar projects for this buyer, totaling approximately 150 MW. Furthermore, it has financed more than 250 MW in solar energy projects throughout India since 2010, and we continue to address applications for renewable energy in that market.

Over the years there have been few explicit denials on economic impact grounds, but several major cases never made it through the application process. Perhaps the most noteworthy was a D-RAM project in Singapore (SMIC) where the proposed facility would have competed with U.S. production in Idaho and other locations. Members of the Senate Banking Committee and others raised concern about the facility. After the Bank's consideration of these concerns the application was withdrawn and D-RAM was added to Ex-Im Bank's Sensitive Sectors List.

Q.2. Do you read the economic impact provisions in the Bank's statutory charter as requiring the Bank to conduct economic impact analyses, or are you free to ignore those provisions?

A.2. We adhere to all statutory requirements in our charter. Indeed I read the economic impact provisions in the Bank's statutory charter as requiring the Export-Import Bank to consider the economic impact of all applications; but to conduct a detailed economic impact analysis on only those transactions where there is a likelihood of substantial adverse economic impact. If there were not a system of reasonable filters in place, all transactions at the Bank would require detailed economic analysis.

In FY2012, 88 percent of all transactions were for small business. If a detailed economic analysis were required on every transaction, foreign buyers would simply purchase their goods and services from a foreign source where their ECA financing does not require such analysis. The result would be a significant loss of U.S. jobs. Those jobs include ones in Muskogee, OK where we have financed Advantage Controls, LLC, Omni Valve Company, LLC, and Array Holdings Inc.

Accordingly, all applications are subject to filters designed to: (i) identify those cases associated with specific legislative prohibitions (e.g., cases in which trade measures are applicable), and (ii) determine what applications have the potential to cause substantial injury to the U.S. industry (when the new foreign production equals or exceeds 1 percent of comparable U.S. production).

Q.3. How does the Bank reach a judgment on whether or not foreign ECA competition exists? Does the Bank attempt to negotiate a stand-down with other ECAs so that market-based competition can occur for individual transactions?

A.3. Ex-Im Bank explores the existence of foreign official financing competition and relies on lenders and exporters to inform the Bank as to whether foreign ECA competition exists in any given transaction. Any applicant to Ex-Im Bank must state whether there is foreign ECA competition. Several times over the course of the last two OECD Aircraft Sector Understanding negotiations, U.S. negotiators explored the European willingness to consider market-based options on individual (or types of) cases. Each and every time, the initiative was rejected.

Q.4. In addition, in Ex-Im's 2012 Reauthorization, Congress mandated that the Treasury Department initiate and pursue negotiations to substantially reduce, with the goal of eliminating, aircraft export credit financing by all ECAs, including specifically for wide-body aircraft.

Do you believe that the Bank should be a lender of last resort or do you want to maintain a certain level of Ex-Im business?

A.4. Ex-Im Bank is the lender of last resort. We finance transactions that commercial banks are unwilling or unable to finance because of lack of capital, reluctance to lend, exposure limits, etc. Our mission is to support U.S. jobs through exports. The level of Ex-Im Bank activity is determined by the size of gaps (e.g., competition to be met, insufficient amount and terms from the private market) to be filled in any given year.

In the small business sector we target the transactions that the banks and other insurers don't find economically feasible to do. This does not necessarily mean taking additional credit risk. Because the incidence of exporting is so low in the small business sector, Ex-Im Bank could grow substantially without altering credit standards.

Q.5. Since July of 2010 the Ex-Im Board has failed to deny a single financing application which it reviewed. In fact, in your entire tenure, the Board has denied only 16 applications (versus 52 during the term of your immediate predecessor and 174 during the term of Chairman Merrill). How do you explain this?

A.5. Over the last several years, we have improved our underwriting and due diligence, resulting in identifying challenges that any transaction may experience. As we develop the structure and conditions that are likely to be required for a transaction, frequently a potential borrower will withdraw the credit request. This early identification of our requirements has resulted in a reduced number of declinations by the Board. It should also be noted that over the past 4 years, we have experienced financial crises, and a major withdrawal by the private sector banks (particularly those in Europe), conditions that make the work of the Ex-Im Bank even more necessary.

Q.6. The Bank's new Economic Impact Procedures (EIPs) are now in effect and the Board is currently reviewing an application to finance the sale of more than \$100 million in Boeing 777s and 737s to Air China. In the notice for this transaction, the Bank states, "To the extent that Ex-Im Bank is reasonably aware, the item(s) being exported may be used to produce exports or provide services in competition with the exportation of goods or provision of services

by a United States industry.” What impact, if any, do you think the new EIPs will have on whether this transaction will be approved? Will the Bank perform a detailed economic impact analysis before approving this transaction? If not, why?

A.6. The Air China transaction you reference was subject to Ex-Im Bank’s new EIPs, and it was determined that although the transaction is over \$200 million and the supported aircraft will operate two routes that will compete with U.S. carriers, the net addition of aircraft seat capacity does not meet the scale associated with having a potentially substantial impact. As such, the transaction was cleared for credit analysis without further economic impact review in the form of a detailed economic impact analysis. Given this determination, it is anticipated that the new EIPs will not have any impact on whether this transaction will be approved. However, because approval of this transaction is determined by the individual decision of each member of the Board of Directors it is impossible to forecast with certainty whether each Board member will choose to support or not support this particular transaction.

Q.7. In last year’s reauthorization, Congress mandated a notice and comment period and required the Bank to provide, upon request by a commenter, a “nonconfidential summary of the facts found and conclusions reached in any detailed analysis or similar study” for all transactions exceeding \$100 million. Yet, the Bank’s new Economic Impact Procedures and Methodologies set the threshold for detailed economic impact analysis of aircraft transactions at \$200 million. Do you think this \$200 million threshold meets the spirit of the law? Does it not make the \$100 million threshold Congress set for disclosure of detailed economic impact analyses somewhat meaningless?

A.7. The Bank’s Charter has long required that Ex-Im Bank report to Congress on any transactions greater than \$100 million that Ex-Im Bank intends to consider. The referenced section of the Bank recent Reauthorization Act extended a similar notification to the *Federal Register* as well.

Sec. 9 is titled “Notice and Comment for Bank Transactions Exceeding \$100,000,000”. Section 12 is titled “Publication of Guidelines for Economic Impact Analyses and Documentation of Such Analyses.” To be clear, the \$100 million notification requirement found in Section 9 requires the provision of a nonconfidential summary in any long-term case of more than \$100 million if a detailed economic impact analysis is conducted whereas Section 12 required the Bank to “develop and make publicly available methodological guidelines to be used by the Bank in conducting economic impact analyses”

Virtually all transactions for the sale of wide-body aircraft exceed \$100 million because a single wide-body aircraft costs at least that much. Nothing in the Bank Reauthorization Act suggests that Congress intended the Bank to conduct a detailed economic impact analysis on every single transaction involving wide-body aircraft. Therefore, the Bank follows precisely the notification requirements on transactions exceeding \$100 million, and establishes the screens for aircraft transactions based on the likelihood of substantial injury. It is also worth noting that the \$200 million threshold is over

a 12-month period. Therefore, an airline cannot circumvent an economic impact analysis by splitting up their order.

The Bank's Charter requires the Bank to conduct a detailed economic impact analysis only when the adverse implications are likely to result in substantial injury to the U.S. producers. Congress defined substantial injury as new foreign production that is equal to 1 percent or more of the U.S. production of the same or similar good. In addition, Ex-Im Bank pursues operational efficiency by, among other things, setting minimum transaction size limits as proxy guides of when "substantial" injury is not likely to occur. For goods, this level is \$10 million.

As referenced in the 2013 Economic Impact Procedures and Methodological Guidelines, it generally requires two aircraft to provide daily, long-range flights on any specific route. Commercial jet aircraft cost no less than \$35–\$50 million for a narrow body aircraft and \$100–\$125 million for a wide-body aircraft. Hence, the \$200 million level screen assumes that it would take at least four narrow-body or two wide-body aircraft to create enough alternatives on at least one or two significant routes to potentially have a noticeable impact on the U.S. airline industry. Thus, \$200 million threshold for review of aircraft transactions is an appropriate one.

Q.8. Last year's reauthorization legislation included a requirement that the Treasury Department begin negotiations with all relevant countries "to substantially reduce, with the ultimate goal of eliminating, aircraft export credit financing" In its annual report to Congress on those negotiations, Treasury stated, "It is important that demand for official export credit support arise only from a lack of market financing and not the mere presence of competing official export credit offers." Yet, in FY2012, Ex-Im issued 43 loans and long-term guarantee authorizations for the export of wide-body aircraft; in 38 of those instances (88 percent), Ex-Im indicated the "primary purpose identified for seeking the Bank's support" was "to meet competition from a foreign officially sponsored export-credit agency." How do you reconcile this fact with the Administration's stated policy?

A.8. For Ex-Im Bank to consider the authorization of an export credit transaction, the deal must meet one or both of two tests: (1) demand for official export credit support can arise from absence of available private market financing and/or (2) the existence of foreign ECA competition.

If the underlying product or pricing is not similar, the presence of foreign ECAs is not necessarily a strong stand-alone justification for Ex-Im Bank financing. However, a foreign ECA that is supporting an exported good that has the same technical specifications as the U.S. export and is comparably priced is a clear and strong case for Ex-Im Bank support even when there is potential market financing available. Hence, the head-to-head competition on near identical products, in this case aircraft, justifies Ex-Im Bank's support based on meeting competition from a foreign officially sponsored export credit agency alone.

Q.9. Ex-Im's Charter states, "It is also the policy of the United States that the Bank in the exercise of its functions should supplement and encourage, and not compete with, private capital"

What steps does the Bank take to ensure that it is supplementing, and not competing with, private capital?

A.9. Ex-Im Bank does not compete with private capital. Last year (2012), the U.S. had total exports of \$2.2 trillion, of which Ex-Im supported approximately \$35 billion. The balance was financed in the private sector or by the exporter itself. As part of the application for financing, an applicant is required to explain why Ex-Im Bank is required. Ex-Im Bank also encourages exporters to seek financing outside of Ex-Im Bank. The financing Ex-Im Bank supports is primarily funded through loans by private sector banks with Ex-Im Bank's support taking the form of a guarantee or insurance. From time to time, direct loans are granted but in these cases, the amount, tenor, and/or complexity deters the private sector from participating. However, they are always welcome.

Besides discussions with lenders and buyers during individual cases, Ex-Im Bank has several broader exercises to solicit input. The broadest is the survey of bankers and exporters in the Annual Competitiveness Report to Congress, where banks regularly comment on where Ex-Im is supplementing and competing. Also, each year I convene a Banker's Roundtable before the Ex-Im Bank Annual Conference. The high-level bankers are not reluctant to make their views known.

Q.10. Why should airlines with access to market financing be able to use the Bank to finance their purchases if, as the Bank's charter states, the Bank's role is to supplement, not compete with, market financing?

A.10. You are correct that a primary goal of the Export-Import Bank is to supplement, not compete with, market financing. However, there are a host of reasons why an airline who has access to market financing would need to use Ex-Im Bank financing from time to time. First, as we have seen in recent years as a result of the financial crisis, in time of market distress commercial market financing ceases to be available and as a result Ex-Im Bank needs to step in and fill the financing gap. In this sense, the business of the Export-Import Bank tends to be countercyclical in nature. Second, the nature of aircraft acquisition is for airlines to purchase a large order of multiple aircraft at a time. Given the volume of aircraft finance needed to finance an order, it is oftentimes the case that the commercial markets will only be able to finance a portion of the order and as a result Ex-Im Bank financing is needed to finance the aircraft in the order that the market is unwilling to do. Third, just as is prudent business practice in any industry, airlines seek a diversified mix of financing sources to finance their acquisitions, in this case their fleet of aircraft needed to perform business operations. Export credit in the form of Ex-Im Bank supported financing is one element in this financing mix necessary to achieve portfolio diversification and not leave an airline overly dependent on one form of financing.

Q.11. Can competition with private capital by foreign ECAs ever justify Ex-Im financing of a given transaction, even if the Bank's own financing could also compete with private capital?

A.11. Yes. In such a case, Ex-Im Bank would use its best judgment to determine whether the loss of a transaction due to competition

from private capital covered by a foreign ECA is of significant size and scope for Ex-Im Bank to use its own funds even though private capital in the U.S. market may be displaced. The Bank would weigh the costs and benefits of an exporter losing a transaction (e.g., potential loss of U.S. jobs) versus the loss of a private capital supported transaction (e.g., potential loss of profits).

Q.12. Why did Ex-Im not issue financing for three transactions it approved from 2009 to 2012 for the export of solar panels by SolarWorld?

A.12. Three cases for SolarWorld that were approved from 2009–2012 were authorized but later canceled without funding by Ex-Im Bank. All of these cases involved limited recourse project finance, a type of finance requiring substantial documentation. The time to close and fund a project finance transaction is more than twice that of a typical corporate or bank finance transaction. In the time between Board approval and financial close there can be changes in market conditions, the borrower's circumstances, and new funding opportunities may arise that affect the benefits and viability of Ex-Im Bank finance. Even though Ex-Im Bank endeavors never to impose burdensome, unnecessary, or unexpected conditions, borrowers sometimes have more difficulty meeting closing conditions than they expect. As a result, project finance transactions can be withdrawn and canceled, as was the case with the three transactions in question.

In 2009, the Board approved five small projects for Gochang Solar in South Korea for approximately \$61 million. However, after Board authorization and following a reversal in the Won/Dollar exchange rate that increased the cost of Ex-Im Bank financing, the South Korean borrower informed us that, as a condition to the financing, it wished to change important terms of the Board approval. It furthermore refused to comply with customary and important conditions for closing and funding. When agreement became impossible, staff canceled this commitment. As this was a post-completion financing, the borrower did purchase SolarWorld equipment without Ex-Im Bank support.

In 2011, the Board authorized a transaction in India for the Tatith Solar Project in the amount of approximately \$19 million. The commitment was contingent upon the borrower's successful execution of construction, supply, engineering, and other documents. The borrower was unable to comply with the stated requirements and Ex-Im Bank staff was forced to cancel the commitment. To the best of Ex-Im Bank's knowledge, the Tatith borrowers were unable to obtain other financing and did not purchase SolarWorld equipment.

In 2012, Ex-Im Bank approved the Stardale Project in Canada for a loan guarantee for \$81 million. The borrower, however, refused to agree to customary financing terms. The borrower informed Ex-Im Bank that it wished to withdraw the financing request and asked Ex-Im Bank to withdraw the commitment which Ex-Im Bank staff did. A potential motivating factor in the borrower's decision making was that Ex-Im Bank's co-lender was willing to lend more money to the transaction, enough to cover Ex-Im Bank's share, and without the same conditions. At the time of the

Ex-Im Bank Board approval, this additional financing was not on offer. Ex-Im Bank staff understands that the Borrower did use this finance to fund SolarWorld related costs and complete the project.

Q.13. What foreign companies or Governments have paid for Ex-Im travel in the past year?

A.13. Please see Table 1 above.

Q.14. Why does the Bank have different rules than other Government agencies when it comes to allowing staff to accept paid travel by companies with business pending before the Bank?

A.14. The Bank can accept sponsor-paid travel under two different legislative authorities.

In the Bank's Charter legislation, Congress has granted to the Bank the power to accept reimbursement for travel expenses (12 U.S.C. 635(a)). This is consistent with the practice of international financial institutions and other export credit agencies in processing credit applications and prevents the Bank's due diligence activities from burdening U.S. taxpayers. All official travel by Ex-Im Bank employees and directors are subject to approval in accordance with U.S. Federal regulations.

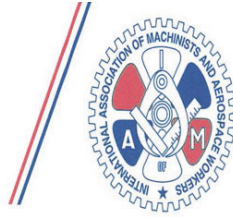
Additionally, the Bank is authorized to accept sponsor paid travel pursuant to 31 U.S.C. §1353, an executive branch-wide authority that permits an agency to accept a payment of "travel, subsistence, and related expenses" from a non-Federal source for an employee's official, travel away from the employee's official station, to attend a "meeting or similar function." The implementing regulation is published by the General Services Administration at 41 CFR Chapter 304. Agencies are required to submit to the U.S. Office of Government Ethics (OGE) semiannual reports of payments received from non-Federal sources under 31 U.S.C. §1353. Those travel reports are available on the OGE Web site.

Q.15. Please provide a full list of Ex-Im employees, including individual salaries and most recent bonuses.

A.15. [*Ed.*—The response is confidential and has been provided to the Member asking the question.]

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

**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

April 29, 2013

The Honorable Tim Johnson
Chairman
Committee on Banking, Housing and Urban Affairs
U.S. Senate
Washington, DC 20510

Dear Chairman Johnson:

On behalf of 700,000 active and retired members of the International Association of Machinists and Aerospace Workers (IAM), I urge you to support the re-nomination of Fred P. Hochberg as Chairman of the U.S. Export-Import Bank. The Bank's mission is to support U.S. exports that support U.S. jobs. Chairman Hochberg has repeatedly demonstrated his commitment to meeting this objective. He deserves swift confirmation.

Chairman Hochberg has led the Bank during a time of increasing demands for export financing that creates and maintains jobs here at home. As we recover from the economic recession, the Bank's role in linking export financing to domestic employment is more important than ever. Chairman Hochberg is well-experienced and well-qualified to lead the Bank for another term.

The IAM urges you to support the confirmation of Chairman Hochberg to lead the U.S. Export-Import Bank.

Sincerely,

R. Thomas Buffenbarger
International President

RTB:cep

April 18, 2013

The Honorable Tim Johnson
Chairman
Committee on Banking, Housing & Urban Affairs
U.S. Senate
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
Committee on Banking, Housing & Urban Affairs
U.S. Senate
Washington, DC 20510

Dear Chairman Johnson & Ranking Member Crapo:

The undersigned associations view the U.S. Export-Import Bank (Ex-Im), with its mission to create or sustain U.S. jobs, as one of the most important tools we have to promote economic growth through exports. Accordingly, we urge you to move swiftly to consider the nomination of Fred P. Hochberg as Chairman of the Ex-Im Bank's Board of Directors.

Over the past four years, Chairman Hochberg has led the Ex-Im Bank during a time of unprecedented growth and demand for export financing. Ex-Im Bank authorized more than \$35 billion in financing in FY 2012, supporting more than 255,000 American jobs. The Ex-Im Bank worked with more than 3,400 U.S. companies, 85 percent of which were small businesses. Ex-Im continues to be a vital tool in leveling the global playing field, helping U.S. companies offset the financing support their foreign competitors receive from governments overseas, and in securing new customers in emerging markets. With the U.S. economy still growing slowly, it is vital that we maintain the competitiveness of U.S. exporters. The Ex-Im Bank also generates enough fees to offset its costs, contributing the remaining surplus to the U.S. Treasury. Last year, this contribution topped \$1 billion.

By law, the Bank's Board of Directors must have a quorum – or three of its five members – to approve transactions. Chairman Hochberg was previously confirmed by the Senate on May 14, 2009. His first term ended on January 20, and he is currently leading the Bank under a six-month extension. Vice Chair Wanda Felton and Director Larry Walther are also continuing to serve under similar extensions. The extensions allowed under the Bank's charter will expire in July. If three of the five positions go unfilled, the Bank's business will grind to a halt and the ongoing reforms mandated by Congress last year could be delayed. President Obama announced his nomination for Chairman Hochberg to serve a second term at Ex-Im Bank on March 21.

Failure to act quickly on Chairman Hochberg's nomination would threaten the export sales of the thousands of U.S. companies and the hundreds of thousands of American jobs that depend directly or indirectly on the Ex-Im Bank's export financing. Reliable access to export financing is a vital part of being globally competitive, and export financing has taken on renewed importance in today's unsettled financial environment. Exporters increasingly face difficulties in obtaining credit and working capital, and overseas customers are financially stretched – conferring a decisive advantage on exporters who can provide better financial terms.

Chairman Johnson and Ranking Member Crapo
 April 18, 2013
 Page 2

If the Ex-Im Bank's activities are halted due to the lack of a quorum to approve transactions, U.S. exporters would lose access to this crucial "lender of last resort." Engaging in "unilateral disarmament" in this way would skew the trade finance playing field against U.S. companies, and customers may turn to foreign competitors that already have much greater support from the 59 official export credit agencies maintained by other countries. Exports are increasingly critical to manufacturers and service providers in the United States, and the latest trade data highlights the continuing challenges in the global marketplace.

The Ex-Im Bank needs stable leadership that will ensure the Bank maintains its track record of continuous improvements, fiscal responsibility and effective export promotion. Accordingly, the undersigned associations respectfully urge you to move swiftly on Chairman Hochberg's nomination. We also stand ready to work with you and your colleagues to achieve the goal of doubling America's exports.

Aerospace Industries Association
 Business Roundtable
 Coalition for Employment Through Exports
 Emergency Committee for American Trade
 Financial Services Roundtable
 General Aviation Manufacturers Association
 National Association of Manufacturers
 National Foreign Trade Council
 National Small Business Association
 Nuclear Energy Institute
 Small Business Exporters Association
 TechAmerica
 U.S. Chamber of Commerce