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EXPORT FINANCE

Federal Efforts to Support Working Capital Needs of Small Business

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The Honorable Christopher S. Bond
Chairman, Committee on Small Business
United States Senate

The Honorable Donald A. Manzullo
Chairman, Subcommittee on Procurement, Exports,
and Business Opportunities
Committee on Small Business
House of Representatives

As you requested, we reviewed the current government programs that provide export working capital for small- and medium-sized enterprises (SME). This report (1) describes federal and state approaches for providing export working capital, (2) assesses federal efforts to harmonize the export working capital programs of the U.S. Export-Import Bank (Eximbank) and the Small Business Administration (SBA), (3) discusses issues associated with increasing the number of cooperative agreements with lenders and devolving greater responsibility for export working capital programs to the states, and (4) examines the potential implications of transferring SBA's export working capital program to Eximbank.

Background

According to the Trade Promotion Coordinating Committee (TPCC),[1] one of the greatest obstacles to increased U.S. exports faced by SMEs is the lack of sufficient working capital. Working capital is used to finance the manufacture or purchase of goods and services. Eximbank and SBA have programs designed to increase the availability of export working capital to SMEs from the private sector by encouraging greater lender participation in export financing. These programs provide loan repayment guarantees that reduce the risk associated with such loans. Some states also have programs to assist SMEs in obtaining working capital.

Eximbank facilitates export financing through its Working Capital Guarantee Program, which is authorized by the Export Trading Company Act of 1982 (P.L. 97-290, Sec. 206, Oct. 8, 1982). During fiscal year 1995, Eximbank guaranteed almost $302 million in export working capital loans, which represented about 3 percent of Eximbank's total dollar authorizations for the year. Over 97 percent of the exporters assisted by

[1]TPCC is an interagency group responsible for developing and coordinating U.S. export promotion programs.

Eximbank through the program during fiscal year 1995 were self-certified as small businesses, as defined by SBA regulations (13 C.F.R. Part 121).

SBA developed its Export Working Capital Program (formerly known as the Export Revolving Line of Credit) in response to a requirement in the Small Business Export Expansion Act of 1980 (P.L. 96-481, Sec. 112, Oct. 21, 1980). SBA's program falls within the statutory authority of the agency's regular business loan guarantee program, known as the 7(a) program.[2] Under the 7(a) program, SBA guarantees private lender loans to small businesses that have been unable to obtain financing. During fiscal year 1995, SBA guaranteed about $69 million in export working capital loans, which represented less than 1 percent of SBA's total 7(a) program. All exporters assisted through SBA must qualify under the agency's definition of a small business. During fiscal year 1995, over 90 percent of the businesses assisted through SBA's working capital program had less than 50 employees.

In its 1993 report to Congress, TPCC made a series of recommendations to increase the effectiveness of U.S. export financing programs.[3] One recommendation called for the establishment of one-stop shops, that is, the U.S. Export Assistance Centers (USEAC), as a single point of contact for all federal export promotion and finance programs.[4] Another recommendation called for federal agencies to encourage qualified state or local export finance entities to enter into cofinancing arrangements in which risk is shared. A third recommendation called for streamlining and harmonizing key features of Eximbank and SBA's working capital guarantee programs to make them more customer-focused and take advantage of the agencies' comparative strengths. According to TPCC, harmonization was to give SMES access to working capital through a broader nationwide network of lenders on a more consistent, efficient, and effective basis. Key features to be harmonized included developing uniform applications, accompanying documentation, and underwriting standards. Harmonization was also to include a market segmentation plan.

[2]This program is named after section 7(a) of the Small Business Act (15 U.S.C. 636).

[3]Toward a National Export Strategy, Trade Promotion Coordinating Committee, September 1993.

[4]The Department of Commerce, Eximbank, and SBA have assumed primary responsibility for establishing and operating these centers. For more information on the implementation of USEACs, see U.S. Export Assistance Centers: Customer Service Enhanced, But Potential to Improve Operations Exists (GAO/T-NSIAD-96-213, July 25, 1996).

Results in Brief

Eximbank and SBA have programs that provide guarantees to facilitate export working capital loans for small- and medium-sized enterprises; however, the agencies emphasize different delivery approaches. Eximbank implements its program primarily through a specific division within the agency and a network of lending institutions that have been delegated with authority for approving the agency's working capital guarantees. SBA, on the other hand, relies primarily on specialists with lending authority that it has assigned to the USEAC network and on the agency's 69 district offices to implement its working capital program. Also, both Eximbank and SBA have established other arrangements with state and local offices to help administer their working capital programs. In addition, eight states have export guarantee programs specifically geared to assisting small businesses.[5] The state programs provide a wide range of funds, staff, and activity levels involving export financing for SMEs. For example, in fiscal year 1996, the value of loans guaranteed ranged from $55,000 in Georgia to $39.5 million in California.

Eximbank and SBA have harmonized certain aspects of their export working capital guarantee programs, including the guarantee coverage, application form, and initial application fee. While harmonization was underway, Eximbank and SBA made other changes aimed at improving their own export finance assistance programs for small businesses. These efforts to harmonize and improve their programs appear to have helped simplify the lending process, increase the number and value of loans guaranteed, and expand the number of exporters and lenders who participate in the programs. However, some program differences remain. For example, there are differences in Eximbank's and SBA's credit qualification requirements and fees for processing guarantees.

To leverage federal funds and provide SMEs with more export financing, Eximbank and SBA have set up cooperative arrangements with both the private and public sectors. Eximbank also has a pilot program underway that delegates lending authority to six state export finance organizations.[6] However, the potential to further expand the use of such cooperative agreements would be affected by various factors, such as the need for oversight and monitoring obligations at the federal level, legal prohibitions that may prevent states from offering state-backed guarantees, and varying amounts of state commitment to the area of export financing.

[5]States that provide export working capital guarantees are California, Florida, Georgia, Kansas, Maryland, Massachusetts, Minnesota, and South Carolina.

[6]The six states in Eximbank's pilot program are California, Florida, Georgia, Maryland, Massachusetts, and Minnesota.

TPCC proposed transferring SBA's Export Working Capital Program to Eximbank if harmonization efforts were unsatisfactory. We found that Eximbank and SBA have made progress in harmonizing their programs. We identified a number of factors that would need to be considered before any transfer of program responsibility from SBA to Eximbank were to take place. These factors are (1) some exporters currently served by SBA may not be served by the Eximbank, (2) the Eximbank and its network of delegated authority lenders may not be accessible to some SMEs currently assisted by SBA, and (3) the consolidation of the programs may lead to only minimal cost savings.

Eximbank, SBA, and States Use Various Delivery Approaches

Eximbank and SBA emphasize different delivery approaches for facilitating their programs. Eximbank relies on its U.S. Division and network of delegated authority lenders, whereas SBA relies primarily on staff with lending authority it has assigned to the USEACs and on its network of district offices. Eight states also have export finance programs that provide working capital guarantees. Levels of financing and contractual arrangements for these guarantees vary considerably among the states.

Eximbank Relies Heavily on Delegating Authority to Lenders

Eximbank's U.S. Division, staffed with six loan officers and one vice president, has primary responsibility for administering the Working Capital Guarantee Program as well as some marketing responsibility. This division processed all the agency's export working capital guarantees until the beginning of fiscal year 1995. Over the past couple of years, the division has expanded its outreach to SMEs through its Delegated Authority Program. Under this program, a private lender and Eximbank enter into an agreement that allows the lender to approve Eximbank guaranteed loans to exporters without first having to submit individual applications to Eximbank for approval. During fiscal year 1996, delegated authority lenders approved 192 loans, 69 percent of the agency's export working capital guarantee transactions. These transactions represented 55 percent of the $413 million in loans guaranteed under Eximbank's program. (See app. I for a map showing the locations of Eximbank's U.S. Division and delegated authority lenders.)

Although the U.S. Division and delegated authority lenders are central to Eximbank's Working Capital Guarantee Program, the agency has other resources and arrangements for marketing and supporting the program. These include the following:

- Eximbank's Business Development Division promotes and markets the agency's small business programs, including the Working Capital Guarantee Program. This group includes Washington-based staff and five regional offices,[7] four of which are collocated within USEACs. According to the Eximbank official responsible for regional office operations, the agency's limited regional staff of 21 employees is expected to focus primarily on increasing the participation of banks, brokers, and other intermediaries in these programs.
- Eximbank has established partnerships with state and local government offices and private sector organizations under its City/State Program. These partners are to act as liaisons with their export communities, market Eximbank programs, and submit applications on behalf of small businesses. During fiscal year 1995, however, only 8 of Eximbank's 31 partners reported working capital activity under the program. Effective in April 1996, Eximbank initiated a pilot program to strengthen its program by paying its local partners a packaging fee for applications submitted directly to the agency and a finder's fee for referrals to delegated authority lenders that result in working capital loans. In September 1996, Eximbank initiated another pilot program to delegate authority for approving guarantees to six state partners.
- Eximbank has an agreement with the Private Export Funding Corporation, a private consortium of commercial banks and other users of Eximbank, in which the company (1) acts as the lender of last resort for exporters that obtain a preliminary working capital commitment from Eximbank but are unable to obtain financing from commercial sources and (2) purchases Working Capital Guarantee Program loans made by small and regional banks that require help in supporting small business exporters.

Under the Working Capital Guarantee Program, Eximbank guaranteed 179 loans valued at almost $302 million during fiscal year 1995. As of June 1996, the default rate for exporters whose loans were guaranteed during fiscal year 1995 was 2.2 percent (4 defaults out of 179). The agency estimated that the cost associated with administering the program during fiscal year 1995 was about $912,000. This estimate included the costs for compensation, benefits, and overhead attributable to the U.S. Division.

SBA Relies on USEACs and District Offices

Although SBA's Office of International Trade is responsible for overseeing its Export Working Capital Program, the agency relies primarily on USEACs and their district office network to implement the program. SBA has staffed the 15 USEACs with 20 international trade and finance specialists. These

[7]Eximbank's regional offices are located in Chicago, Houston, Long Beach, Miami, and New York.

specialists help SBA's 69 district offices reach their Export Working Capital Program goals by marketing and promoting the program and working directly with the exporting and lender communities to structure loans and package applications for loan guarantees. Applications are sent to 1 of 25 district offices designated as export working capital processing centers, where they are reviewed and approved or rejected. An SBA official estimated that the specialists' spend about 85 percent of their time on the program and the remaining 15 percent on other trade-related activities. (See app. I for a map showing the locations of the USEACs and SBA district offices.)

Even though SBA works primarily through USEACs and district offices, it has other resources and arrangements that help market and support the program. These include the following:

- SBA has coguarantee agreements with California, Kansas, and Florida. Under these agreements, SBA and the states guarantee a portion of the export working capital loan and share, on a proportional basis, any resulting losses and recoveries. California has been by far the most active state, with 25 export working capital loans valued at $8.8 million.
- SBA has agreements with at least 26 local private sector entities to encourage them to act as packaging intermediaries for its Export Working Capital Program.[8]
- SBA uses staff from its small business development centers, about 30 of which have established separate international trade centers, to help market its financial products, including export working capital guarantees.
- SBA's Preferred Lender Program, which is part of its Export Working Capital Program,[9] is similar to Eximbank's Delegated Authority Program. However, according to an SBA official, only 1 of about 12 preferred lenders had provided export financing under the program, as of August 1996.[10]

Under the Export Working Capital Program, SBA guaranteed 190 loans valued at about $69 million during fiscal year 1995. As of August 1996, the default rate for exporters whose loans were guaranteed during fiscal year 1995 was 1.6 percent (3 defaults out of 190). The agency estimated

[8]These agreements are separate from SBA's packaging intermediaries for its domestic programs.

[9]This program is separate from SBA's Preferred Lender Program for its domestic programs.

[10]Although the guarantee rate for Eximbank's program has been 90 percent, the guarantee rate for SBA's Preferred Lender Program was 70 percent during fiscal year 1995 and legislatively mandated at 75 percent during fiscal year 1996. According to SBA, its lower guarantee rate was not as attractive to lenders that could obtain a 90-percent rate from Eximbank. As of fiscal year 1997, SBA's guarantee rate has been legislatively restored to 90 percent for its entire Export Working Capital Program.

that costs associated with administering its program during fiscal year 1995 totaled $461,667. This estimate includes an allocated portion of SBA's costs related to staffing and supporting USEACs.

Eight State Programs Identified as Providing Working Capital Guarantees

We surveyed 24 states and 1 U.S. territory initially identified as having export finance programs and found 8 states that provide export working capital guarantees for SMEs.[11] The eight state programs were designed specifically to service small businesses. As shown in table 1, these state programs varied greatly in their level of staff resources, available funding for guarantees, and program activity.

Table 1: Staff Resources, Available Funding, and Loans Guaranteed for States Identified With Export Working Capital Guarantee Funds for Fiscal Year 1996

Dollars in thousands

State	Number of staff resources[a]	Leveraged funding level[b]	Number of loans guaranteed	Value of loans guaranteed
California	12	$38,908	91	$39,498
Maryland	3	50,000[c]	15	15,900
Massachusetts	1	30,000	2	1,000
Florida	4	20,000	25	3,588[d]
Minnesota	3	3,674	10	1,550
Kansas	1	2,300	6	2,542
Georgia	2	2,000	1	55
South Carolina	1	850	0	0

[a]The number of staff resources does not necessarily represent full-time equivalents.

[b]The leveraged funding level is calculated by multiplying the allocated funding level by the number of times the fund may be leveraged. This amount represents the maximum amount of guarantees that may be outstanding at any one time.

[c]This fund is available for domestic loans as well as export loan guarantees.

[d]This amount represents the state's total liability associated with the 25 loans guaranteed during fiscal year 1996.

In addition, our survey identified programs in nine states and the one U.S. territory that provided export finance assistance to small companies but did not offer export-related working capital guarantees. Services provided by these programs included export finance counseling; loan packaging for Eximbank; and referrals to Eximbank, SBA, or lenders. The remaining

[11]We used the National Association of State Development Agencies' state export program data as well as information from Eximbank and SBA to identify states with export finance programs.

seven states surveyed did not have export finance programs. (See app. II for additional information on state-level export finance programs.)

Harmonization Efforts Are Incomplete but Appear Beneficial

Eximbank and SBA have made progress harmonizing their export working capital programs. The agencies' efforts to harmonize and, in other ways, improve their programs appear to have increased the level of loans guaranteed and the extent of exporter and lender participation. However, the programs continue to have some differences. Furthermore, progress toward harmonization was affected by a reduction in SBA's guarantee rate effective during fiscal year 1996. Despite remaining program differences and the temporary reduction in SBA's guarantee rate, both SBA and Eximbank have been able to continue bringing new exporters and, to a lesser degree, new lenders into their programs.

Efforts to Harmonize

In response to TPCC's recommendations, Eximbank and SBA began harmonizing their export working capital programs in October 1994 to simplify the loan process and make the programs more consistent for exporters and lenders. They standardized such key features as the application forms used by lenders or exporters, application fees, and guarantee coverage. To standardize the guarantee coverage, Eximbank reduced its coverage from 100 percent of principal and interest to 90 percent, and SBA raised its 85-percent guarantee to 90 percent. Both agencies also streamlined their procedures for processing loan guarantees. Additionally, they agreed to a market segmentation plan that (1) assigned SBA primary responsibility for assisting small businesses whose export working capital needs do not exceed SBA's $750,000 exposure limit and (2) made Eximbank responsible for assisting exporters who do not fall within SBA's small business standards or whose transactions exceed SBA's limit.

The effects of harmonization-related changes are difficult to measure because many occurred when Eximbank and SBA were making other changes aimed at improving export finance assistance for small businesses. For example, in fiscal year 1995, SBA began to set export working capital goals for each of its 69 district offices, and it developed new coguarantee agreements with a few states. SBA also provided basic export finance training to almost 300 of its staff and resource partners (e.g., small business development centers) and more in-depth training on transaction lending to its trade finance specialists. Likewise, during the same period, Eximbank enhanced its Delegated Authority Program by increasing the limits on the aggregate amounts participating lenders can provide to single borrowers annually[12] and allowing lenders to retain all or part of a loan fee, depending on the amount of the loan. Together, Eximbank and SBA officials also conducted export finance seminars in 13 cities that were attended by about 1,300 bankers. In addition, the agencies worked with the Department of Commerce to expand the USEAC network.

These program changes, including those related to the agencies' harmonization efforts, appear to have helped expand the use of the program, improve SME access to working capital, and increase the number of lenders participating in export financing. During fiscal year 1995, the number of export working capital loans guaranteed by SBA increased 167 percent, from 71 loans totaling $24 million in fiscal year 1994 to 190 loans totaling $69 million in fiscal year 1995. The number of export working capital loans guaranteed by Eximbank increased from 116 loans valued at about $152 million to 179 loans valued at almost $302 million, a 54-percent increase.

Our analysis of agency data showed that the two programs helped an increased number of new exporters during the period of harmonization and key program improvements. SBA's Export Working Capital Program assisted 69 exporters in fiscal year 1994 and 160 new exporters in fiscal year 1995. Eximbank's Working Capital Guarantee Program assisted 110 exporters in fiscal year 1994 and 133 new exporters in fiscal year 1995.

Lender participation in both of these programs also increased from 1994 to 1995. In fiscal year 1994, 56 lenders provided financing under SBA's Export Working Capital Program. In fiscal year 1995, 107 new lenders participated in the program. For Eximbank, 79 lenders provided financing under its Working Capital Guarantee Program in fiscal year 1994; 50 new lenders participated in the program in fiscal year 1995.

Programs Not Fully Harmonized

Although harmonization and other program improvements have produced some positive results, Eximbank's and SBA's programs are still not fully harmonized, as recommended by TPCC.[13] TPCC suggested standardizing the underwriting standards; however, there is a difference in the two agencies'

[12]For example, lenders who had successfully originated four working capital loans were provided with a limit of $2 million per exporter annually and an aggregate limit of up to $25 million in loans annually.

[13]Some remaining differences are statutory in nature, such as those related to Eximbank's U.S. content requirements and restrictions on supporting the sale of military or defense-related items.

credit qualification requirements. Eximbank requires borrowers to have a positive net worth; SBA does not. An Eximbank official stated that the agency has the flexibility to waive this requirement for otherwise creditworthy borrowers but could recall only a few instances in which this was done.

ProAction Agency, the consultant commissioned by Eximbank and SBA to evaluate harmonization efforts, identified another key difference between Eximbank's and SBA's programs; Eximbank and SBA fees for processing guarantees are not standardized. For loans with a term of greater than 6 but not more than 12 months, Eximbank charged 1.5 percent of the loan amount, and for loans of 6 months or less, it charged 0.75 percent of the loan amount.[14] SBA charged a fee of 0.25 percent of the guaranteed amount for loans with a term of 12 months or less. ProAction Agency also identified some remaining differences in Eximbank's and SBA's efforts to harmonize program documentation and operational procedures.

ProAction Agency concluded that because of the vast differences between the two agencies' programs, harmonization could not have been reasonably completed within the recommended 12-month time frame.[15] It further noted, however, that the lack of program standardization created a larger burden on lenders and exporters in the form of increased paperwork, high turnaround time, and general confusion regarding expectations. During fiscal year 1996, no other features of the two export working capital programs were standardized. SBA commented that, during fiscal year 1997, it and Eximbank have been working together to identify ways to further harmonize the closing documents for their export working capital loans.

Furthermore, progress toward harmonization of the two agencies' programs was interrupted during fiscal year 1996 when the guarantee coverage of SBA's 7(a) program was reduced in accordance with the Small Business Lending Enhancement Act of 1995 (P.L. 104-36, Sec. 2, Oct. 12, 1995). While Eximbank's guarantee coverage remained at 90 percent, SBA's coverage was reduced to 75 percent for loans above $100,000 and to 80 percent for loans below that level. In a report to Congress, SBA characterized this change as a severe setback to harmonization that caused confusion among the lending and small business exporting

[14]Under Eximbank's Delegated Authority Program, the agency allows lenders to retain all or part of the loan fee, depending on the loan amount and term.

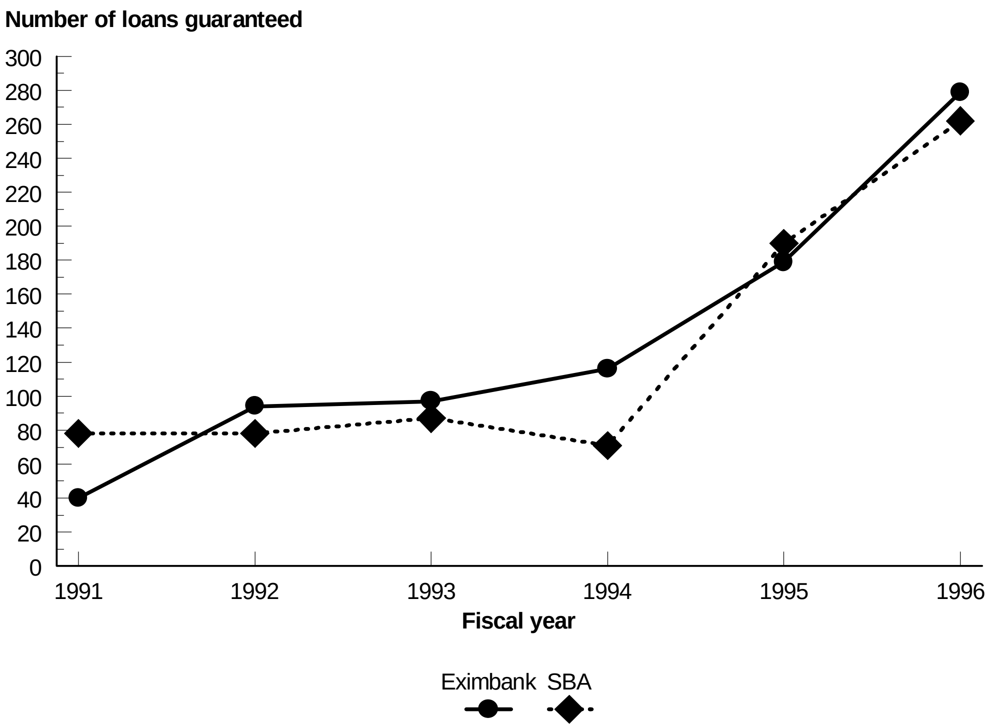
[15]Since TPCC recommended that the harmonization plan be evaluated 1 year after its effective date, the scope of ProAction Agency's review was limited to the end of fiscal year 1995.

communities.[16] SBA officials believe that this setback caused the agency to lose the momentum that allowed it to almost triple (from 71 to 190) the number of loans it guaranteed in fiscal year 1995. An Eximbank official emphasized that a common guarantee rate was an important element of harmonization and predicted that SBA's reduced rate would negatively affect small business exporters who need the localized support and assistance of SBA and its lenders.

Notwithstanding the reduction in SBA's guarantee rate, SBA increased the number of export working capital loans guaranteed by 38 percent for fiscal year 1996. Eximbank increased the number of loans guaranteed by 56 percent. The value of loans guaranteed under each of the agencies' programs likewise increased by almost 38 percent. Figure 1 shows the number of loans guaranteed by both agencies between fiscal years 1991 and 1996.

[16] Report to the Congress on the Impact of the Reduced Maximum Guarantee Percentage for the U.S. Small Business Administration's Export Working Capital Program, SBA, February 1996.

Figure 1: Export Working Capital Loans Guaranteed by Eximbank and SBA (fiscal years 1991-96)



Source: GAO.

In addition to increasing the number and value of loans guaranteed during fiscal year 1996, Eximbank and SBA have continued to enlist new exporters at generally the same rate as in the prior year. The number of new lenders funding loans through the export working capital programs, however, declined for both agencies in 1996, as shown in table 2. Effective October 1, 1996, SBA was provided authority to restore its guarantee coverage to 90 percent for its Export Working Capital Program, pursuant to the Omnibus Consolidated Appropriations Bill for fiscal year 1997 (P.L. 104-208, Sept. 30, 1996).[17]

[17]See H.R. Conf. Rep. No. 104-863, Division D, Title I, sec. 111.

Table 2: Number of New Lenders Funding Loans and New Exporters Receiving Loans

	Fiscal year 1995	Fiscal year 1996[a]
SBA		
New lenders funding loans	107	73
New exporters receiving loans	160	133
Eximbank		
New lenders funding loans	50	30
New exporters receiving loans	133	120
Total new lenders funding loans	**157**	**103**
Total new exporters receiving loans	**293**	**253**

[a]Data for fiscal year 1996 cover October 1995 through July 1996.

Source: GAO.

Issues Associated With Expanding the Use of Cooperative Agreements

To facilitate small business export finance, Eximbank and SBA have established more cooperative agreements with both the private and public sectors. Delegating authority to private sector lenders and devolving certain program responsibilities to state export finance organizations are examples of cooperative agreements. Expanding the use of these approaches could further leverage federal resources and expand federal outreach to SMEs, but it would also shift more responsibility for the guarantee of funds from the federal government to the private sector and the states. Nevertheless, Eximbank and SBA remain responsible for ensuring that the programs are well managed, funds are properly spent, and program objectives are met.

Delegating Authority to Lenders

Eximbank's Delegated Authority Program exemplifies one cooperative approach to increasing SME access to export financing. Under the program, exporters can have working capital guarantees processed and approved by a network of 69 delegated authority lenders located in 25 states plus the District of Columbia, rather than having to go through Eximbank's Washington, D.C., office. This program has also allowed Eximbank to leverage its resources and increase lender participation.

The Delegated Authority Program enabled the U.S. Division's staff to handle an increasing number of working capital guarantees while maintaining the same level of staffing. For example, in 1994, no loans were processed under the Delegated Authority Program, but in fiscal year 1995, Eximbank's delegated authority lenders processed 99 loans valued at $115 million, without an increase in the U.S. Division's staff. This activity represented 55 percent of Eximbank's working capital guarantee program. During fiscal year 1996, the delegated authority lenders processed 69 percent of the agency's working capital guarantees. This activity represented 192 loans valued at about $227 million. U.S. Division officials estimated that, even though the Delegated Authority Program allowed them to leverage their resources, about 20 to 30 percent of staff time was spent administering and monitoring the program.

The Delegated Authority Program also appears to have increased the level of lender participation. In fiscal year 1995, 29 active delegated authority lenders funded, on average, over twice as many loans using delegated authority than they did the prior year, when the program was dormant. According to Eximbank officials, lenders' ability to provide guarantees without obtaining prior approval coupled with fiscal year 1995 program enhancements contributed to the increased level of lender participation in the program. These enhancements included, for example, lenders' ability to retain all or part of a loan fee. Over 74 percent of the 56 respondents to our Delegated Authority Program survey[18] confirmed that quicker processing time attributable to the lenders' ability to approve loan guarantees, fee incentives, and the 90-percent guarantee coverage were the most important factors for remaining enrolled in the program.

Because more than two-thirds of Eximbank's export working capital loans are handled through the Delegated Authority Program, monitoring lenders' compliance with program requirements and managing the associated level of risks of these loan guarantees have become increasingly important. Eximbank developed a new monitoring system that requires inspections of all delegated authority lenders that have made at least one transaction under the program. According to Eximbank officials, these inspections assess lenders' compliance with various program requirements, including repayment terms, reviews of creditworthiness, and maintenance of loan transaction documentation. If Eximbank identifies compliance problems, it can place the lender on probation or retract the lender's delegated authority status. Eximbank officials said that possible loss of eligibility is one of the most effective measures for ensuring a lender's compliance. Another measure is the 10-percent risk assumed by the bank in the event of loan defaults. As of June 1996, the default rate for exporters whose loans were guaranteed through the Delegated Authority Program in fiscal

[18]We surveyed all 67 lenders that were enrolled in Eximbank's Delegated Authority Program as of February 1996.

year 1995 was 1 default out of 99 loans, and the default rate for loans guaranteed through Eximbank headquarters was 3 defaults out of 80 loans.

Devolving Greater Program Responsibility to the State Level

In 1993, TPCC recognized the merits of expanding the use of cooperative arrangements with states when it endorsed cofinancing agreements as part of an overall government strategy to facilitate export promotion and financing. Under these agreements, federal programs can expand their outreach to SMEs by taking advantage of the states' proximity to target firms and their knowledge of local businesses. Also, all 17 states and the 1 U.S. territory with export finance programs that were surveyed indicated their programs were designed to serve smaller companies. Likewise, states benefit from cooperative agreements by gaining access to federal guarantee funds that complement their own funds.

However, key limitations to expanding such agreements are (1) legal prohibitions at the state level and (2) varying levels of state commitment to export finance assistance. Moreover, these types of arrangements require provisions or mechanisms to ensure that federal guarantee funds are appropriately committed. Legal prohibitions sometimes prevent states from offering state-backed guarantees. Constitutions for six states prohibit them from providing export finance assistance, according to a report by the National Association of State Development Agencies.[19] States may also vary in their level of commitment to export financing, depending on the policy priorities of the states' current administration. A state program administrator said maintaining a consistent level of commitment to a particular program can be difficult because states have limited funds and a large number of competing demands. In some states, the level of funding available to support export financing has changed from year to year. In Maryland, for example, the leveraged guarantee funding was reduced from $60 million in fiscal year 1995 to $50 million in fiscal year 1996 because of a shift in the state's program priorities. In Texas, the leveraged funding was reduced from $2 million in fiscal year 1995 to no funding in fiscal year 1996.[20]

Eximbank established partnerships with state and local government offices and private organizations to help market its small business financial products. In September 1996, it implemented a pilot program

[19] State Export Program Data Base Analysis, National Association of State Development Agencies, 1994.

[20] A state program administrator explained that the state's legislation did not authorize the program to use any funds and thus no guarantees were made during fiscal year 1996.

delegating authority for approving working capital guarantees to six of the agency's state partners. Eximbank requires participating states to have an active export guarantee program with an average loan-loss track record of 5 percent or less, an independent credit approval process, and at least one person within the office or organization who has completed Eximbank's City/State Program training requirements.

Under pilot program guidelines, the maximum Eximbank guarantee will not exceed the legislative limit of the respective state partner, and Eximbank's maximum aggregate liability on principal will be $10 million per state partner. The state, Eximbank, and the lender will be partners in each guarantee, sharing all risks or losses or recovered amounts on a proportional basis.[21] Matching fund requirements and risk-sharing provisions are intended to promote accountability, and Eximbank officials believe they encourage state partners to ensure that federal funds are appropriately committed. Transactions under this program are also expected to conform with Delegated Authority Program guidelines and documentation requirements. As with delegated authority lenders, state partners are to be subject to periodic field inspections by Eximbank staff.

SBA has developed separate coguarantee arrangements with three states, as discussed earlier. It relies on risk-sharing program features, documentation requirements, and its final approval authority to ensure that states exercise due diligence and comply with coguarantee arrangements. Although SBA does not have formal eligibility requirements for developing coguarantee arrangements with states, agency officials emphasized that they tailor the agreements to the individual state programs. For example, SBA's agreement with California provides for a 50/50 matching guarantee for 90 percent of the principal of working capital loans. Guarantees under this agreement are not to exceed $1.5 million, or up to $750,000 per agency per guarantee, the maximum amount that California can guarantee. According to the director of the California program, the state conducts its loan analysis and completes its forms as usual and then sends the loan guarantee package to SBA trade finance specialists located at the USEAC in Long Beach for approval. SBA officials explained that they have not developed a separate monitoring system for overseeing its coguarantee agreements with the states because the agency still retains final review and approval authority for SBA's portion of the loan guarantee.

[21]Specifically, the risk is to be shared as follows: 45 percent for the city/state partner, 45 percent for Eximbank, and 10 percent for the commercial lender.

Potential Implications of Transferring SBA's Export Working Capital Program to Eximbank

In 1993, TPCC recommended that SBA's Export Working Capital Program should be merged into Eximbank's program if the agency's harmonization efforts were unsatisfactory. Although Eximbank and SBA have made progress in harmonizing their programs, a number of factors would need to be considered before any such transfer occurred. For example, Eximbank's program may not serve some exporters currently served by SBA since its delegated authority lenders may not handle the smaller export transactions SBA does. Other exporters may not have easy access to Eximbank's U.S. Division and its network of delegated authority lenders, which are located in only 25 states plus the District of Columbia and tend to be clustered around large metropolitan areas. Likewise, some SBA lenders currently served by SBA may lose the benefit of being introduced to the program and becoming involved in export financing, since Eximbank and SBA tend to encourage greater lender participation in differing ways and reach out to different types of lenders. Finally, consolidating the programs may result in minimal cost savings, according to SBA's cost estimates for administering its Export Working Capital Program.

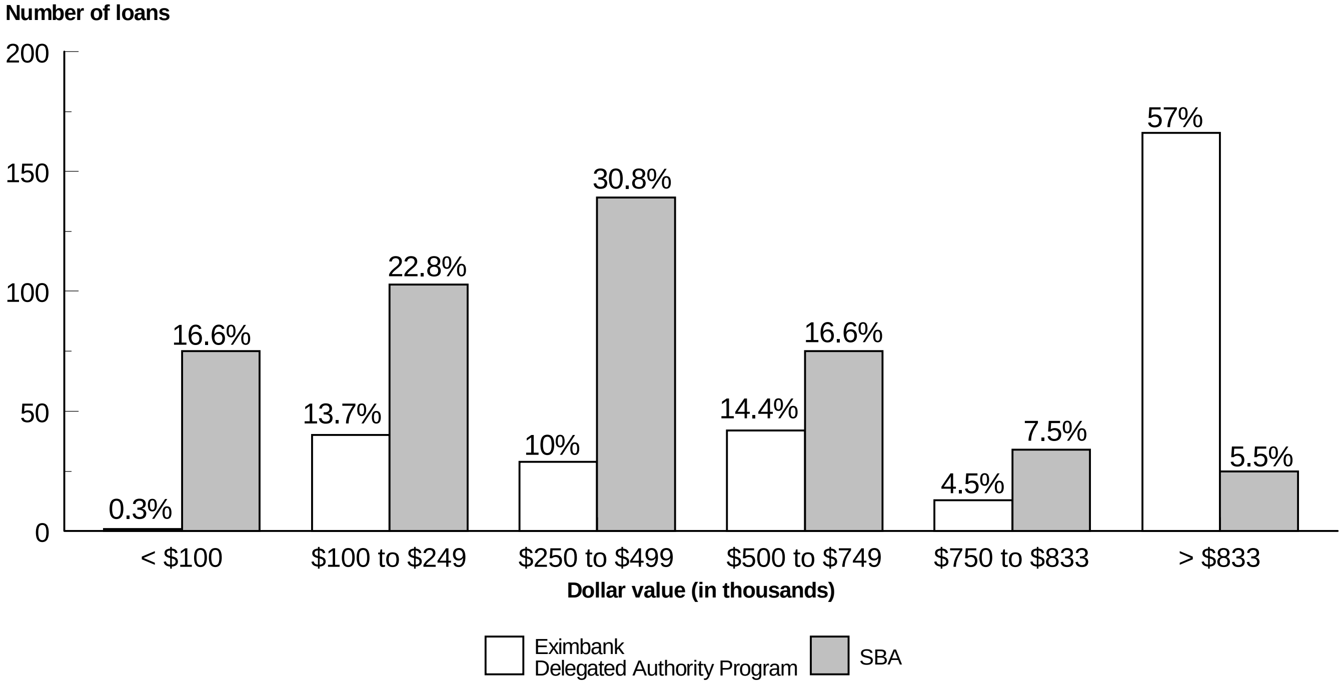
Delegated Authority Lenders May Not Serve the Needs of Exporters Served by SBA

We sought to determine whether Eximbank's lenders would be willing to provide the same level of support for smaller export transactions that SBA lenders provide. In accordance with the market segmentation plan under harmonization, SBA was to handle applications for loans that were less than or equal to $833,333 and Eximbank was responsible for handling working capital loans over $833,333. However, Eximbank's delegated authority lenders were not covered by the market segmentation plan and were allowed to handle smaller export working capital loans.[22] Therefore, we focused our analysis on the delegated authority lenders. During fiscal years 1995 and 1996, only 24 percent of the loans guaranteed through Eximbank's Delegated Authority Program were valued at less than $500,000[23] and about 70 percent of the export working capital loans guaranteed by SBA were valued at less than $500,000, as shown in figure 2.

[22]Before the market segmentation plan, Eximbank's Working Capital Guarantee Program had been available for loans of any size. In fiscal year 1995, when the market segmentation plan became effective, Eximbank was to handle working capital guarantee applications for loans over $833,333. When SBA's guarantee rate was lowered in fiscal year 1996, Eximbank returned to its practice of guaranteeing loans of any size. As of October 1, 1996, SBA's guarantee rate was restored. According to an Eximbank official, the agency has resumed guaranteeing loans that are consistent with the market segmentation plan.

[23]According to Eximbank data, 10 percent of the loans guaranteed under Eximbank's U.S. Division in fiscal year 1995 were valued at less than $500,000 (13 percent in 1996).

Figure 2: Export Working Capital Loans Guaranteed by Dollar Value (fiscal years 1995 and 1996)



Source: GAO.

In our survey of delegated authority lenders, over 80 percent (46 of 56) of the respondents indicated that they would be willing to provide export working capital loans for less than $833,333 to existing customers, and 62 percent (35 of 56) indicated they would be willing to provide such loans for new customers. However, 66 percent of the respondents indicated that they would probably not provide a working capital loan under a certain threshold, which for these lenders was a median threshold of $250,000.[24] During fiscal years 1995 and 1996, 14 percent of the export working capital loans guaranteed through delegated authority lenders were less than $250,000 compared with about 40 percent of the loans guaranteed by SBA.

[24]In its October 1996 report to Congress, TPCC recognized the reluctance of banks to handle the smaller loans, particularly for export financing. It reported that a major problem facing small exporters was limited access to export finance due to the small number of banks (75 out of 9,000) that provide this type of financing. Moreover, most of these 75 banks are larger institutions that typically do not provide banking services to SMEs.

More than half of the delegated authority lenders indicating they had a threshold stated that processing loans below that amount was too costly and time-consuming for them to make a profit. In response to follow-up contacts, six of seven delegated authority lenders who were generally willing to provide smaller working capital loans agreed such loans were largely unprofitable for their institutions.[25] They were willing to provide small working capital loans chiefly to develop new business opportunities with exporters or maintain their existing customer base.

Over 60 percent of the respondents indicated that certain incentives would be effective in encouraging them to provide working capital loans under $833,333. These incentives included changes to Eximbank's program, such as allowing lenders to retain a greater portion of the facility fee and further relaxing collateral requirements. Other changes were outside the scope of the Delegated Authority Program, including allowing lenders to receive credit for promoting small business export finance through the Community Reinvestment Act and relaxing loan loss reserve requirements. About 32 percent of the respondents suggested simplifying the paperwork and loan processing requirements of Eximbank's program or increasing the guarantee to 100 percent for smaller loans.

Eximbank's Program May Not Be Accessible to Some Exporters

If SBA's Export Working Capital Program were transferred to Eximbank, SMEs in some states might not have convenient access to the current lenders who participate in Eximbank's Delegated Authority Program. Eximbank's U.S. Division is located in Washington, D.C., and its 69 delegated authority lenders located in 25 states plus the District of Columbia tend to be concentrated in large metropolitan areas. In contrast, USEACs and SBA's district offices cover all 50 states and Puerto Rico. Although Eximbank's delegated authority lenders are in fewer states than USEACs and SBA's district offices, Eximbank may be able to reach these businesses in other ways, such as its City/State Program. Eximbank's pilot programs, which began in September 1996, are intended to increase the activity level of these local partners.

Some SMEs currently served by SBA may not have access to Eximbank's Working Capital Guarantee Program because of statutory restrictions on the types of loans Eximbank can guarantee and a difference in Eximbank's and SBA's credit qualification requirements. For example, Eximbank is prohibited from financing defense articles and services and is restricted in

[25]We selected seven of the survey respondents because they had issued guarantees for and funded at least three export working capital loans under $833,333 as of February 28, 1996.

the amount it can guarantee for products that have less than 50 percent U.S. content. Eximbank's seemingly stricter credit standards may also affect small exporters served by SBA.

Transferring Program Responsibility May Affect Outreach to Some Lenders

Eximbank and SBA use different methods to increase lender participation and focus on different types of lenders. If SBA's Export Working Capital Program were transferred to Eximbank, outreach to some lenders that are currently part of SBA's network of 7(a) lenders may be adversely affected as a result of these differences.

SBA focuses on attracting new banks to its export program from its pool of domestic 7(a) program lenders, whereas Eximbank focuses more on increasing the level of loans funded by its existing lenders. Eximbank also focuses on attracting new lenders to its program but not to the same extent as SBA. During fiscal year 1995 and the first 10 months of fiscal year 1996, SBA attracted 180 new lenders to its Export Working Capital Program, whereas Eximbank attracted 80 new lenders. Although Eximbank had fewer new lenders, it increased the number of loans guaranteed by increasing participation in its Delegated Authority Program.

The lenders in SBA's program tend to have different profiles than those in Eximbank's program. SBA officials said they generally work with small community banks without international divisions and provide one-on-one assistance with processing export working capital loans. They also explained that the agency works with larger banks' small business or credit departments, which typically lack experience in export financing. Although some of these larger banks may have international divisions, these divisions are generally not inclined to handle the less profitable smaller transactions. Eximbank tends to work with large banks, many with international departments that can assume delegated authority.

In addition, Eximbank and SBA tend to work with banks of different asset sizes. For example, over 70 percent of the banks Eximbank works with have assets greater than $1 billion.[26] On the other hand, almost 53 percent of SBA's Export Working Capital Program lenders have less than $1 billion in assets, with 16 percent having assets less than $100 million. (See app. III for summary data on the assets of SBA's Export Working Capital Program lenders and Eximbank's delegated authority lenders.)

[26]Asset size data is as of March 30, 1996, except for banks that merged before this date. For merged banks, we used the most recent asset size data available before merger.

Some SBA lenders were aware of Eximbank's Working Capital Guarantee Program but did not use the program for a variety of reasons. In our survey of the more active SBA lenders,[27] 25 of 28 respondents were aware of Eximbank's program, but less than half used it. Five respondents did not use Eximbank's program because they were satisfied with SBA's program, three respondents believed Eximbank's program was intended for larger export transactions, and two said the program was too bureaucratic.

Cost Savings Associated With Transferring SBA's Program May Not Be Significant

The potential savings associated with transferring the program from SBA to Eximbank may be modest, given the relatively low estimated costs of administering SBA's Export Working Capital Program. Furthermore, Eximbank might incur increased costs from hiring additional loan officers to handle the new workload. On the other hand, some of these costs could be mitigated by approving more working capital loan guarantees through the Delegated Authority Program or devolving authority to approve guarantees to more states. SBA estimated it cost $460,000 to administer its Export Working Capital Program in fiscal year 1995. Under the program, SBA guaranteed 190 export working capital loans, which resulted in a potential liability of about $57 million. SBA's estimates for administering the Export Working Capital Program include costs related to staffing and supporting USEACs. Although these estimates do not include the time or costs of the agency's district office staff involved in handling export working capital guarantees, they represent the bulk of the agency's administrative costs for the program, according to an SBA official.

Agency Comments and Our Evaluation

SBA and Eximbank provided us with written comments on a draft of this report. (See apps. V and VI.) SBA did not offer any overall comments on the draft but provided specific technical suggestions and observations to improve the clarity and accuracy of the draft. We have incorporated these changes in the report where appropriate.

Eximbank generally agreed with the report. However, it disagreed with our observation that small businesses may have less access to export working capital if SBA's program were transferred to Eximbank. Eximbank stated that its delegated authority lenders had greatly expanded the availability of its program to small businesses. Although the Delegated Authority Program has enabled Eximbank to greatly expand its program

[27]We surveyed all 35 lenders that had funded at least 2 export working capital loans guaranteed by SBA during fiscal year 1995.

without increasing its staff, our review also identified a significant limitation that exporters may face if they must seek smaller working capital loans from delegated authority lenders. Our analysis of Eximbank data showed that, for fiscal years 1995 and 1996, only about 24 percent of the loans guaranteed through Eximbank's delegated authority lenders were under $500,000. On the other hand, about 70 percent of the export working capital loans guaranteed by SBA were valued at less than $500,000.

Scope and Methodology

To understand federal and state approaches to facilitating export working capital to SMEs, we interviewed Eximbank and SBA officials and reviewed pertinent agency documents, such as working capital program instructions, summary activity reports, and related press releases. We also reviewed Eximbank and SBA documents on various arrangements aimed at facilitating export working capital guarantees, such as the Eximbank Delegated Authority Program, the Eximbank City/State Program, SBA coguarantee arrangements with states, and SBA agreements with intermediaries to package export working capital loans. To determine state efforts to facilitate export working capital for SMEs, we reviewed the National Association of State Development Agencies' 1994 State Export Program Data (the latest comprehensive information on state's programs available at the time of our review) as well as information from Eximbank and SBA. We identified 21 states and 1 U.S. territory using the National Association of State Development Agencies' data and identified an additional 3 states as having export finance programs. We then surveyed and received responses from representatives at each of the 24 states and the 1 U.S. territory.

To assess efforts to harmonize Eximbank and SBA's export working capital programs, we interviewed officials responsible for administering each agency's program and reviewed available program documents, such as operating guidelines and sample guarantee agreements. We also reviewed a consultant report, cosponsored by both agencies, aimed at evaluating the success of harmonization efforts.[28] To identify whether harmonization efforts may have affected the level of program activity, we analyzed Eximbank and SBA data on the number and dollar value of loans guaranteed during fiscal years 1994 through 1996 as well as data on the number of lenders and exporters participating in the working capital guarantee programs. Data presented in the report on the number and value of loans guaranteed exclude those cases in which a guarantee was

[28]Harmonization of Ex-Im Bank Working Capital Guarantee Program and SBA Export Working Capital Program, Evaluation Study, ProAction Agency, May 20, 1996.

approved but was subsequently withdrawn or canceled. To identify the number of new lenders and new exporters, we compared agency data for fiscal years 1994 through 1996. New lenders or exporters for fiscal year 1995 were those that did not participate in the programs in fiscal year 1994 (before harmonization). New lenders or exporters for fiscal year 1996 were those that did not participate in the programs in the preceding 2 years. We did not independently verify the accuracy of the data provided by Eximbank or SBA.

To identify the issues associated with expanding the number of cooperative agreements in the federal working capital guarantee programs, we focused on delegating authority to lenders and devolving greater responsibility for export working capital programs to the states. We evaluated these approaches on the basis of leveraging federal resources, SME access to export financing, and program oversight. We also examined the potential implications of transferring SBA's export working capital program to Eximbank by focusing on SME access to export financing and lender participation. We discussed these approaches with Eximbank, SBA, and Department of Commerce officials as well as with officials of financial institutions and small business trade associations, such as the Bankers Association of Foreign Trade, Small Business Exporters Association, and the National Small Business United.

To obtain lenders' perspectives on expanding the use of cooperative agreements with banks, we surveyed the 67 lenders that were enrolled in Eximbank's Delegated Authority Program as of February 1996 and had about an 85-percent response rate. We also surveyed all lenders that had funded at least 2 export working capital loans guaranteed by SBA during fiscal year 1995 (35 out of 150 lenders) and had an 80-percent response rate. (See app. IV for more details on the methodology for and selected results of the two lender surveys.) We obtained information on the costs associated with administering the export working capital programs to determine potential cost savings that may be derived from transferring SBA's program to Eximbank. Since agency budget and cost data was not maintained by specific program areas, we relied on estimates provided by both Eximbank and SBA.

We did our work from February to October 1996 in accordance with generally accepted government auditing standards.

We are sending copies of this report to appropriate congressional committees, the Administrator of the Small Business Administration, the Chairman of the U.S. Export-Import Bank, and the Chairman of the Trade Promotion Coordinating Committee. We will also make copies available to others on request.

This report was prepared under the direction of JayEtta Z. Hecker, Associate Director, who may be reached on (202)512-8984 if you or your staff have any questions about this report. Other major contributors to this report are listed in appendix VII.

Benjamin F. Nelson

Benjamin F. Nelson
Director, International Relations and Trade Issues

Contents

Abbreviations

Eximbank	U.S. Export-Import Bank
SBA	Small Business Administration
SME	small- and medium-sized enterprises
TPCC	Trade Promotion Coordinating Committee
USEAC	U.S. Export Assistance Centers

Main Components for Delivering Export Working Capital Programs to Small- and Medium-Sized Enterprises

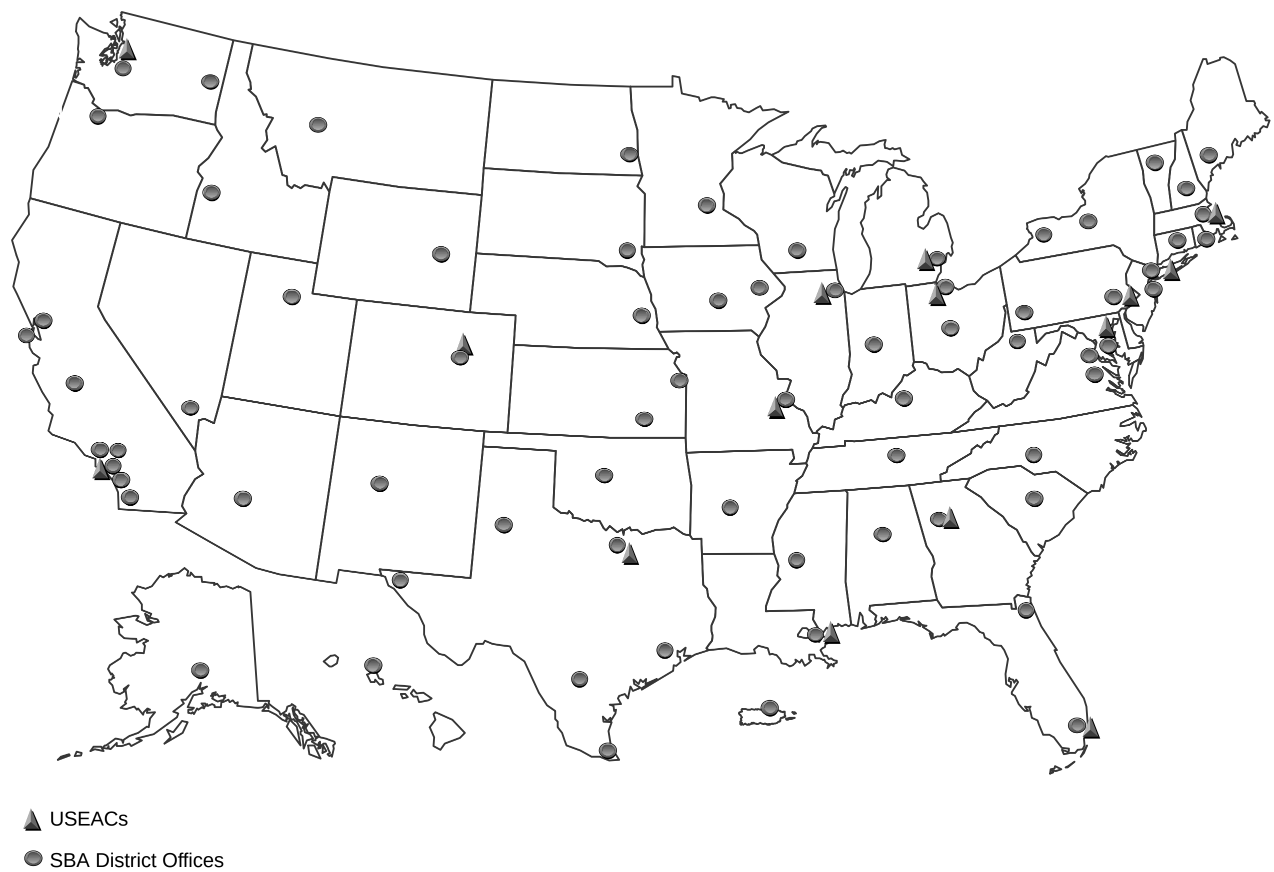
The U.S. Export-Import Bank (Eximbank) relies heavily on its U.S. Division and delegated authority lenders for delivering its Working Capital Guarantee Program. Figure I.1 shows the locations of the U.S. Division and delegated authority lenders.

Figure I.1: Eximbank's U.S. Division and Delegated Authority Lenders

Source: U.S. Division, Eximbank.

The Small Business Administration (SBA) relies on the U.S. Export Assistance Centers (USEAC) and district offices to deliver its Export Working Capital Program. Figure I.2 shows the locations of USEACs and SBA district offices.

Figure I.2: USEACs and SBA District Offices



Source: SBA.

Information on State-Level Export Finance Programs

Table II.1 shows the 17 states and 1 U.S. territory in our survey that have export financing programs. Table II.2 shows the eight states that offer working capital guarantees as part of their export financing programs and the number and amount of guaranteed loans. Table II.3 compares the eight state-level export working capital guarantee programs.

Table II.1: States Surveyed With an Export Finance Program or Export Working Capital Guarantee Funds

States with export finance programs without working capital guarantees[a]	States with export finance programs that offer working capital guarantees
Alaska	California
Arkansas	Florida
Indiana	Georgia
New Hampshire	Kansas
New Jersey	Maryland
New York	Massachusetts
Puerto Rico	Minnesota
Texas[b]	South Carolina
Utah	
Washington	

[a]Oregon has a general credit enhancement fund that is not precluded from providing funding for export financing.

[b]Texas has an export finance program, but funds allocated have not been available for providing working capital guarantees since March 1995. According to the state program administrator, the appropriate language needed to allow the Texas program to access the fund had been inadvertently omitted from the authorizing legislation.

Table II.2: Leveraged Guarantee Fund and Export Working Capital Loans Guaranteed by State (fiscal years 1995 and 1996)

Dollars in thousands

	Fiscal year 1995			Fiscal year 1996		
	Leveraged funding level[a]	Loans guaranteed		Leveraged funding level[a]	Loans guaranteed	
State		Number	Amount		Number	Amount
California	$38,908	165	$65,136	$38,908	91	$39,498
Florida	5,000	N/A[b]	N/A[b]	20,000	25	3,588[c]
Georgia	1,000	2	330	2,000	1	55
Kansas	2,120	5	1,180	2,300	6	2,542
Maryland	60,000[d]	22	19,000	50,000[d]	15	15,900
Massachusetts	30,000	N/A[b]	N/A[b]	30,000	2	1,000
Minnesota	3,365	10	1,380	3,674	10	1,550
South Carolina	850	1	100	850	0	0

Note: The states' fiscal year begins July 1 and ends June 30. Amounts for loan guarantee represent amount of guarantee liability.

[a]The leveraged funding level is calculated by multiplying the allocated funding level by the number of times the fund may be leveraged. This level represents the maximum amount of guarantees that may be outstanding at any one time.

[b]Not available.

[c]This amount represents the state's total liability associated with the 25 loans guaranteed during fiscal year 1996.

[d]This fund is available for domestic loans as well as export loan guarantees.

Table II.3: Comparison of Eight State-Level Export Working Capital Guarantee Programs

Program attribute	California	Florida
Program attribute	California	Florida
First year of operation	1985	1994
Cumulative default rate[a]	1.5	0
Number of loans guaranteed during fiscal years 1995 and 1996	256	25[b]
Average amount of loans guaranteed during fiscal years 1995 and 1996	$408,726	$143,520[b]
State-specific requirements[c]	Minimum state content and state-based operations	Shipments from state port
Typical size of participating companies	15 to 20 employees or $1 million to $20 million in sales	7 employees or $5 million or less in sales
Maximum guarantee percentage	90	90
Maximum loan guarantee	$750,000	$500,000
Minimum loan guarantee	None	None
Number of lenders in program during fiscal years 1995 and 1996	65	20

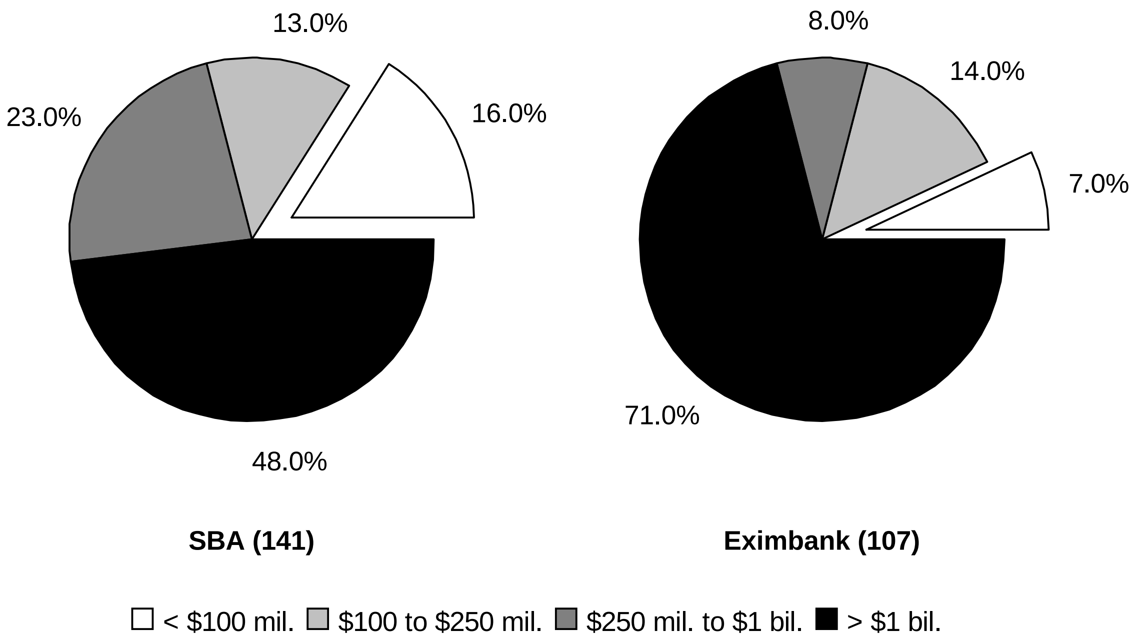
Georgia	Kansas	Maryland	Massachusetts	Minnesota	South Carolina
Georgia	Kansas	Maryland	Massachusetts	Minnesota	South Carolina
1994	1990	1986	1993	1983	1990
0	0	1.0	0	1.2	0
3	11	37	2	20	1
$128,333	$338,358	$943,243	$500,000	$146,500	$100,000
Minimum state content	Minimum state content	Minimum state content or shipment from state port	Minimum state content	Minimum state content	Minimum state content
3 to 125 employees	500 employees or less	$1 million to $5 million in sales	50 employees or $10 million in sales	100 employees or less	5 to 50 employees
90	90	90	70	90	85
$500,000	$345,000	$1,000,000	$500,000	$250,000	$170,000
None	None	None	$50,000	$25,000	None
4	10	10	4	5	1

[a]The cumulative default rate represents the rate of defaults since the fund was first established in the state.

[b]This figure represents fiscal year 1996.

[c]For those states with a state content requirement, the required minimum state content was either 50 or 51 percent.

Lenders Participating in Eximbank's and SBA's Export Working Capital Programs



Note:Data shown represent 141 lenders participating in SBA's program as of August 31, 1995, and 107 lenders participating in Eximbank's program as of April 29, 1996. Asset size data is as of March 30, 1996, except for banks that merged before this date. For merged banks, we used the most recent asset size data available before merger.

Methodology for and Selected Results of Lender Surveys

During our review, we surveyed lenders participating in Eximbank's Delegated Authority Program and lenders participating in SBA's Export Working Capital Program. The following is a summary of our methodology and the responses we received for selected survey questions.

Survey of Eximbank Delegated Authority Lenders

To obtain lenders' perspectives on the Delegated Authority Program and their willingness to provide smaller export working capital loans, we surveyed all lenders participating in the program at the time of our review. Eximbank provided us with a list of all delegated authority lenders as of February 21, 1996, and a database that contained information on all working capital loans guaranteed during fiscal year 1995 and fiscal year 1996, as of February 29, 1996. We surveyed all 67 delegated authority lenders[1] and obtained responses from 57, for a response rate of about 85 percent.[2]

For nonrespondents, seven had not provided any working capital loans under delegated authority, and the other three had provided at least one such loan under delegated authority. We pretested the survey with four lenders, one each in Arizona, California, Texas, and Washington, obtained feedback from Eximbank on the draft instrument, and made appropriate revisions. Two of our interviewers surveyed banks by telephone between April and June 1996. In some instances, banks responded by facsimile machine. To ensure data reliability and consistency, we asked appropriate follow-up questions during our telephone interviews. In some cases, we followed up with lenders who faxed in responses, obtained information on some questions not answered, and clarified certain responses. The following are selected questions as asked, and the responses we received from Eximbank delegated authority lenders.

Question 1:

The following is a list of factors that may be important to remaining enrolled in the program. Can you add any other factors to this list? Also, please identify the top three most important factors by placing a "1" by the most important factor, a "2" by the second most important factor, and a "3" by the third most important factor.

[1]Eximbank's list contained 68 lenders; however, 1 lender said that it was affiliated with another lender and requested that we only administer one survey for both lenders.

[2]For our analysis, we used 56 of the responses because 1 of the responses was based on a pretest that could not be used in the analysis.

Top 3 factors	1	2	3	Total	Percentage respondents
Fee incentives	9	18	15	42	75.0
Guarantee coverage of 90 percent	32	12	4	48	85.7
Quick processing time to meet customer needs	11	19	15	45	80.4
Access to Eximbank's expertise in international finance	0	2	7	9	16.1
Cap of $75(AA)/$50(A)/$25(B) million in guarantees per bank	0	0	2	2	3.6
Cap of $5(AA)/$3.5(A)/$2(B) million per borrower	1	3	7	11	19.7

Question 2:

If there is a demand, how likely would your bank be to provide export working capital loans for less than $833,333 to small businesses with whom you have an established banking relationship? (Please check one.)

Very unlikely	Somewhat unlikely	As likely as unlikely	Somewhat likely	Very likely	No basis to judge
4	4	2	2	44	0

n = 56

Question 3:

If there is a demand, how likely would your bank be to provide export working capital loans for less than $833,333 to small businesses with whom you do not have established banking relationship? (Please check one.)

Very unlikely	Somewhat unlikely	As likely as unlikely	Somewhat likely	Very likely	No basis to judge
9	8	4	8	27	0

n = 56

Question 4:

Is there some amount under which your bank would generally not provide export working capital loans?

Yes = 37
No = 18

Loan amount	Number[a]
$25,000	1
50,000	2
100,000	10
150,000	1
200,000	3
250,000	5
300,000	2
350,000	1
500,000	7
1,000,000	3

[a]Two lenders stated that they had a threshold, but did not provide the dollar amount of the threshold.

Average: $302,143

Median: $250,000

Question 5:

In your opinion, how effectively would the following incentives encourage banks participating in Eximbank's Delegated Authority Program to provide more export working capital to small businesses through the program? (Please identify any other incentives you feel would be effective and please check one box in each row.)

n = 56

	Very effective	Effective	Moderately effective	Not effective	No basis to judge
Retaining a greater proportion of the fees	37	11	7	1	0
Having more relaxed collateral requirements	24	15	10	7	0
Other: Simplifying the paperwork and loan processing requirements	9	0	0	0	0
Other: Increasing the guarantee to 100 percent	7	0	0	0	0

Question 6:

In your opinion, how effectively would the following incentives encourage banks to provide more export working capital to small businesses in general? (Please identify any other incentives you feel would be effective and please check one box in each row.)

n = 56

	Very effective	Effective	Moderately effective	Not effective	No basis to judge
Receiving credit for adhering to the Community Reinvestment Act	20	15	13	3	0
Relaxing loan loss reserve requirements for government guaranteed loans	21	16	11	3	0

Survey of Lenders Participating in SBA's Export Working Capital Program

We asked lenders participating in SBA's Export Working Capital Program about their banks' policies and opinions on SBA's program. SBA provided us with a list of 150 lenders enrolled in its Export Working Capital Program as of August 1995 and a database of all loans guaranteed through the program during fiscal year 1995. During fiscal year 1995, 17 lenders did not make any loans guaranteed through the program, 98 lenders made only 1 loan, and the remaining 35 made 2 or more such loans.

We surveyed all 35 participants that had funded 2 or more loans guaranteed through SBA's Export Working Capital Program during fiscal year 1995 and received responses from 28 lenders, an 80-percent response rate. These 28 lenders had asset sizes ranging from $33 million to $44 billion and were located throughout the United States. The seven nonrespondents surveyed had asset sizes that ranged from approximately $84 million to $49 billion and were also located throughout the United States.

We pretested the questionnaire with four lenders, one each in Oregon, New Jersey, New York, and Washington, D.C., in early July 1996, and made appropriate revisions. Two of our interviewers surveyed the lenders by telephone between July and August 1996 and allowed some lenders to respond by facsimile machine. To ensure data reliability and consistency, we reviewed and performed edit checks of the instruments returned by facsimile machine. The following are selected questions as asked and the responses we received from SBA lenders.

Question 7:

Similar to SBA's Export Working Capital Program, the Eximbank administers a working capital guarantee program. Are you aware of this program?

Yes = 25
No = 3

Question 8:

Does your department currently use Eximbank's working capital guarantee program?

Yes = 13
No = 12

Question 9:

Overall, how would you characterize your department's experience with Eximbank's program?

1 = Very positive
7 = Generally positive
3 = Neutral
0 = Generally negative
0 = Very negative
2 = Not sure

n = 13

Question 10:

In your opinion, which of the following reasons best explains why your department has not used Eximbank's working capital program? (Please rank up to 3 reasons by placing "1" by the most important reason, "2" by the second most important, and "3" by the third most important.)

The number of respondents that ranked the following reasons "1":

3 = Believe Eximbank's program was intended for larger export transactions
1 = Eximbank offices (headquarters and regions) are not accessible
2 = Eximbank's program viewed as being too bureaucratic
5 = Satisfied with SBA's program and perceive no need to use Eximbank's program
1 = Other: (Please specify) Local representation lacking.

n = 12

Comments From the Small Business Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

NOV 26 1996

Ms. JayEtta Z. Hecker
Associate Director, International Relations
and Trade Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Ms. Hecker:

This responds to your November 1, 1996, letter requesting the U.S. Small Business Administration's (SBA) review and comments on the draft report entitled *Export Finance: Federal Efforts to Support Working Capital Needs of Small Business.*

Itemized below are issues which we feel are important to the veracity of the report. We hope the essence of these concerns will be reflected in its final version.

Now on p. 1.

Page 1: Recommend changing the definition of the use of working capital to read...*Working capital is used to finance manufacture or purchase of finished good and services and to finance the carrying cost of accounts receivable.* EWCP proceeds are not used for marketing of goods and services.

Now on pp. 1-2.

Page 2 (top of page): This financing is not provided by both the private and public sectors - only the private sector is doing the financing; the federal government is guaranteeing those loans. Large AND small companies have a need to finance their exports – they approach different sources for it. A large company may rely on internal funding whereas a small company may only have recourse to a commercial lender. In addition, recommend rephrasing the last sentence on 1st paragraph to read...Eximbank and SBA have programs designed to increase the availability of export working capital to SMEs from the private sector by encouraging greater lender participation in export financing. These programs provide loan repayment guarantees that reduce the risk associated with such loans.

Now on p. 2.
See comment 1.

Page 3: (1st line): Is there a parallel statement regarding the number of employees for the companies obtaining Eximbank guarantees??

Now on pp. 3-4.

Page 4: (2nd line): Recommend ... Eximbank's primary approach to implementation has been to delegate to a network....(5th line): Recommend ...SBA, on the other hand, relies primarily on staff with lending authority it has assigned ....

Federal Recycling Program Printed on Recycled Paper

Now on pp. 4-5.

Page 5: (2nd paragraph, 7th sentence): Recommend...Eximbank's Delegated Authority Program and SBA's Preferred Lender Program exemplify one cooperative approach...

Comment: The emphasis on cooperative agreements with banks and delegated responsibility to states may be of limited value in expanding access to capital to SMEs. Those banks making the small working capital loans to SMEs (>$350,000) are those banks whose major impediment is the international risk component rather than the cost/loan size factors.

Now on p. 5
See comment 2.

Page 6 (1st paragraph): <u>At a minimum</u>, the four factors mentioned would have to be considered before any transfer of program responsibility were considered. The harmonization review conducted by ProAction in late FY '96 did not recommend a reorganization of the program responsibilities. In addition to the four factors mentioned, Eximbank would still have to dedicate resources to the 17 USEACs – soon to be 19 – which serve as the primary delivery vehicle for the EWCP and where the greatest growth potential is anticipated.

Now on p. 5.

(2nd paragraph): Recommend...SBA relies primarily on the lending authority of the staff it has assigned to the USEACs....

Now on p. 8.

Page 9: (1st paragraph): We agree that, on average, our USEAC staff, spend 85% of their time on market development, lender development, processing and screening of EWCP loans. The remaining 15%, however, IS NOT spent on newsletters (SBA does not have newsletters as a matter of program policy) and trade shows. It is more correct to say that the remaining 15 % of their time is spent on: actively promoting the USEAC in their region; developing the Export Trade Assistance Partnership Program (E-TAP), counseling small businesses on export finance; participating as speakers in conferences and seminars on trade finance and expanding relationships with state and local government and other private/public sector partners in fostering increasing small business exports.

Now on p. 9.

Page 10 (1st paragraph): Comment: It is important to note that during FY '95 when the guarantee rate for non-PLP lenders was harmonized with Eximbank at 90% , SBA preferred lenders (PLPs) were legislatively mandated at a 70% guarantee rate. This meant there was a disincentive for a bank who was an SBA PLP lender. During FY 96, PLP and non-PLP lenders were legislatively mandated at the 75% guarantee rate. Again, the rate was not attractive to lenders who could otherwise obtain 90% from Eximbank.

Now on pp. 14-15.

Page 15 (2nd paragraph): Comment: It is important to note that the fees charged by SBA referred to in this paragraph are legislative mandated by Congress for the 7(a) program which includes the EWCP. Eximbank does not have a Congressionally-mandated fee structure.

Now on p. 15

Page 16 (2nd paragraph): Comment: SBA and Eximbank are working together in FY '97 to identify ways to further harmonize the closing documents for EWCP loans.

Now on p. 20.

Page 20 (2nd paragraph): Comment: The survey, methodology and questions used by GAO tend to emphasize the Eximbank approach to the market – using the delegated authority approach to increasing the dollar volume of working capital with existing lenders. Since there is a finite number of U.S. banks with international divisions, there is limited room for expansion. We recommend emphasizing the need to involve more of SBA's pool of 7(a) lenders (5,000 to 7,000) as being a huge potential for expansion of working capital to SMEs versus the delegated lender or the state cooperative agreement approach.

Now on pp. 24-25.

Page 24 (2nd paragraph): Comment: SBA's average size loan is $350,000. According to GAO survey results, Appendix IV, pp. 44, 71.5% of Eximbank Delegated Authority lenders would not provide working capital where the loan amount was less than $350,000.

Now on p. 28.

Page 28 (1st paragraph): Comment: Fees should be kept low to keep lenders active and to allow bank to earn more from the business rather than making profits by charging larger fees. This is readily apparent from the experience of Eximbank when they let their banks retain half of their 1.5% fee. In addition, the survey points to the fact that these fees were not one of the most important factors for the banks.

Now on pp. 33-34.

Page 33 (1st paragraph): Again, this is Eximbank's approach to expansion of the working capital program—not SBA's.

If you have any questions, or if I can be of further assistance, please feel free to call me or Eileen Cassidy, (A) Assistant Administrator, International Trade, at 202/205-6720.

Sincerely,

for Patricia R. Forbes
(A) Associate Deputy Administrator
for Economic Development

The following are GAO's comments on SBA's letter dated November 26, 1996.

GAO Comments

1. Data was not readily available for us to make a comparable statement regarding the average number of employees per company that have obtained working capital loans guaranteed from Eximbank.

2. Eximbank staff are presently located at 4 of the 19 USEACs currently in operation. Eximbank has indicated that it believes a combination of its regional office staff and city/state participants would be able to respond to regional USEAC needs for Eximbank services.

Comments From the U.S. Export-Import Bank

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

EX-IM BANK
JOBS THROUGH EXPORTS

December 2, 1996

Ms. JayEtta Z. Hecker
Associate Director
International Relations and Trade Issues
United States General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Re: EXPORT FINANCE: Federal Efforts to Support Working Capital Needs of Small Business

Dear Ms. Hecker:

Thank you for the opportunity to review your draft report on Ex-Im Bank's Working Capital Guarantee Program ("WCGP") and the Small Business Administration's (SBA) Export Working Capital Program ("EWCP").

SUMMARY OF THE GAO DRAFT REPORT

The GAO draft report summarizes the similarities and differences of the Ex-Im Bank's WCGP and the SBA's EWCP, addressing the delivery approaches of the two programs in providing access for small businesses, the levels of loans guaranteed under each, and the respective default rates and relative costs of the two programs. In addition, the Report summarizes efforts undertaken to harmonize the two programs, as directed by the Trade Promotion Coordinating Committee.

EXPORT-IMPORT BANK OF THE UNITED STATES
811 VERMONT AVENUE, N.W. WASHINGTON, D.C. 20571
1 (800) 565-EXIM (202) 565-3946 FAX: (202) 565-3380

GAO DRAFT REPORT MAKES NO RECOMMENDATIONS

The draft report makes no recommendations. It neither suggests nor recommends any changes to Ex-Im Bank's WCGP, SBA's EWCP, nor to the harmonization of the two programs.

EX-IM BANK ANALYSIS OF THE GAO DRAFT REPORT

The Ex-Im Bank is in general agreement with most of the information presented in the draft report. However, Ex-Im Bank would like to take this opportunity to discuss certain points made by the draft report in the areas of: (1) small business access to Ex-Im Bank programs; (2) how creditworthiness is evaluated by Ex-Im Bank and SBA; (3) default rates and claims statistics of the two agencies' programs; and (4) comparison of administrative costs.

Small Business Access to Ex-Im Bank Programs

Now on pp. 24-25.

The Ex-Im Bank Working Capital Guarantee Program is broadly available to small businesses, and traditionally has been available for loans of any size. The report on Pages 24-25 incorrectly states the "Ex-Im Bank has traditionally only guaranteed working capital loans over $833,333." The $833,333 minimum amount for Ex-Im Bank guaranteed loans was only instituted on October 1, 1994 as part of the harmonization effort for the Ex-Im Bank and SBA programs. When the SBA program was legislatively deharmonized in Fiscal Year 1996, Ex-Im Bank returned to its traditional practice of guaranteeing loans of any size. Consequently, small businesses would not have reduced access to pre-export working capital if both programs were to be consolidated in the Ex-Im Bank. In any event, we are not proposing consolidation.

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To increase the small business community's awareness of Ex-Im Bank programs, Ex-Im Bank undertakes significant outreach efforts. The draft report mentions the outreach conducted by Ex-Im Bank's regional offices and City/State partners. However, the draft report does not mention the extensive nation-wide outreach conducted by Ex-Im Bank's Washington-based staff of the Business Development Group and the U.S. Division. Washington-based business development officers conduct numerous seminars each year aimed at reaching new lenders for the Ex-Im Bank programs. In addition, the Washington-based staff of the U.S. Division conduct numerous presentations to familiarize groups of lenders with the working capital guarantee program. For example, in Fiscal Year 1996 the U.S. Division staff made about 50 such presentations.

In order to further expand access by small business to pre-export working capital loans, Ex-Im Bank created the delegated authority program. Since creating the delegated authority program Ex-Im Bank's WCGP has tripled in size, with approximately two-thirds of the guarantees committed by delegated authority lenders and one-third approved directly by Ex-Im Bank. The size and availability of that portion of the program directly approved by Ex-Im Bank is as large as the entire program before the creation of the delegated authority program. Consequently, the delegated authority portion of the program greatly expanded the availability of the program - and in no way limits the availability of the program to small exporters as suggested in the draft report. The draft report on pages 4, 6, 7 and 28 implies that Ex-Im Bank works almost exclusively through a limited network of delegated authority lenders, which limits access to the program by businesses not located in close proximity to a delegated authority lender. This is not the case.

Now on pp. 3, 5, 6, and 28.

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Now on p. 14.

Evaluating Creditworthiness

Both Ex-Im Bank and SBA employ standard methods to evaluate creditworthiness. However, the draft report on page 14 incorrectly states that "Ex-Im Bank and SBA emphasize different criteria for evaluating creditworthiness." While there are differences between the programs of the two agencies which may result in some variation in reviewing export working capital applications, these differences are not related to any dissimilarities in evaluating creditworthiness. For example:

- Ex-Im Bank instituted a delegated authority program through which the Bank's working capital guarantees are committed by commercial lenders. The legal authority for such programs restricts delegated authority to circumstances in which the standards for decision making are clearly defined. Determinations requiring a judgement call fall into the category of decision making that is an "inherently governmental function" and cannot be delegated. As a result, the credit standards for the delegated authority portion of the Bank's program are stricter than for Ex-Im Bank's directly administered part of the program. Applications that do not meet the credit standards of the delegated authority program must generally be submitted directly to the Ex-Im Bank for review and disposition. Ex-Im Bank's review of these applications may result in positive decisions, even though the applications could not be approved by a delegated authority lender. Hence, while the delegated authority portion of the program may have stricter credit standards than the working capital programs in general, the overall programs of the Ex-Im Bank and SBA have comparable credit standards.

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Now on p. 14.

See comment 1.

- Ex-Im Bank has two different types of working capital guarantees: transaction specific loan guarantees and guarantees of revolving credit facilities. When considering a transaction specific loan guarantee, Ex-Im Bank places emphasis on evaluating the underlying transaction, since the guaranteed loan is self-liquidating in that the repayment of the guaranteed loan will be derived from the revenue of the underlying transaction. When the guarantee of a revolving credit facility is evaluated, Ex-Im Bank places greater emphasis on the financial condition and performance of the borrower because repayment depends on the going concern business strength of the borrower. Hence, in order to compare the criteria used by Ex-Im Bank and SBA to evaluate the credit worthiness of exporters seeking working capital loans, the analysis must start out with similar types of loans. The draft report on p.14 states "While Eximbank (sic) focused primarily on the exporter's financial condition, SBA focused primarily on the specific transaction." This observation in the draft report reflects the differences that result from assessing the credit worthiness of a transaction specific loan versus assessing the credit worthiness of a revolving credit facility, not differences in the two agencies approaches to evaluating credit worthiness.

- The statutory regulations to which Ex-Im Bank must adhere differ from the regulations under which SBA operates. This can result in an application being ineligible for an Ex-Im Bank guarantee for reasons other than creditworthiness, yet still be eligible for an SBA guaranteed loan. For example, Ex-Im Bank: may only support the value of exports that consists of U.S. content; is generally prohibited from extending credit to support sales of military or defense related items; and cannot support working capital loans to purchase fixed assets, fund expenditures used

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exclusively for marketing, or finance the overseas operations of the exporter. In such instances, applications that do not qualify for Ex-Im Bank support might be eligible for an SBA guarantee.

Now on pp. 28-29.

Given the importance of programmatic and statutory differences between the programs of the two agencies, Ex-Im Bank suggests that the report discuss them earlier in the report rather then as currently placed on pages 28 and 29 of the draft.

Default Rates and Claims Statistics

See comment 2.

The draft report contains several comparisons of default rates that are not appropriate because the statistics being compared are not comparable. This is true both with respect to comparisons of default rates between delegated authority committed guarantees and direct Ex-Im Bank approved guarantees, and with respect to the size of claims made under the Ex-Im Bank program and the SBA program.

- As discussed earlier, the credit standards used under the delegated authority portion of the Ex-Im Bank's program are stricter than the credit standards for guarantees directly approved by Ex-Im Bank. Consequently, one would expect to find that the default rate for guarantees committed by delegated authority lenders should be lower than that for guarantees committed directly by Ex-Im Bank.

- It is not possible to make a meaningful comparison between initial claims following a default under Ex-Im Bank's WCGP and SBA's EWCP. Under Ex-Im Bank's WCGP, in the event of default, the guaranteed lender makes a claim for the full outstanding guaranteed amount. The final cost to Ex-Im Bank is only determined after Ex-Im Bank undertakes a workout and

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See comment 3.

liquidation of collateral. After recoveries, the final cost of an Ex-Im Bank WCGP claim is on average about one-half of the original claim. Under SBA's EWCP, in the event of a default, the lender undertakes the workout and liquidation of collateral, after which SBA pays a claim on any remaining loss that the lender might then incur. Therefore, the SBA initial claim experience is not comparable to Ex-Im Bank initial claim experience. The SBA statistics are more comparable to the final cost to Ex-Im Bank of a claim that is computed only after Ex-Im Bank completes its recovery efforts.

Cost of Administering Ex-Im Bank and SBA Programs

The draft report states that Ex-Im Bank spends $912,000 to administer the WCGP versus SBA spending $460,000 for the EWCP. These numbers are not comparable. The Ex-Im Bank figure represents the full cost of administering the program including rent and overhead. However, the SBA figure does not include the time or costs of its district office staff involved in administering the EWCP, nor the associated rent and overhead.

We appreciate the opportunity to comment on your draft, and hope our comments will be of use to you in finalizing your report.

Sincerely,

James K. Hess
Chief Financial Officer

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The following are GAO's comments on Eximbank's letter dated December 2, 1996.

GAO Comments

1. We modified the report to better highlight the difference in SBA's and Eximbank's credit qualification requirements. Eximbank requires borrowers to have a positive net worth; SBA does not. Eximbank's requirement is stipulated in its working capital guarantee program instructions. Also, ProAction Agency, the consultant commissioned by Eximbank and SBA to evaluate harmonization efforts, reported in May 1996 that this requirement was a key difference between each agency's program. Although Eximbank officials stated that they have the flexibility to waive this requirement, they acknowledged that, in practice, there were only a few instances in which this was done.

2. The default information presented in the report is not intended to demonstrate differences in default rates between the U.S. Division and the Delegated Authority Lender Program. Further, we did not include in the report any comparison of claims after a default under Eximbank's or SBA's program. Rather, the report provides information on the number of defaults.

3. The report recognizes that SBA's cost estimates for administering its Export Working Capital Program do not include the time or costs for the agency's district office staff involved in handling export working capital guarantees. It does not attempt to make a direct comparison with Eximbank's estimated program costs.

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