OVERSIGHT FOR THE EXPORT-IMPORT BANK OF THE UNITED STATES

JOINT HEARING

BEFORE THE

SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE AND TECHNOLOGY

AND THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

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# CONTENTS

Hearing held on:

<table>
<thead>
<tr>
<th>Date</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 10, 2005</td>
<td>1</td>
</tr>
</tbody>
</table>

Appendix:

<table>
<thead>
<tr>
<th>Date</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 10, 2005</td>
<td>41</td>
</tr>
</tbody>
</table>

## WITNESSES

**THURSDAY, NOVEMBER 10, 2005**

- Hayman, Harry G., III, Senior Vice President, PNC Bank N.A., on behalf of Bankers Association for Finance and Trade .................................................. 30
- Lambright, Hon. James H. Chairman and Acting President, Export-Import Bank of the United States ................................................................. 7
- Sabroske, John D., Director, Export Credit and Trade Finance, John Deere Credit ............................................................................................................ 31
- Watters, Joseph, Director of International Sales, Hoffman International, on behalf of Small Business Exporters Association ........................................ 27

## APPENDIX

Prepared statements:

<table>
<thead>
<tr>
<th>Name</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oxley, Hon. Michael G.</td>
<td>42</td>
</tr>
<tr>
<td>Biggert, Hon. Judy</td>
<td>47</td>
</tr>
<tr>
<td>Crowley, Hon. Joseph</td>
<td>48</td>
</tr>
<tr>
<td>Kelly, Hon. Sue W.</td>
<td>49</td>
</tr>
<tr>
<td>Lee, Hon. Barbara</td>
<td>51</td>
</tr>
<tr>
<td>Maloney, Hon. Carolyn B.</td>
<td>52</td>
</tr>
<tr>
<td>Manzullo, Hon. Donald A.</td>
<td>53</td>
</tr>
<tr>
<td>Pryce, Hon. Deborah</td>
<td>74</td>
</tr>
<tr>
<td>Hayman, Harry G., III</td>
<td>76</td>
</tr>
<tr>
<td>Lambright, Hon. James H.</td>
<td>82</td>
</tr>
<tr>
<td>Sabroske, John D.</td>
<td>89</td>
</tr>
<tr>
<td>Watters, Joseph</td>
<td>93</td>
</tr>
</tbody>
</table>

## ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Lambright, Hon. James H.:

- Written responses to questions from Hon. Barbara Lee ........................................ 100
- Written responses to questions from Hon. Patrick T. McHenry .......................... 106
- Written responses to questions from Hon. Edward R. Royce ............................ 107
- Written responses to questions from Hon. Brad Sherman ................................. 110
OVERSIGHT FOR THE EXPORT-IMPORT
BANK OF THE UNITED STATES

Thursday, November 10, 2005

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC AND
INTERNATIONAL MONETARY POLICY, TRADE AND
TECHNOLOGY, AND SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittees met, pursuant to notice, at 10:00 a.m., in
Room 2128 Rayburn House Office Building, Hon. Deborah Pryce
[chairwoman of the subcommittee on Domestic and International
Monetary Policy, Trade and Technology] presiding.

Present: Representatives Pryce, Oxley, Leach, Castle, Royce,
Lucas, Kelly, Paul, LaTourette, Manzullo, Biggert, Kennedy, Gar-
rett, Barrett, Harris, Gerlach, Neugebauer, Price, Fitzpatrick,
Davis, McHenry, Frank, Kanjorski, Waters, Maloney, Gutierrez,
Watt, Sherman, Lee, Moore of Kansas, Crowley, Lynch, Scott,
Davis, Cleaver, Bean, Wasserman Schultz, and Moore of Wisconsin.

Chairwoman PRYCE. Good morning. I am very pleased to wel-
come you all here today to this joint hearing on Export-Import
Bank. And I would like to thank Chairwoman Sue Kelly for her
abiding interest in this issue and the support in her subcommittee
in joining with us.

The Bank’s current charter is set to expire next year, and we an-
ticipate this hearing will touch upon a wide range of issues that
will need to be addressed in the new charter.

My subcommittee has been hearing from many current and
former clients of the Bank on issues they feel should be included
in any reforms to the Bank next session. These issues include the
need for greater transparency, increased oversight, and improve-
ments in outreach.

The Bank has a varied history of success in bolstering the U.S.
export business as a lender of last resort coupled with the constant
rumbeat of the need for improved management within the Bank.
On April 6th of this year, Chairman Manzullo held a hearing on
the need for stronger corporate governance and further advocacy
for small business exporters. I commend Chairman Manzullo for
his work over the last year to get Ex-Im to achieve its goal of 20
percent activity devoted to small business and also to Congress-
woman Barbara Lee, who has worked with the Bank to elevate the
activity devoted to minority-owned small businesses.
An issue of interest to me and of importance to many small businesses in my own district in Ohio is the simplification of the application for small business and the ability to use technology, like filing an application online to ease the burden of cost and work time a small business must devote. In the last reauthorization in 2002, according to language in their charter, the Bank was instructed to implement technology improvements that are designed to improve small business outreach, including allowing customers to use the Internet to apply for the Bank's small business programs.

In the testimony of then Chairman Merrell received by this subcommittee in 2003, the Bank stated, “We are focusing on three key priorities: putting customers first, improving cycle time, and expanding support for knowledge-based and service exports. In Fiscal year 2003, Ex-Im Bank revised and updated its website to provide all customers with improved access to information, applications, and forms. As a result, all of Ex-Im Bank’s applications and forms are available through the website. Letter of Interest applications can now be processed electronically and claims filing can now be handled online.” However, the business community has provided this subcommittee a cutting review about the Bank’s inability to make these products and services available through the Internet. We have heard from businesses wishing to file online that they are unable to and must manually fill out the paperwork and fax it into the Bank. A further concern is the reduction in operating costs from $2.6 billion in Fiscal Year 2000 to $530 million in Fiscal Year 2004 that had been expended for small businesses, especially given that the Bank is required to provide greater Internet access for these small businesses.

The Bank provides a greatly needed service to the businesses in our community that would like to export but cannot get a guaranteed loan from a commercial loan institution. It is my intent to work to improve upon the Bank's efforts in outreach to our community businesses and to work with my colleagues to make any reforms necessary in the 2006 charter.

We welcome our witnesses here today, and look forward to hearing their testimony. I would like now to recognize and turn over the gavel to Chairwoman of the Oversight and Investigations Subcommittee and my co-Chair at this hearing, Sue Kelly.

[The prepared statement of Hon. Deborah Pryce can be found on page 74 in the appendix.]

Chairwoman KELLY. [presiding] Thank you, Madam Chairman. The Export-Import Bank of the United States was designed to allow American businesses to export goods on an open playing field. Congress created it during the Depression to force open markets for factories that would otherwise close and to keep jobs in the United States that would otherwise be lost. From then until now, Ex-Im's original role is important, but it has a new responsibility to make sure America's small businesses, which are the center of the American economy, have the same access to world markets through the Ex-Im Bank. Last time Ex-Im testified before me was with Chairman Manzullo and the Small Business Committee. When Ex-Im testified previously before the Small Business Committee, we were extremely disappointed to learn that the percentage of small business loans made by the Bank still had not reached
the required statutory limit of 20 percent. That hearing was in April of this year. Not only did Ex-Im Bank not meet the require-
ment, but the number of small business loans had fallen 2.5 per-
cent between 2003 and 2004, and this happened at the same time Ex-Im’s total business soared. Ex-Im promised to do better, and we
told Ex-Im that we expected better and that we would be watching.

I want to thank Chairman Pryce for giving me the opportunity
to hold this hearing with her subcommittee. This helps follow-up
on my and Chairman Manzullo’s concerns regarding the Ex-Im
Bank from the Small Business Committee hearing. Unfortunately,
the results for 2005 are in and Ex-Im is still not in compliance with
the law. I am confident that Ex-Im can do better. We have a seri-
ous problem in that Ex-Im has not complied with the law. The loan
program at Ex-Im to help America’s small businesses is lacking. I
am aware of suggestions for Congress to consider the larger loans
provided to big businesses that eventually benefit small businesses.
It is being suggested that Congress take this into consideration
when determining whether Ex-Im has met the 20 percent thresh-
old. I am also aware that Ex-Im knows full well that to process a
larger loan takes just as much time and paperwork as a smaller
loan, but the small businesses need those smaller loans. I was in
Congress when Congress passed this law, and I am well aware of
the intent behind the 20 percent threshold. Frankly, allowing such
consideration for the big business loans is not within the original
intent of this law.

This is not my only concern. I am also interested in learning
about Ex-Im’s current initiatives regarding web-based platforms
and relationship managers, especially for small businesses. I re-
present an area in New York’s Hudson Valley where we rely so
heavily on the continued success of our small businesses for job cre-
ation and the continued growth of the local economy. We need to
be doing everything possible to help America’s small businesses,
and that should be our intent in this Ex-Im oversight hearing
today.

I look forward to hearing the testimony today and the Ex-Im
Bank addressing my concerns with some follow-up questions.

I now turn to my colleague from New York, Mrs. Maloney.
The prepared statement of Hon. Sue W. Kelly can be found on
page 49 in the appendix.

Mrs. MALONEY. I thank the gentlelady from the great State of
New York for her leadership on this issue and so many others and
also Chairwoman Pryce and Chairman Manzullo for joining us.
And I thank them for convening this as we prepare for the reau-
thorization of the Ex-Im Bank in 2006. And I am especially pleased
to welcome Mr. Lambright, who has done a very fine job in his new
position.

The Bank has done a really good job in helping some of my con-
stituents and New York residents and really people across this
country with loans and loan guaranteed disbursements, insurance
shipments, and working capital approvals to the tune of over $3
billion in export value in my district alone in the past year.
And I fully support its mission, and, indeed, we do have to sup-
port American exports. We have the largest trade deficit in the his-
tory of our country. It is important that those American goods that
can be exported that may not be exported without the support of the Ex-Im Bank are indeed shipped out. It does help American jobs, the American economy, and it is part of a global economy and very important.

I hope that the Bank can expand its activity so as to allow U.S. companies to go more aggressively into new markets and increase its activity, particularly in the small business arena where it has not lived up to its congressional mandate that 20 percent of its loans go to small businesses. I would like to hear, as my other colleagues would, from the witnesses what Ex-Im has done to address the small business issue. Small businesses are the major employer in our country. It is a major center of new ideas and new business products, and it is a very important part of our economy, and they should really literally be supported more. It is better for the overall economy of America. And I am very distressed that the efforts that you have put in so far have not paid off from the viewpoint of the small businesses.

I am also concerned that the present corporate governance structure does not incorporate some of the checks and balances that are common to private sector corporations and represent best practices in this area. For example, I would like to hear from the witnesses on whether they think that applying certain parts of Sarbanes-Oxley to the Bank would be an effective tool to increase transparency and improve corporate governance.

I look forward to hearing from the witnesses today, and thank you for being here.

[The prepared statement of Hon. Carolyn B. Maloney can be found on page 52 in the appendix.]

Chairwoman KELLY. Thank you, Mrs. Maloney. We turn to Mrs. Biggert.

Mrs. B IGGERT. Thank you, Madam Chairman, and thank you, Madam Pryce, for holding this joint hearing today.

Four years ago, this subcommittee was scheduled to mark up the previous U.S. Export-Import Bank reauthorization at 9:30 a.m. on Tuesday, September 11th. And I remember sitting in my office preparing to go to mark up when we saw the terrible images on the television and evacuated the building. Needless to say, that meeting was abruptly postponed but we rescheduled and held a mark up the next week. In doing so, we proved that in the wake of the terrorist attacks that we would not isolate ourselves from the world but instead take bold steps to promote international trade, increase U.S. exports, and strengthen our economy. Our committee united and produced legislation to strengthen the functions of the bank, directing the bank to increase its assistance to small businesses, and help U.S. businesses to maintain a competitive edge in trade and commerce around the world.

The Ex-Im Bank has been through a lot of changes since that time in leadership and through reorganization. So today I am hopeful that the dust has settled, the online system can be up and running, and that the staff can get back full time to the business that they know best, and that is facilitating U.S. exports. Let's face it; in our increasingly competitive global environment, we as policymakers have to ensure that we provide every advantage and remove every disadvantage for our companies to compete successfully
abroad. That means all of our Government policies must work together from tax to foreign assistance, trade, regulatory, and export financing. Make no mistake; Ex-Im is one of the best tools we have to ensure that our business are allowed to beat the competition abroad.

In short, we are here today to make sure that we win this sale. We don't want to lose the sale because another country offered better financing. We don't want to lose the sale because another country was more aggressive in encouraging small businesses to compete abroad. And we don't want to lose the sale because our businesses can't even access an export financing application online.

So I want to thank the witnesses for sharing their expertise with us today, and I look forward to ensuring that this next authorization puts in place everything you need from us to win the sale abroad.

And I yield back.

[The prepared statement of Hon. Judy Biggert can be found on page 47 in the appendix.]

Chairwoman KELLY. Thank you very much. Mr. Manzullo.

Mr. MANZULLO. Thank you very much for having this hearing. I am very upset with Ex-Im Bank. We held a hearing before the Small Business Committee on April 6, 2005, and tried to explain one of the problems, that unfortunately the Bank has taken on the mantra of just being the bank of Boeing and Caterpillar again. Now I have huge presence of those organizations in my congressional district, and Ex-Im is working very well for them, marvelously well for them, but it is to the exclusion of the little guys. And you just can't take care of the big guys and ignore the little guys, and the little guys are continuing to get beat up; they have been ignored. For example, with the master of guarantee agreement and the Bureau of Financing initiative, the report coming from the Banker's Association for Finance and Trade says the new Export-Import Working Capital Guarantee Program, the agreement will make it more difficult for smaller banks to support their export or customers, and that means that the little guy again gets quashed.

But it is one incompetency after the other, and the incompetency of Ex-Im could lead to the demise of the entire organization. Is Mr. Discenza, is here today, the attorney? He is not here? He is not here. But let me tell you what he did in response to the inquiry we had in our April 6 meeting. Here is a man who took out a policy from Ex-Im for about $75,000, exported to China, got turned down on a claim for Ex-Im and Ex-Im said you have to go to China courts in order to resolve your lawsuits before we can help you. And I asked specifically for Ex-Im to get involved. They took two months to answer a letter. People flew out, flew from Mrs. Myrick's district in South Carolina—North Carolina to Washington to get more help from Ex-Im, and you guys blew it again. It is one bumbling mistake after the other, Mrs. Kelly. And I want to tell you I am really, really upset and will go into great detail, and I would ask if it is possible that they could have Mr. Discenza come here to explore this gross thing that happened to his small company in South Carolina—North Carolina, if that is okay with you?

Chairwoman KELLY. So moved. Without objection, so moved.
Mr. MANZULLO. Great, so can you have him come here?

Mr. LAMBRIGHT. Congressman, I would be happy to cooperate with you on that matter. Mr. Discenza is not an attorney; he is our CFO. And I am prepared to discuss that matter with you today.

Chairwoman KELLY. Will that satisfy your need, Mr. Manzullo?

Mr. MANZULLO. Well, it is your hearing; I will just have to have another hearing on it. It won’t because then you are going to have hearsay. I don’t even know if you were at that meeting with this constituent and Mrs. Myrick.

Chairwoman KELLY. Mr. Manzullo, we can always have another hearing in the Oversight and Investigations—

Mr. MANZULLO. That would be fine.

Chairwoman KELLY.—if you would like us to do that.

Mr. MANZULLO. That would be fine.

Chairwoman KELLY. Or we could do a joint hearing if you like.

Mr. MANZULLO. You could do that but you can tell I am quite upset over what has happened to the little guys here, and I hope they take them into consideration. Thank you.

[The prepared statement of Hon. Donald A. Manzullo can be found on page 53 in the appendix.]

Chairwoman KELLY. Thank you. Mr. Crowley.

Mr. CROWLEY. Thank you, Madam Chair. I just want to start by thanking you for holding this hearing today and for the committee doing its work and for this testimony given today.

The Ex-Im Bank supports U.S. exports and American jobs as the Nation’s official export credit agency. It is charged with financing and promoting exports of U.S. goods and services and, in doing so, Ex-Im also assumes commercial and political risks. It also levels the playing field for U.S. businesses seeking to enter challenging markets by providing financing for U.S. exports that is not available in the private market. However, it does not compete against private lenders.

The Ex-Im Bank was created in 1934 and established under its present law in 1945 to aid in financing and facilitate U.S. exports. Exports are seen as vital for sustaining U.S. economic growth. The U.S. economy is increasingly internationalized and exports a larger share of the Gross National Product than in the 1930’s. Globally trading and financial systems are more interdependent, and international competition is more intense.

Ex-Im Bank’s financing annually sustains an estimated 200,000 jobs directly among exporters and suppliers and another one million jobs indirectly among sub-suppliers. But Ex-Im is not only helping the U.S. stay competitive, it is helping New York City and my district as well. Overall, Ex-Im has provided loans and guarantees to three suppliers in my district, totaling over $2.8 million and dozens of small businesses throughout the State of New York. Companies such as Namco Machinery in Maspeth Queens and Water Meat Distributing Company in the Bronx have benefitted from working with Ex-Im Bank. With Ex-Im’s help, these and other companies in New York have exported their products around the world.

I look forward to hearing as well as perusing the testimony of our witnesses today as we work towards reauthorization of this important institution.

And with that, I yield back the balance of my time.
Mr. LAMBRIGHT. Of course, thank you. Chairwoman Kelly, may I submit my written testimony for the record?

Chairwoman KELLY. Yes, without objection, your written testimony will be submitted for the record.

Chairwoman KELLY. And you understand, you have testified here before; you have 5 minutes to testify. When the lights, which don’t seem to be on right now, when the green light changes to yellow, you have one minute. And when the red light comes on, we would like you to sum up. Thank you, Mr. Lambright. We are here to listen to what you have to say.

Mr. LAMBRIGHT. Thank you, Chairwoman Kelly, Congresswoman Maloney, and members of the subcommittees. I am pleased to be here to bring you up to date on the activities of the Export-Import Bank. For those members who are new to Ex-Im Bank, this is a good introduction as we head into 2006, the year of our reauthorization.

I am proud to report that during Fiscal Year 2005, we achieved significant results in meeting our goals of becoming more customer friendly, market driven, and results oriented, all in support of financing exports that would not otherwise go forward and, therefore, in support of the U.S. jobs base.

Of particular note, first, our volume of business is up. Ex-Im Bank authorized roughly $14 billion in financing but supported nearly $18 billion in U.S. exports. This level of authorized financing reflects a 50 percent increase since 2001.

Second, our multiplier effect is increasing. For every taxpayer dollar used in Fiscal Year 2005, Ex-Im Bank supported $57 in U.S. exports. This compares to $50 last year and $35 the year before.

Third, our small business exports are growing. Our direct support of small business exporters increased 18 percent over the last year. Since 2001, we have increased our direct support to small businesses by $1 billion, going from $1.7 to $2.7 billion. At least 13 percent of those small business transactions have been with women- and minority-owned businesses.

We have also boosted the number of small business transactions, which consistently account for over 80 percent of our transactions. And I think that bears repeating that when we talk about the com-
ponent of Ex-Im Bank business that goes directly to small businesses, 83 percent of the number of transactions we did this year went directly to small business exporters.

But you do note that our charter provision requires us to make 20 percent of our funding available for small business transactions. And as indicated by the chart on the last page of my written testimony covering 2001 to 2005, small business demand has not reached 20 percent. For Fiscal Year 2005, the level was 19.1 percent, up from 16.7 percent the year before.

Fourth, the amount of exports we support to sub-Saharan Africa is up. Over the past 7 years, the Bank has supported over $3 billion in exports to sub-Saharan Africa. In Fiscal Year 2005, we support over $460 million in exports to the region, up 36 percent over last year.

It is important to note that this performance was achieved without adding any employees and without competing with private banks while responsibly managing taxpayer resources. These results demonstrate the strong commitment of Ex-Im Bank management and staff to efficiently and effectively support U.S. exporters and the jobs associated with their overseas sales.

In Fiscal Year 2005, we authorized over 3,000 transactions. Over 2,500 of those went directly to small businesses. That means there are a lot of workers in American firms benefitting from the service we provide. But like any service provider, we know we can serve our customers even better. For the future, we will continue to focus our efforts on increasing small business exports under the leadership of our new vice president for small business and the staff of 40 Ex-Im Bank employees dedicated exclusively to small business outreach.

Furthermore, when fully in place, our business automation project will increase the transparency of our approval process for our small business customers by allowing online application and tracking. We are also going to continue our efforts to increase our activities in sub-Saharan Africa and our outreach to exporters of environmentally beneficial goods and services.

Through these efforts and the reauthorization process, I am confident that Ex-Im Bank will remain in good shape to pursue its mandate of supporting U.S. jobs by financing exports that wouldn’t go forward without us.

Thank you very much, and I would be happy to take any questions.

Chairwoman KELLY. Thank you very much, Mr. Lambright. Mr. Lambright, you spoke about the automation. When will that web-based platform for small businesses be up and running? Do you have a projected time?

Mr. LAMBRIGHT. Well, I try to be conservative in the promises I make, but my best estimate is the first half of 2006.

Chairwoman KELLY. The first half, some time between January and June of next year?

Mr. LAMBRIGHT. Yes, Chairwoman, we are trying to roll this out in phases. Since the last reauthorization, at which point we had nothing online, we heard this committee loud and clear that we needed to be moving our business services online. And since then, we have captured some of the low hanging fruit of being able to
issue letters of interest, offer subscriptions and forms online, but
the application processing, which is really what I understand your
interest to be, was always known to be a multi-year process. And
so we have developed that automated platform. It is in the testing
stage now. In fact, I have taken it for a test myself acting as a po-
tential applicant. So we are getting very close to being able to roll
out the first products online.

Chairwoman KELLY. Are small businesses going to have the
same access as large businesses to the relationship managers that
don't work with direct competitors or large companies at the same
time they are working on the small business loans? Will there be
dedicated people there?

Mr. LAMBRIGHT. I think I know what you are asking.

Chairwoman KELLY. I just want a no or yes answer.

Mr. LAMBRIGHT. We have a pool of relationship managers who
specialize in the small businesses.

Chairwoman KELLY. I want a no or a yes answer. Will they be
dedicated in a way that they are not working with direct competi-
tors or with the large companies; are they going to be working as
a dedicated manager with the small businesses? All I need is a yes
or a no.

Mr. LAMBRIGHT. I think what you are asking would be imprac-
tical, and I am going to have to say no.

Chairwoman KELLY. Well, you do it for large companies.

Mr. LAMBRIGHT. Right, we do and we do it for customers that are
frequent customers of the Bank. So when we have a pattern of
business, we can work directly with a company. But of the 200,000
or so small businesses that export, we can't assign each of them a
dedicated relationship manager. But we do offer a pool of people
whose job is largely focused on small business.

Chairwoman KELLY. But if they are also working with large busi-
desses, then they are largely focused maybe, but they are still
working with small businesses. Look, here is the problem. If you
have someone who is a manager and they are working not only
with your business but with your competitors, that is a problem in
my book. We need somebody who is going to work directly in a way
that doesn’t put them in that position. Also, I think that we need
more people focused on small businesses, and I think that is impor-
tant.

I want to ask you about the dealer distributor program because
the last time you were in front of us I asked you about—I men-
tioned the lack of loans in the dealer distributor program and a
later witness here today is going to testify that they were denied
a loan in this program. I want to know if Ex-Im has increased the
number of dealer distributor loans?

Mr. LAMBRIGHT. We have not. Chairwoman Kelly.

Chairwoman KELLY. I have also found out that Ex-Im plans to
move about 40 people, which is 10 percent of your workforce, to
doing small business outreach and education. Is this in addition to
small business relationship managers?

Mr. LAMBRIGHT. Yes, it is. This staff is working with the new
vice president of small business, and these folks are focused exclu-
sively on outreach to small business: finding, educating, developing
business from small businesses that export or might be interested
in exporting. When you talk about the relationship managers, those are the folks that actually handle the applications and get the financing for the applicant, and so those are the people in our business units, many of whom spend most of their day just on small businesses.

Chairwoman Kelly. Well, if that is the case, you ought to be able to hit 20 percent. I note that you have come up.

Mr. Lambright. We are very hopeful. We are working hard.

Chairwoman Kelly. Okay, we want you to work hard on that. I understand also that it is the claim of the Ex-Im that the large loans support the small businesses, and that is really not very well supported by the empirical data, at least the empirical data we have. In fact, Ex-Im doesn’t even look for information from the large businesses as to whether there are small business components in the actual product being exported. Now I heard you say that those large loans support small businesses. We don’t have any data to support that, and it doesn’t look to me like Ex-Im is really requiring that of the large business loans. So have you done anything about that, and do you have better data than we have?

Mr. Lambright. Well, I don’t bring with me data today that says “X” thousands of sub-suppliers have been benefitted by our larger deals, but we do make estimates through talking with the exporters on the small businesses that are benefitted. But you are correct to note that this is fairly anecdotal, and it is a lot of estimation. But I can tell you from talking to some of the larger exporters that they point to the tens of thousands of small businesses that are on their supplier rolls, but for any particular export, your observation is correct.

Chairwoman Kelly. My background is science, sir, and anecdotal evidence is lovely, but I like to see figures and numbers.

Mr. Lambright. Fair enough.

Chairwoman Kelly. And if you can start collecting those, it might help all the way around our understanding of the transparency of what you are doing.

Mr. Lambright. Right.

Chairwoman Kelly. So thank you very much. I am out of time.

Mrs. Maloney.

Mrs. Maloney. I thank you for being here and I applaud the line of questioning from the chairwoman on helping small businesses. I think it is important. One of the criticisms that doesn’t apply to my district but that you hear from other Members of Congress is that some of the businesses that get these loans are among the Fortune 500, some of the most successful businesses in our country. And they argue why in the world are we subsidizing or back-stopping these businesses? And so I am asking you a question that I hear as a supporter of the Ex-Im Bank.

Mr. Lambright. It is a fair question, Congresswoman. We think about these questions a lot but when we look at our mission of supporting U.S. jobs, a lot of those jobs are in the larger companies and a lot of jobs go into some of the larger exports of the capital equipment. One tractor involves a lot of people on assembly lines putting that together. And so we take great pride in helping some of the larger companies in the U.S. get those sales that they might
not otherwise get, but we also focus on helping as many small businesses as we possibly can.

Mrs. MALONEY. Well, how do you get your criteria? When you have a large business that is exporting tractors, shall we say,—

Mr. LAMBRIGHT. Right.

Mrs. MALONEY.—and being very successful and then all of a sudden they get a loan to export more tractors. What is the differential that shows you that they need support for one set of tractors but not the other set of tractors?

Mr. LAMBRIGHT. Well, we work carefully with applicants to make sure that the standard that we call additionality is met, which is exactly what you are asking. Do they really need us? We go where firms would go on their own if there weren’t either government-sponsored financing from a competitor or an exaggerated perception of risk in their commercial markets. And so we step in in those two instances to help that export go forward.

Mrs. MALONEY. Okay, and also we heard some concern that the businesses complain that the governance structure of the Bank is not transparent and accountable. For example, it has been proposed that Ex-Im adopt the auditing standards of Sarbanes-Oxley, the fact that they have an independent director and that form of transparent governance. And what is your response to that?

Mr. LAMBRIGHT. Well, I don’t know what particular concerns you have been hearing, but with regard to Sarbanes-Oxley, while technically we are not governed by that legislation, we take it very seriously. We conducted our own audit with an outside firm to see how close we were to compliance with Sarbanes-Oxley. We have adopted a number of best practices. We did a rigorous review of our internal controls. And you mentioned our board of directors. We have a five member, bipartisan board. The non-managing directors constitute an audit committee that works directly with both an outside and inside audit function.

Mrs. MALONEY. And there have been some concerns, particularly from Congressman Sanders from Vermont, that some of the biggest outsourcing businesses, where they outsource jobs to other countries, are receiving the Ex-Im loans. And so then you see an outsourcing of jobs that they are purposely outsourcing and then they are getting loans to have jobs in the U.S. And how do you justify that challenge?

Mr. LAMBRIGHT. They are not getting loans from us for the jobs that they have moved overseas. We care only about the jobs that remain here in the U.S. And so when we help those exports go forward that otherwise would not go forward, we are helping keep more of those jobs from being outsourced by keeping the production here in the U.S.

Mrs. MALONEY. Where do you see job growth in the U.S.? As you are doing export financing, where do you see job growth and expansion in the U.S.? I know we have lost manufacturing, three million manufacturing jobs, but where do you see the potential job growth?

Mr. LAMBRIGHT. Well, I see a lot of job growth in small business. As a sector, it really is the engine of job growth in this country. And we would like to support that and help fuel that growth. In particular sectors, I think we are seeing global demand for some of our more sophisticated manufacturing, environmental, and med-
also, we are seeing a lot of large infrastructure projects as emerging markets realized that they need first-class infrastructure to grow themselves. We are seeing demand for power, roads, and other infrastructure projects where American companies can help.

Mrs. MALONEY. My time is almost up, but would you spend a little bit of time on your financing structure? You do not cost the taxpayers any money; you basically are a revolving door, assisting businesses, making profits, plowing it back in. Is there any cost to the taxpayer for administrative costs, or are you totally self-sufficient?

Mr. LAMBRIGHT. Well, we do not have the authority to keep revenues in the sense of retained earnings and that revolving notion that you mentioned. So every year we do come before Congress to request both an administrative and a program budget to fund our operations. And what we do is like a bank; when we support a loan, we work with OMB and other agencies to assess the risk of that loan. And we take from our program budget that amount that reflects the potential loss and over time, if we realize, as has been the recent history, that our portfolio is performing better than the original risk calculations, we return that extra money to the U.S. Treasury.

Chairwoman KELLY. Thank you very much, Ms. Maloney. Mrs. Biggert?

Mrs. BIGGERT. Thank you, Madam Chairman. Mr. Lambright, on page 2 of your testimony you stated that the Bank often becomes involved in deals that are not attractive to commercial lenders because they are in higher risk markets and this is the reason for the Bank’s existence. But in the next paragraph you state that the Bank has a claims rate comparable to many commercial banks. If you are in the higher risk markets, how can you claim that the rates are comparable to the banks?

Mr. LAMBRIGHT. I came from private banking to Ex-Im Bank, and that confused me for a while as well, Congresswoman. Ex-Im Bank by its very nature does take risks that the commercial market won’t bear. But we structure our deals to find reasonable assurance of repayment, as our charter dictates. We try to walk that balance, but I think the answer to your question is even though we are taking greater risks in the commercial market, we are the United States Government, and borrowers often find that they would like to pay us back and not default to us.

Mrs. BIGGERT. Well, do you think the reasonable assurance of repayment is the correct standard? Do you find that that is too restrictive? How many loans do you turn down?

Mr. LAMBRIGHT. Well, it is hard to give you a precise figure on how many we turn down because some are withdrawn throughout the process when applicants realize they won’t meet our standards. We have translated that reasonable assurance of repayment standard into credit standards that we posted on our website, and we work with our customers to make sure they know what countries we are willing to take which risks in. And we do get fairly aggressive, even though the whole portfolio, as you know, has a low claims rate. In certain markets or in certain sectors where we have been aggressive and with seasoning we have seen those deals turn
bad; we have had to re-calibrate and take a closer look at the transactions that are coming before us. Just very recently, a few years ago we were spending a lot of time developing business in markets like Ghana and the Philippines, and with seasoning we noticed that there was a troubling default rate, and so we have had to ask harder questions. We have had to make sure that our banking partners have good “Know-Your-Customer” standards; knowing who we are dealing with is becoming ever more important. So I do think that a reasonable assurance of repayment is the right standard. But, Congresswoman, we try to walk that balance between our eagerness to help the exporter and our eagerness to protect the taxpayer from excessive risk. And if we feel, if we sense from our customers or from you that we have strayed too far off that balance, we want to listen to your guidance. And if we need to adjust course, we can do so.

Mrs. BIGGERT. Okay, thank you. And then I have a question about transactions. Of the authorized $15 billion worth of transactions if Fiscal Year 2004, $4.5 billion went to Boeing. How many transactions does this $4.5 billion represent?

Mr. LAMBRIGHT. You correctly note that Boeing deals this year represented about a third of our portfolio. I am not sure how many transactions that was, maybe two dozen or so. We have a large portfolio of aircraft in 50 countries around the world, and that portfolio is performing quite well.

Mrs. BIGGERT. I guess what I am getting at is how do you define transactions? Is this like a line of credit that like somebody uses it and there are many transactions that are counted in one, or is it every transaction?

Mr. LAMBRIGHT. It would be specific sales of aircraft, but often-times a foreign airline would buy more than one aircraft at a time, so we would count transactions by the number of contracts. So if there were a contract to buy four aircraft, that would be one transaction.

Mrs. BIGGERT. So in the small businesses, I think you said there were like 2,167, something like that, transactions last year. Does that mean that there were just that number of contracts?

Mr. LAMBRIGHT. Right, we are counting by the number of loan approvals or insurance product approvals that we signed, and 83 percent of those went directly to small business. And the reason that this 20 percent of funding isn’t met by those 80 percent of transactions is, as you correctly note, one Boeing transaction involves a lot of money.

Mrs. BIGGERT. Okay. So do we need a small business mandate in the next reauthorization? And, if so, what should the percentage of transactions be?

Mr. LAMBRIGHT. Well, we at Ex-Im Bank are working very hard to find more ways to do small business exports, and so we appreciate the encouragement from this committee to do more. In terms of what language or what number might be the best mark to set for us, I am not in a position to talk about what the Administration position on any charter changes would be.

Mrs. BIGGERT. Okay, thank you. Thank you, Madam Chairman, and I yield back.
Chairwoman KELLY. Thank you very much, Ms. Biggert. Mr. Crowley.

Mr. CROWLEY. Thank you, Chairwoman Kelly. Thank you for being here again, as I mentioned earlier. I appreciate the work of Ex-Im, as I stated in my opening testimony, my opening statement as to the importance that it has lent to a number of my constituents. I do have though a constituent who we thought would benefit from Ex-Im, and if you could help maybe give us guidance as to how we could help proceed, whether now or generally speaking or specifically targeting this particular case. I won’t mention the name of the company but there is a metal works company in my district. They are in the business of wrought iron and brass and all kinds of metals, making doors and frames and things of that nature for some very high-level people. They entered into a contract with the prince of Abu Dhabi in the UAE to create brass doors valued at over $2 million. For whatever reason, the prince did not want to pay the price at some point, once the doors had been completed. And imagining all the money that was laid out to do that. In essence, their refusal to pay caused my constituent to enter into bankruptcy and, in effect, default on the Ex-Im loan that was also issued to help in that process. There was a Federal judgment earlier this year in favor of my constituent against the UAE prince. What can, what is, or what can Ex-Im do to help, see that judgment carried through? In other words, is there anything the Ex-Im could help us do in terms of making sure that my constituent is made whole and, in effect, being able to pay back the taxpayers that they are owed for the monies that were lent to help that business transaction take place? I am sure this is probably not the only case of its kind in the history of Ex-Im. The reason why it is sensitive is that you may very well be aware of the fact that the U.S. is negotiating a free trade agreement with UAE. And if this is how they deal in private matters, I am concerned about any free trade agreement that we may be entering into with a country that would treat our citizens in this way. Maybe if you can comment on that.

Mr. LAMBRIGHT. Sure. Congressman, I am not familiar with the company that you referenced or the particular transaction and so—

Mr. CROWLEY. I will be able to get that to you. For right now, I think I have said enough to make my point. I hope there is someone here for the UAE. If not, some friends that maybe can get that back to them.

Mr. LAMBRIGHT. We will let them know your concerns, and we will follow up with your office.

Mr. CROWLEY. My second question deals with an overall, again a broader picture. In terms of deals that are entered into with American companies overseas that deal with politically sensitive issues and, specifically, funding of a pipeline through Azerbaijan that completely cuts out Armenia in the creation of that pipeline. I oppose funding of the Baku-Ceylan Pipeline because it does exclude Armenia. How do you go about deciding which projects to fund when they are politically sensitive in this particular case?

Mr. LAMBRIGHT. Well, regardless of the politics, we are demand driven. And so the market needs to bring us commercially viable transactions. When you are talking about a large project, like what we refer to as the BTC Pipeline, the market, the participants would
seek our financing and come to us. We would look very carefully at the politically sensitive issues that you raise. We would also look very carefully at any environmental concerns. And we would also look very carefully at the creditworthiness of the project, since for a project like that, we need the project up and running producing revenues for us to make sure that we are getting repaid. But in terms of what route a pipeline might take, that is really for the participants to decide. And then once the project is brought to us, if it meets those criteria I mentioned, we would decide whether to finance it or not.

Mr. CROWLEY. How are those decisions actually made?

Mr. LAMBRIGHT. Which decisions?

Mr. CROWLEY. In terms of the political significance, the environmental significance.

Mr. LAMBRIGHT. On a project of that size we would have a lengthy due diligence process that would go months and months of working with all the participants, with interested parties. Oftentimes in a project of that scope and scale, we would hear from NGO's who might have environmental concerns. And so we would work with the project participants and most likely outside contractors to do environmental impact assessments that we would share with the public. We would also work with other government agencies on the political issues of whether it was appropriate for us to be involved in a transaction or not.

Chairwoman KELLY. Thanks very much, Mr. Crowley. Mr. Manzullo.

Mr. MANZULLO. Thank you. I would ask permission to insert my full opening statement into the record.

Chairwoman KELLY. Without objection, so ordered.

Mr. MANZULLO. Thank you. Does the head of the small business office report to you directly?

Mr. LAMBRIGHT. He is the number two guy in our largest business unit, but I have a lot of day to day contact with him.

Mr. MANZULLO. That doesn’t answer the question.

Mr. LAMBRIGHT. On the org chart, he does not report directly to me, no.

Mr. MANZULLO. All right, so you have no supervision over him?

Mr. LAMBRIGHT. I have plenty of day to day contact with him, and I am very involved in what he is doing.

Mr. MANZULLO. But he doesn’t report to you.

Mr. LAMBRIGHT. He reports to the head of our business unit; that is correct.

Mr. MANZULLO. He reports to what?

Mr. LAMBRIGHT. The head of what is called our Export Finance Unit, which is our major business unit.

Mr. MANZULLO. Do they report to you?

Mr. LAMBRIGHT. Yes.

Mr. MANZULLO. Do you have the ability to intervene in individual transactions, a transaction that takes place with the head of the small business?

Mr. LAMBRIGHT. Well, I suppose I have the ability to express my interest in transactions moving forward.

Mr. MANZULLO. Can you reverse them?

Mr. LAMBRIGHT. Can I reverse?
Mr. MANZULLO. Right, if the head of the small business group makes a decision, can you say, “I don’t like that; I want that reversed”?

Mr. LAMBRIGHT. Well, it depends on the nature of the transaction. The board of directors approves transactions but has delegated certain authorities to other committees or individuals in the Bank to approve transactions. Once a deal is signed under the terms of those delegated authorities, I don’t think I have any power any more than anyone else to turn it around. Our commitments carry the full faith and credit of the U.S. Government.

Mr. MANZULLO. That is a pathetic answer. I am trying to find out who is in charge of the agency. Does he work for you or not?

Mr. LAMBRIGHT. Yes, he does.

Mr. MANZULLO. All right, if he makes a mistake, do you have the ability to reverse the mistake?

Mr. LAMBRIGHT. Sure, but if he has the authority to commit the Bank, then I am honor bound by the contract signed.

Mr. MANZULLO. Well, have you ever been asked to intervene in a situation involving a small business?

Mr. LAMBRIGHT. I have taken a personal interest in several matters related to small business.

Mr. MANZULLO. Will you answer the question, please?

Mr. LAMBRIGHT. Yes, the answer is yes.

Mr. MANZULLO. With regard to Rutland, were you personally involved in that transaction?

Mr. LAMBRIGHT. I was personally aware of it; I was not an adjudicating official.

Mr. MANZULLO. What does that mean?

Mr. LAMBRIGHT. It means I took an interest in making sure that that customer was treated fairly and kept informed of our process, but I was not opening the file and reviewing the terms of their claim.

Mr. MANZULLO. So you are not familiar with this file personally?

Mr. LAMBRIGHT. I am familiar enough to know that our staff gave it four levels of review.

Mr. MANZULLO. Madam Chair, would you instruct the witness to answer the questions.

Chairwoman KELLY. The witness will answer.

Mr. LAMBRIGHT. I would be happy to. Could you repeat the question, please?

Mr. MANZULLO. The question is did you have the ability to intervene in this case and to right a wrong?

Mr. LAMBRIGHT. I did not intervene.

Mr. MANZULLO. Did you have the ability to do so?

Mr. LAMBRIGHT. Sure.

Mr. MANZULLO. Did we request that you do so?

Mr. LAMBRIGHT. You requested of my predecessor to take a hard look at the case, and he directed our staff to do so.

Mr. MANZULLO. Did you yourself personally take an interest?

Mr. LAMBRIGHT. I took an interest in making sure that our staff—

Mr. MANZULLO. Did you look at the file yourself?

Mr. LAMBRIGHT. No, sir.
Mr. MANZULLO. Did you realize the file was important enough that I requested Mr. Merrill to personally look at it; are you aware of that?

Mr. LAMBRIGHT. I did and I know that he did take a personal involvement in it. I did not subsequently review the action taken previously.

Mr. MANZULLO. Were you in charge of the organization on August 22nd of this year?

Mr. LAMBRIGHT. Yes, I was.

Mr. MANZULLO. Well, the letter comes August 22nd denying any relief to this small business. I am just trying to find out who is in charge here.

Mr. LAMBRIGHT. Congressman, that action was confirming action taken earlier. This has received many levels of review in the organization.

Mr. MANZULLO. Did it receive your level of review?

Mr. LAMBRIGHT. Enough that I directed staff to take another look at it and treat the customer fairly—

Mr. MANZULLO. Did you personally look at the file, yes or no?

Mr. LAMBRIGHT. No.

Mr. MANZULLO. You didn’t do your job. Do you know what type of insurance Rutland had?

Mr. LAMBRIGHT. Yes, they had an export credit insurance policy.

Mr. MANZULLO. What does that do?

Mr. LAMBRIGHT. It protects against credit reasons for non-payment.

Mr. MANZULLO. You know they didn’t get paid by this Chinese firm?

Mr. LAMBRIGHT. I am aware of that.

Mr. MANZULLO. Would you tell the committee today where you told them to go adjudicate their claim against you?

Mr. LAMBRIGHT. I don’t know what we instructed them to go do.

Mr. MANZULLO. You told them to go to China.

Chairwoman KELLY. Mr. Manzullo.

Mr. MANZULLO. I will calm down, thank you.

Chairwoman KELLY. I am sorry; you are out of time.

Mr. MANZULLO. Thank you.

Chairwoman KELLY. We go to Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Madam Chairwoman. A couple of questions that I would like to pursue with you. One is the Bank and the Small Business Administration last year finalized a memorandum of understanding designed to facilitate small business access to the Bank’s various facilities. How has this program performed? How many transactions have you concluded pursuant to this agreement? And do you think similar arrangements would be desirable or possible for say the Department of Commerce or other foreign commercial services?

Mr. LAMBRIGHT. Well, Congressman, let me work backwards from the end of your answer. In terms of creating a facility for financing with the foreign commercial service of the Commerce Department, that really isn’t possible because they are not making financings. But we do work closely with them. We train foreign commercial service officers who are going to key markets for us. We work very closely with the Commerce Department on outreach
to customers. As for the Small Business Administration, we do have a facility for small business customers of the SBA who have reached a cap of what the SBA can finance in terms of export lending. We will cover the overflow amount of financing so that that customer doesn’t have to go to two different Government agencies. It would be a seamless application process. And in the time that we have had that facility up and running, we have done about a dozen transactions.

Mr. NEUGEBAUER. One of the things that I was glad to hear you say, recognize when the discussion was going on about small versus large businesses, just to remind everybody that small businesses are the number one job creator in America. Today the Wall Street Journal stated that we set a new record today, and it wasn’t necessarily the kind of record that we want to set, a $66.11 billion trade deficit. When you talk about all of these outreach efforts that you are doing on small businesses, and while you have made some efforts and in some years you have had more success than others in reaching the 20 percent goal, what are some of the impediments that you see to getting to the 20 percentile as far as programs?

Mr. LAMBRIGHT. Well, the one major hurdle that stands between us and helping more small businesses is awareness on the part of small business exporters. There are roughly 250,000 small businesses that export, many more who could export if they had access to capital. And when we travel around the country and speak to different groups, I always find that the number one issue that I talk about is explaining who we are and what we are doing there and what kind of services we offer. And so when we call on small businesses that may potentially be our customers, we are doing it to let them know that we exist and that we want to help them export.

Mr. NEUGEBAUER. When you are looking at the criteria for large companies versus small companies in your lending criteria and your credit analysis, do you make a differentiation and should you?

Mr. LAMBRIGHT. Well, we have in our charter the standard that is called reasonable assurance of repayment. It’s the standard that we need to satisfy for every financing that we participate in. And so whether the exporter is large or small, we still need to find that likelihood of getting repaid. Now we work closely with small businesses, and some of our policies offer them greater coverage and greater protection. But the terms that we look for in order to find that reasonable assurance of repayment really look at the borrower, the end user of the product to find out if we are going to get repaid.

Mr. NEUGEBAUER. When you say greater coverage for small business, are you requiring them to have a greater cash flow coverage than you would say a large company?

Mr. LAMBRIGHT. No. What I mean is if there is an export contract for $100, our typical policy for short-term credit insurance would cover $90 of that. Basically, they would have to put the down payment up. For a small business exporter, we would move up and cover 95 percent of that. And also we would offer them a policy that had no deductible so that they knew what their costs were going in.
Mr. NEUGEBAUER. How many board members is the Bank supposed to have?
Mr. LAMBRIGHT. There are five.
Mr. NEUGEBAUER. And how many do you currently have?
Mr. LAMBRIGHT. Three.
Mr. NEUGEBAUER. Yes, what is the progress on that?
Mr. LAMBRIGHT. Well, these are Senate confirmed, presidentially-appointed positions, and so filling those spots is outside of my control. But we are eagerly awaiting nominations and confirmations to have a full complement of the board.
Mr. NEUGEBAUER. Have the nominations been made and we are waiting on the Senate or we are still waiting on the nominations?
Mr. LAMBRIGHT. We are still waiting on nominations.
Mr. NEUGEBAUER. Yes, and how about for the permanent position as far as the director?
Mr. LAMBRIGHT. That is a nomination we are waiting for as well.
Mr. NEUGEBAUER. Okay.
Chairwoman KELLY. Mr. Neugebauer, you are out of time.
Mr. NEUGEBAUER. That is the story of my life. Thank you.
Chairwoman KELLY. Sorry. We have a second panel so I am trying to keep everybody and—be fair and keep everybody on time. Mr. Cleaver.

Mr. CLEAVER. Thank you, Madam Chair. The Bank received a significant increase in the administrative costs from $55 million to $78 million in 2000. Small business loans actually went down last year. Is that correct?
Mr. LAMBRIGHT. No, Congressman, the number of small business transactions, both in number of transactions and dollar terms, went up over last year.
Mr. CLEAVER. The difference in administrative cost, what kind—
Mr. LAMBRIGHT. To get to a $55 million administrative budget, you have to go all the way back to 2000 where there was a jump in the administrative resources given to the Bank. In the last three years our administrative budget has been fairly flat. We are at $73.2 million for Fiscal Year 2006 administrative budget.
Mr. CLEAVER. What does that $73 million buy?
Mr. LAMBRIGHT. Largely, it buys compensation and benefits for our 400 employees. It also pays rent. It pays for technology. It also pays for other miscellaneous things like travel.
Mr. CLEAVER. The increase was to improve the technology.
Mr. LAMBRIGHT. My understanding of the spike back in 2000 was that it was in anticipation of our growing technology needs; that is correct.
Mr. CLEAVER. Do you have an idea of what the new technology—
Mr. LAMBRIGHT. Oh, certainly, we are developing a business automation platform. Back in 2000, we offered no services online. Today, already we offer subscriptions, claim filing, letters of interest, and forms online. But the bulk of that money was going into a contract for an online application service that has been developed. We are in the testing phases of it now, and we will roll it out in the first part of next year.
Mr. CLEAVER. I have no further questions.
Chairwoman KELLY. Thank you, Mr. Cleaver. Mr. Price or Mr. McHenry, I didn't see which one came in first. Mr. McHenry.
Mr. McHENRY. Thank you, thank you. Actually, to follow up on Mr. Cleaver’s questions, it is very much in the same line and same vein that I was asking. It turns out your budget actually is increased by close to $20 million. I think Fiscal Year 2000 was $55 million and this year it is what, $73 million?

Mr. LAMBRIGHT. Right.

Mr. McHENRY. So that is a pretty significant increase. What has that gone to, that basically $18 million, what has that gone to?

Mr. LAMBRIGHT. Well, it is increased over five years. The initial spike was really between 2000 and 2001 to make funds available for increasing technology where we basically have been moving from having no technology to some technology. And so this has been a multi-year process for us. But if you look at the $73.2 million administrative budget, 66 percent of that just goes straight into compensation and benefits; maybe a little bit over 10 percent goes into the technology aspect. And we really are left with a discretionary pool of funds that is less than 10 percent of the overall budget.

Mr. McHENRY. Well, it is a 30 percent jump in your budget, and you are just sort of saying it is going to additional needs. Can you be more specific? You talked about technology, but what are you doing?

Mr. LAMBRIGHT. The technology project and the way we are deploying those discretionary funds is really looking towards serving our customers better, towards reaching out to—

Mr. McHENRY. I know you are. It is like saying I am a Member of Congress; I am here to serve. Well, what do you do with your day? It is a very different question.

Mr. LAMBRIGHT. Right.

Mr. McHENRY. That is sort of a broad answer. It is a nice thing to say, but what do you do, that is what I am asking, with that money?

Mr. LAMBRIGHT. As I was saying, 66 percent of it goes to compensation and benefits. We pay rent; we pay for technology.

Mr. McHENRY. So your budget increased 30 percent. Did your salaries increase 30 percent?

Mr. LAMBRIGHT. No, they have been increased—

Mr. McHENRY. By that line of thinking, the salaries would go up 30 percent. I am asking you what are you doing with the technology money?

Mr. LAMBRIGHT. It has gone into a multi-year technology program that we are unveiling in phases, the largest chunk of that which will be early next year. It is an online application system so that our customers, particularly our small business customers, can both apply online and then once their application is submitted, track the status of their applications. This system has many goals. One is to help our small businesses apply and then know where their deals are in the underwriting process to increase transparency. But also it will help us with data quality and provide us a more flexible platform going forward.

Mr. McHENRY. Okay. It seems like you have this interest in giving the most generic and basic answers. I don’t know what your prepping was for this hearing, but it is sort of bothersome when I ask a specific question, you give me a general answer. We are here
to provide loans. Give me a break. We are asking specifics because this is a reauthorization, and we want to know if your existence is necessary.

Mr. LAMBRIGHT. I understand.

Mr. MCHENRY. And when you are giving me general answers, it is frustrating. So I don’t know if I should even go on with any questions because you just give general answers. It is not helpful to me on whether or not you deserve to exist. So let me try again. Okay? Ninety-five billion dollars worth of loans, that is what you have over this authorization. You have given out what, $50 billion so far?

Mr. LAMBRIGHT. Well, we have an authorized limit of how much exposure we can have of $95 billion. We have a current exposure of $62 billion.

Mr. MCHENRY. Sixty-two. How does that break down small business to large business, large companies to small companies?

Mr. LAMBRIGHT. Well, about 80 percent, in ball park numbers, about 80 percent of the transactions is for small business, but less than 20 percent of that money.

Mr. MCHENRY. Eighty percent of the transactions, 20 percent of the money?

Mr. LAMBRIGHT. The numbers of deals would be 80 percent go directly to small businesses. Twenty percent of the transactions go directly to large businesses. But it is basically the inverse of that when you talk about money because the larger deals involve more funds.

Mr. MCHENRY. Okay, that is actually a good specific answer and a very nice way for me to end. Thank you.

Mr. LAMBRIGHT. Thank you.

Mr. MCHENRY. And I have got two other questions, Madam Chair, if I could submit for the record and if they would be so good to provide answers.

Mr. LAMBRIGHT. We would be happy to.

Mr. MCHENRY. Sort of in the specific range of things, that would be wonderful.

Mr. LAMBRIGHT. Fair enough.

Mr. MCHENRY. Thank you.

Chairwoman KELLY. Thank you very much. Mr. Scott, are you ready with questions?

Mr. SCOTT. Yes, I would. Thank you very much, Madam Chair Lady. Let me just ask you, sir, the Advisory Committee on sub-Saharan Africa makes recommendations to the Bank. How are these recommendations received by the Bank? Is there a formal process for these recommendations to be incorporated into Bank policy?

Mr. LAMBRIGHT. Our sub-Saharan Africa Advisory Committee meets several times a year. It has roughly a dozen folks from outside the Bank who have experience in these markets to help us understand the risks and opportunities in sub-Saharan Africa. And it is a valuable source of advice to us. At the end of their term, an annual term, they do provide a list of recommendations to us. This is digested by senior management. I have a meeting next week with the chairman of the sub-Saharan Africa Advisory Committee to go over his recommendations from the current year. Depending
on the nature and the length of the list, many of these recommendations do get adopted, and some do not.

Mr. SCOTT. Another question, I am going to ask you a couple of questions about small businesses. I have a number of small businesses, as most of us do, but I have an inordinate amount in my suburban Atlanta district. There have been complaints from the small business community that the relationship manager program is not working well for them. Are you aware of that?

Mr. LAMBRIGHT. I am aware of those complaints.

Mr. SCOTT. Do the relationship managers specialize in small business transactions? And is the Bank's decision-making process sufficiently transparent?

Mr. LAMBRIGHT. Well, on the transparency question, it is something that we are working hard to improve. We have done over 3,000 transactions last year, so we are getting a lot done. Those are more deals than the year before and the year before that. So with every year we are doing more with the resources we have. But I am aware that there are some frustrated customers with regard to transparency, and this is an area that we take very seriously. So we have taken steps to put our policies and standards up on our website so people know what is expected by us. We are also developing an online application and processing system so that our small business customers know where their application stands in the approval process.

Mr. SCOTT. Let me ask you this? Why does the Bank not have an allocation in its administrative budget for small business activities?

Mr. LAMBRIGHT. Well, because a lot of our programs—a number of our programs are largely used by small businesses, but they are also used by medium or larger companies. And so we need to staff those operating units to handle all the applications that come in, even if that particular product is used 80 percent of the time by small businesses.

Mr. SCOTT. In your position, would you not advocate for some resources being added to your budget, administrative budget, to be of greater assistance to small businesses, especially in view of the light of the complaints from small businesses?

Mr. LAMBRIGHT. Well, Congressman, I was pleased to hear that the conferees have adopted an appropriations package for 2006 for us that gives us our full administrative request, so I think we do have the resources going forward, at least in the next fiscal year, to meet our outreach goals. But I do agree with you about dedicating resources to small business. We recently have repositioned 40 of our employees to work under a new vice president of small business solely on the question of outreach to small businesses to help them increase awareness of our products and develop applications that we can support.

Mr. SCOTT. If I might shift for a moment to small lenders. Does the Bank need to expand its relationship with small lenders? I have a number of small lenders in my district. Do the large national and international banks have sufficient understanding of small business lending issues?

Mr. LAMBRIGHT. On small lenders, we are trying to work with more of them. We have signed an agreement with the National
Credit Union Administration to try to work with community lenders. We are trying to spend more resources training the staff of small banks. The problem is there are not that many banks right now that are active in overseas trade finance and so we are trying to work with those that are interested to make sure they understand that we are available.

Mr. SCOTT. Do you find from your information that these smaller lenders are better at financing larger operations than small business activities?

Mr. LAMBRIGHT. Could you repeat the question?

Mr. SCOTT. Do you find that these lenders are better at financing larger operations than they are with smaller business activities?

Mr. LAMBRIGHT. Well, I think your larger companies are going to have lender relationships that might make it easier for them to get finance for their exports. So that is why we are devoting so much of our energy to working with the small businesses and the lenders that work with those small businesses. A lot of the small business that we get comes in through brokers who know the Bank's criteria but also have relationships with a lot of small businesses. So that is something we are working hard on.

Chairwoman KELLY. Thank you very much, Mr. Scott. Since Mr. Scott brought up the issue of countries that are cooperating with us, does the Bank receive data from Treasury on which countries are cooperating with money laundering and terror financing?

Mr. LAMBIGHT. We do; we take that issue very seriously. We have been working with our banking partners to set guidelines for what we call "Know-Your-Customer" standards. We check participants in all of our transactions against lists kept by other Government agencies to make sure that we know who we are dealing with and that we are sensitive to the issues you have raised.

Chairwoman KELLY. Okay, thank you. Mr. Price.

Mr. PRICE. Thank you, Madam Chair. I want to thank you for this hearing, and I want to thank you, Mr. Lambright, for coming and being with us today. I want to follow up very quickly on Congressman Neugebauer's question about the vacancies on the board; five positions on the board, three members now, two vacancies. How long have those two spots been vacant?

Mr. LAMBIGHT. Well, a technical correction to the Congressman is actually three vacancies because I am serving in only an acting capacity. So there are three nominations forthcoming that would require Senate confirmation, and all three of those expired on the same day on July 20 of this year.

Mr. PRICE. Of this year?

Mr. LAMBIGHT. Yes, a few months ago.

Mr. PRICE. Thank you. I want to switch gears to the issue of China, which, as Congressman Crowley brought up, some politically sensitive areas. China is increasingly becoming a controversial issue I suspect for Ex-Im, and I am interested in your thoughts on what the role of the Bank is and should be playing in the trading of goods with China?

Mr. LAMBIGHT. China is a market that gets a lot of attention. There is a large trade deficit with China and so when we do support exports, we are helping reduce that trade deficit. But there hasn't been a lot of activity in recent years between Ex-Im Bank
and China because China has developed a highly liquid banking system that has been providing liquidity to borrowers in China for the last few years, and we haven’t been needed as much. So we find where we have been needed in China has really been the much larger transactions.

Mr. PRICE. Does the Bank support the export of nuclear power plant technology to China?

Mr. LAMBRIGHT. We have in the past and there is—

Mr. PRICE. Tell me how that decision was—how you arrived at that decision.

Mr. LAMBRIGHT. Well, the existing financings in this sector in China were back in the 90s. We have a preliminary commitment for a future transaction. And so the process that we are going through on that transaction is to work very closely with other Government agencies to make sure that all export controls and licenses and concerns about nuclear power in China have been addressed before we would finance the project. We would also look at credit issues of who we are dealing with and environmental issues before we would finance the loan, but we do not yet—the Chinese have not yet selected whether they will be choosing American exports or French or Russian exports on this particular project.

Mr. PRICE. Do you believe there is a role or is it appropriate for Congress to have a role in that decision-making process for sensitive issues like that?

Mr. LAMBRIGHT. Well, both chambers did take it up during our appropriations process and so we were watching very closely and listening to the statements made by Members, and we will work closely with interested Members if and when we take that case up.

Mr. PRICE. But you can take action without Congress opining?

Mr. LAMBRIGHT. Well, a transaction of that size after a board action, we would give the Congress a notification period where we would then see what kind of response we got back before it became final.

Mr. PRICE. Thanks. I want to shift to the Patriot Act and the relevant portions of that to the Bank and how you comply and the difficulties, if any, that are present.

Mr. LAMBRIGHT. Sure. Many provisions do not apply to the Bank since we are not a deposit holding bank. But some provisions do apply, those relating to information retention or sharing information with other Government agencies in certain circumstances. And my understanding right now is that none of our practices are out of compliance with the Patriot Act and so we are looking very closely at those provisions that do apply to us.

Mr. PRICE. And what provisions are those that do apply to the Bank?

Mr. LAMBRIGHT. The provisions requiring certain information to be retained, to know your participants and transactions, we take that very seriously. There are also requirements that would apply to us in certain circumstances requiring the sharing of information with other Government agencies. I don’t think we have been called upon to share that information, but we would comply if relevant.

Mr. PRICE. Let me just ask one final question, if I may, about this concept of additionality that you talked about and how you determine whether or not you add something to the mix as it relates
to assisting for exports, especially in the area of large corporations. It is unclear to me; we talk about small business and trying to help small business, but it is unclear to me what the Bank brings to the table for corporations that have significant resources and probably could do anything they wanted to do with or without the Bank?

Mr. LAMBRIGHT. Well, our focus when we make financings for larger transactions is really to the overseas buyer of American goods. And so while the U.S. firms benefit from being able to make that marginal export, we are really looking at the availability of financing to that borrower. And we step in when—in the larger cases oftentimes to match government-supported foreign competition. So if a foreign government is offering attractive financing terms, we step in to make sure that that borrower is making a choice of product based on price, quality, and service, not on Government financing terms.

Mr. PRICE. I see my time is up, Madam Chair. Thank you.

Chairwoman KELLY. Thank you. Ms. Waters.

Ms. WATERS. Thank you very much, Madam Chairwoman. I am sorry I am late for the meeting. As you know, we have so much going on all at the same time. But I am delighted to be here and this is a subject matter that I am very much interested in, and I would like to ask Chairman Lambright the Ex-Im Bank's 2002 re-authorization legislation directed the Bank to expand its activity in sub-Saharan Africa. However, in spite of this directive, both the number and dollar value of Ex-Im Bank transactions in sub-Saharan Africa have gone down since 2002. Now in 2003, the Commission on Capital Flows to Africa, which was chaired by former Ex-Im Bank Chairman James Harman, made several recommendations for increasing capital flows to Africa by the Bank and other export credit agencies. Some of those recommendations included allowing 20 year repayment terms for African countries, raising the credit ceiling for local costs for African projects from 15 to 20 percent of export value, offering guarantees and loans in local currency and creating a pilot program to initiate aid for Africa. In addition to that, I would like you to respond to—I want to know if you support those recommendations. If so, have you taken any steps to implement them or have you done anything else, perhaps that I didn't mention, to increase the Bank's activity in Africa? And I am worried about the HIPC Initiative, even though it has been argued that the terms of the Heavily Indebted Poor Countries, the HIPC Initiative, which provides debt relief to the world's poorest countries, are constrained Ex-Im Bank activities in sub-Saharan Africa. I don't think so, and I don't see why it should be. I would like to know your opinion on that. I know that there is a one year moratorium on new lending to countries that have received debt relief but that should not interfere with the ability to expand activity there. So that is a lot, generally though the discussion about Africa, what are we doing?

Mr. LAMBRIGHT. I would be happy to discuss Africa generally, though I may not hit all of the issues you raise, Congresswoman. But we take our efforts to increase activity in sub-Saharan Africa very seriously. In the past 7 years, we have supported over $3 billion in U.S. exports to the region. In 2005, we supported over $460 million in U.S. exports, which was up over 36 percent from the
year before. In 2001, when I first came to the Bank, the amount of exports to sub-Saharan Africa was $85 million. Although I think you are correct in noting in 2002 there was a big spike, and what I have noticed in our sub-Saharan Africa numbers is that it is not a smooth line on a chart. It bounces up and down depending on whether we participate in some large transactions. But what our goal really is is to increase what I would call our bread and butter transactions, the small and medium-size transactions that we can do every day to the region. And so we spend a great deal of time trying to work with U.S. companies exploring the region and also traveling there to educate borrowers.

You mentioned the report involving our former chairman, Mr. Harman. That report does have a lot of ideas in it. I think some of them have a lot of merit. I think some of them probably go beyond what the Bank can do without working with other agencies or with this body in our re-chartering or at the OECD. There are only certain terms that we are allowed to provide based on our participation in the OECD. But we are working to do as much as we can in Africa. We are open in 39 different countries in sub-Saharan Africa. We did deals in about 20 of them, maybe 18 of them this year. And we are working to do as much as we can.

You mentioned the HIPC concerns and the moratorium on new lending. Both of those are limits on lending activity to governments or qualifying countries, and a lot of those do happen to be in sub-Saharan Africa. But it is important to note that most of our business, interestingly, in sub-Saharan Africa is to private sector borrowers. And neither the HIPC rules nor the moratorium would prohibit us from doing lending to the private sector, just to the government. And so we are able to continue doing a lot of business even in the countries affected by the things you mentioned.

Ms. Waters. Thank you very much. And I would like to, not now because we certainly don't have time, I would like to further with you about what you are doing to educate American businesses about these opportunities. So I am going to call your office and try to set up some time for us to get together and talk.

Mr. Lambright. I look forward to it.

Ms. Waters. Thank you very much.

Chairwoman Kelly. Thank you very much, Ms. Waters. The Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. So without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record. With that, this panel—I want to excuse this panel, but first I would like to ask if Mr. Lambright, you or members of your staff would be willing to stay in this room to hear the testimony of the people on the second panel. I think that would be very important for all of us in this room.

Mr. Lambright. I agree, and I think we have arranged for a number of our staff, senior staff in particular, to be here and listen.

Chairwoman Kelly. Good. Thank you very much. We appreciate your being with us this morning, and we thank you. This panel is excused.

Mr. Lambright. Thank you.
Chairwoman KELLY. All right, I am happy now to introduce our second panel of witnesses. The first is Mr. Joseph Watters, representing the Small Business Exporters Association of the United States. Mr. Watters is currently the managing director of international sales for Hoffman International, Inc. in New Jersey. Mr. Watters was also the president of Hoffman International for 24 years until 2002. He is a former chairman of the Small Business Exporters Association, former board member of the National Small Business Association, and former member of the sub-Sahara Advisory Committee for the U.S. Export Bank.

Next, we have Mr. Hayman, who is appearing today and testifying on behalf of the Banker’s Association for Finance and Trade. Mr. Hayman is a senior vice president at the PNC Bank in Philadelphia where he manages international banking and global treasury management, which includes trade services, trade finance, international correspondent banking, and international cash management.

And now I know that my colleague, Judy Biggert, would like to introduce our final witness. Mrs. Biggert.

Mrs. BIGGERT. Thank you, Madam Chairman. I am happy to welcome Mr. John Sabroske, who is the director of Global Trade Finance for John Deere Credit. John Deere is headquartered in Moline, Illinois. Prior to joining John Deere Credit, Mr. Sabroske managed the trade banking group responsible for both export finance, as well as import finance and the associated operational areas.

He currently serves on the International Committee of the Equipping Leasing Association. Mr. Sabroske has had more than 20 years experience in trade finance. He received his MBA from the University of Chicago, as well as BA with distinction from Purdue University. Welcome.

I yield back.

Chairwoman KELLY. Thank you so much. We will begin with you Mr. Watters.

STATEMENT OF JOSEPH WATTERS, DIRECTOR OF INTERNATIONAL SALES, HOFFMAN INTERNATIONAL, ON BEHALF OF SMALL BUSINESS EXPORTERS ASSOCIATION

Mr. WATTERS. Thank you. Chairwoman Kelly, members of the committee, thank you and thanks for the opportunity to be here at this meeting to testify this morning. You have already done the introduction, so I will skip that but I will reiterate that I am here before you today representing my company, Hoffman International, as well as the SBEA, Small Business Exporters Association of America.

As a matter of background, Hoffman International is a distribution company employing some 70 employees. And we are representing major manufacturers of construction, earth moving and lifting equipment for the sale, rental, lease, and service of that equipment throughout New Jersey, New York City, Long Island, and eastern Pennsylvania.

In addition to that activity, we have for the past 35 years operated an international group within our company. That group focuses exclusively on the global market place for the same sale of
parts and new and used equipment. We target emerging markets around the globe. Our primary markets include Central and South America, Russia, and NIS countries, Egypt, together with a number of parts of Africa. Our export business is a vital part of our total overall business.

SBA, for whom I served as chairman for 3 years, from 1999 to 2002, represents its own group of several hundred active exporters, as well as over 22,000 members of the National Small Business Association, many of whom are involved in exporting.

Our association has had a long and constructive relationship with Ex-Im Bank. Many of our members are frequent users of the Bank’s products. And, I might add, assuring the continued vitality and smooth functioning of the Bank is the single strongest bond that connects the members of our association.

Congress originally designed Ex-Im to be the lender of last resort for American exporters. Yet for us, as small and middle-size enterprises, SMEs, the Bank is frequently the lender of only resort. Banks over the world fear foreign risk, and that is why every major industrial nation has an export credit agency comparable to Ex-Im Bank. Relatively few banks in the U.S. get past that fear of foreign risk to the point of understanding international trade finance. And of those few commercial banks that do, even fewer of them will assist SMEs with transactions of under $1 million. Without the guarantees and insurance that Ex-Im provides, virtually no commercial bank would underwrite small export transactions. So let me direct: Small businesses that export need the Ex-Im Bank.

Today, financing plays an increasingly important role in export sales. This is particularly true for small companies like mine and those of other SBEA members whose foreign buyers need financing to afford to buy what we in America sell. And it is almost mandatory for buyers in developing countries. They need to pay for these purchases over time, but more often than not their own banking systems cannot support either short or longer term financing. Small USA companies can play an important role in these markets, but we need more than a quality product and a salesman’s smile. We need to provide the means for our customers to pay for these goods and services. In a word, we need financing. And for capital goods, like those we sell, we need 3 to 5-year medium term financing that meets a client’s cash flow capabilities. If small business is indeed the engine of the U.S. economy, then our companies that export critically need an aggressive and effective Ex-Im Bank to keep that engine humming. Virtually every large company in the U.S. exports. Less than 10 percent of the small ones do. If we are serious about addressing the $50 billion a month trade deficit, we have to get more of our small companies out on the international playing field. That means we have to back them up with a dependable export finance program and make the process user friendly. So we at SBA keep a close watch on Ex-Im. We often make suggestions to the Ex-Im leadership for improvements in the Bank’s operations.

In that spirit, I would like to share with the subcommittee some recommendations that we have made to the Bank officials over the
past year or two. Our recommendations fall into three categories. First, transparency. The Bank needs to better connect with its clients through greater openness about its guidelines and requirements and the status of processing of particular transactions. Customers should know, as they once did, which underwriters are assigned to a case. Then there should be a more open and honest dialogue between the underwriters and its customers. The Bank should quickly assess a potential transaction and just as quickly offer suggestions if they are needed.

Chairwoman Kelly. Mr. Watters, I am sorry, but I am holding the committee to the 5 minute rule, and I am also hopeful that you can sum up from where you are. Your testimony is important to us and you know without objection your written testimony is a part of this record.

Mr. Watters. One more minute I think I will be finished, Madam Chairman.

Chairwoman Kelly. Go right ahead, sir.

Mr. Watters. The second involves efficiency. Efficiency means rapid processing. The Bank seems to do quite well with short-term programs, but virtually all of our members find the transaction period entirely too long, much too long. Time is a critical commodity. If we don’t move rapidly, we lose customers. A small company simply can’t afford to nursemaid a transaction.

We believe expanded partnering programs with commercial banks would also improve the Bank’s efficiency. Ex-Im currently has a working capital guarantee program, which is enormously helpful to smaller companies. My company has one of those. How we would ever arrange our pre- and post-export financing without that program, I don’t know. The program is largely handled by commercial banks using Ex-Im’s delegated authority. We would like to see this type of delegated authority expanded to include medium-term products. SBA is doing this; OPIC has done this and had great success with it.

Third, and our final topic is focus. Congress has mandated that 20 percent of Ex-Im’s business must involve small business exporter transactions. This is a significant challenge for the Bank, but meeting or even exceeding it only adds more fuel and fire to the small business engine. What do we mean? We mean the establishment of a dedicated small business division at the Bank comparable to the highly successful at OPIC, one that answers directly to the Ex-Im board. It means having underwriters that work on nothing else but SME deals, and it means developing incentive programs for the employees.

Chairwoman Kelly. Sir, I will give you a few seconds to sum up but then I really must ask you to please—

Mr. Watters. I understand; I am sorry for going over time. I want to finish this one point. And it means developing incentive programs to better motivate Ex-Im employees to originate SME transactions, move them expeditiously through the Bank, and then reward those people who perform and do a good job.

Chairwoman Kelly. Thank you very much.

Mr. Watters. Thank you very much.

[The prepared statement of Joseph Watters can be found on page 93 in the appendix.]
Chairwoman Kelly. Mr. Hayman.

STATEMENT OF HARRY G. HAYMAN, SENIOR VICE PRESIDENT, PNC BANK OF N.A., ON BEHALF OF BANKERS ASSOCIATION FOR FINANCE AND TRADE

Mr. Hayman. Thank you. I would like to thank the two subcommittees for holding this timely and important hearing on oversight of the U.S. Export-Import Bank. As mentioned, my name is Harry Hayman. I am in charge of international for PNC Bank, which is one of the largest supporters of small and medium-size business through financing with the Ex-Im Bank.

I am speaking today as vice president of the Bankers Association for Finance and Trade, which is 150 banks and service providers, so virtually all of the banks that support medium-sized businesses on their exports. I have also served for the last 2 years as a member of Ex-Im Bank’s advisory board, and we appreciate the opportunity to make some comments.

Expansion of exports is a critical element for the U.S. economy and the U.S. Export-Import Bank plays an important role in supporting these exports. As we are all aware, the U.S. current account deficit now exceeds 6 percent of GDP. This is clearly not sustainable from either an economic or geopolitical standpoint and requires, among other actions, significant growth in U.S. exports.

The Ex-Im Bank has made a number of positive and successful new initiatives in the past 2 years. Examples include the continued expansion of the City-State Partners Program and the initiation of the Environmental Exports Program. The staff of Ex-Im Bank should be congratulated for their work and progress in promoting effective and efficient programs for end users of the Bank’s services.

I am particularly pleased with Acting Chairman and President Jim Lambright’s recognition that the next major effort needed is to improve Ex-Im Bank’s transaction application approval process. This can be cumbersome for parties involved and, therefore, detrimental to U.S. exports. The focus should be on both consistent and transparent credit standards, improvements in the use of technology, and in my written remarks there are a number of comments I make on that subject.

We look forward to working with Mr. Lambright and the Bank to streamline and improve this process. We do not believe there are any changes required to Ex-Im’s charter at this time.

An additional area that continues to require improvement is the way governmental entities cooperate in facilitating international business. Ex-Im is working on that. Mr. Lambright is working on that, but there is much to be done in that area to make the U.S. successful in exports.

I was asked to comment on Ex-Im’s Working Capital Guarantee Program, which the Congressman referred to earlier. This has been resolved. There is a new agreement in place between the banks and our exporting customers and Ex-Im Bank. It is satisfactory. I believe that we would stand by our statement that it will make things more difficult for some of the smaller banks. We have a program in place on the Bankers Association for Finance and Trade working with Ex-Im to work closely with the smaller banks, such
as in the Congressman’s district, to allow them to work closely with small business.

Thank you.

[The prepared statement of Harry G. Hayman can be found on page 76 in the appendix.]

Chairwoman KELLY. Thank you very much, Mr. Hayman. Mr. Sabroske?

STATEMENT OF JOHN D. SABROSKE, DIRECTOR, EXPORT CREDIT AND TRADE FINANCE, JOHN DEERE CREDIT

Mr. SABROSKE. Thank you, Madam Chairman.

Chairwoman KELLY. Mr. Sabroske, be sure you—

Mr. SABROSKE. Yes.

Chairwoman KELLY.—yes, please. Thank you.

Mr. SABROSKE. Thank you, Madam Chairman and members of the subcommittee. I appreciate the opportunity to appear before you today to present our views on reauthorization of the Ex-Im Bank charter. John Deere has manufacturing operations in the U.S., as well as in 15 other countries. And our products are sold to consumers in more than 160 countries, virtually across the globe. Our financial services group, John Deere Credit, provides credit and other financial services to support John Deere equipment sales to customers both here in the U.S. and in global markets. I believe this gives us a unique perspective, both as an exporter and a lender, from which to comment with regard to the operations and value of the Ex-Im Bank.

The Ex-Im Bank support for John Deere exports has grown from about $7.5 million in 2003 to $43.5 million in 2004 and to $64 million in 2005. So far for our Fiscal Year 2006, Ex-Im support for John Deere equipment sales as total $11.5 million.

Over the past 3 years, the Ex-Im loan guarantees of $127 million have supported about $143 million in export sales of John Deere equipment. Virtually all of these export sales were in the commercially and politically challenging former Soviet States of Russia, Kazakhstan, and Ukraine. Ex-Im’s loan guarantees supported exports of John Deere combine harvesters, manufactured in east Molene, Illinois, tractors produced in Waterloo, Iowa, and cedars made in Valley City, North Dakota. Without Ex-Im’s support, it is fair to say that much, if not all, of this business would have gone to non-U.S. based competitors.

There is today a strong and growing demand in many parts of the world for more efficient productive technology and machinery made in the West. And there is strong and growing competition for this business from agricultural equipment manufacturers in Belgium, Canada, Finland, France, Germany, Italy, and other countries. Each of these manufacturers is aggressively backed by its own export credit agency. And because the demand for Western equipment is so strong, it is often the terms of credit and its timely approval that determine which manufacturer gets the sale.

The financial risks of doing business in emerging markets means that without Government support of credit enhancement, the cost of credit to the customer would be prohibitive. So it is vitally important for us to have an aggressive and innovated Ex-Im Bank that enables us to compete against non-U.S. manufacturers. We
view Ex-Im as a strategic partner in helping John Deere compete for this business.

Regarding the Ex-Im Bank reauthorization, not only is ours an extremely competitive business but in emerging markets, especially those businesses in the constant state of change. Our customers operate in seasonal, relatively high risk commercial environments. They are increasingly demanding of suppliers to provide quality farm inputs at low cost and in an efficient and timely manner. As these markets continue to evolve, so too do our overseas competitors with the active support of their own export credit agencies. This means that Ex-Im products, policies, and procedures must continue to evolve to keep U.S. exporters ahead of customer demands and foreign competitors.

In our experience, the Bank’s procedures for documentation review and approval of applications have historically taken far longer than other ECAs. This creates obvious competitive pressures in our seasonal business. We have a saying that if we are 2 weeks late in delivering equipment, we are in reality 12 months early. We have a unique business in that Mother Nature really sort of drives these deadlines. You may have only a 2-week planting window and if you deliver a cedar a week after that or even at the end of that period of time, they are going to leave that equipment unused for another year. So we have extreme time pressures. Your reauthorization efforts should encourage more streamlined procedures for transaction approval.

To stay competitive, we believe that the Bank must also be willing to assume greater risks through its lending practices. As stated before, emerging markets for U.S. exports are evolving and competitor ECAs have become more aggressive. We recognize that these markets are inherently more risky. If they weren’t, the Bank’s loan guarantees and other products wouldn’t be necessary. And we fully recognize the necessity of the Bank’s reasonable assurance of repayment obligation. However, the inflexible application of this standard in the face of changing market conditions for additional risk taking as both reasonable and prudent could work against U.S. exporters. We believe that Congress through the reauthorization process should work with the Bank to consider more aggressive standards for underwriting risks and extending the credit enhancements needed to develop these evolving markets for U.S. exports.

Nor should policies that govern the Bank’s lending practices become an undue barrier to U.S. exports. In working with Ex-Im, our objective is to reach a level playing field on financing so that we compete and win on product performance and quality. More flexibility in Ex-Im rules ranging from loan tenure to MARAD requirements can have a positive impact on achieving the Bank’s overriding mission.

In short, we encourage Congress and the Bank to continue to work together to develop a more agile and flexible institution that helps U.S. exporters compete better in the face of changing market conditions and customer expectations.

John Deere appreciates the opportunity to share its views with the subcommittee, and we would be pleased to work with you to
help build on the contributions the Ex-Im Bank makes to promote U.S. exports and U.S. jobs.

Thanks very much.

[The prepared statement of John D. Sabroske can be found on page 89 in the appendix.]

Chairwoman KELLY. Thank you, Mr. Sabroske. I am going to start the questioning with Mr. Watters. You testified regarding the importance of having a new vice president of small business report directly to the board of directors. If it is required that one-fifth of the loans that Ex-Im Bank does go to small businesses, do you think that we should also require at least one-fifth of the Ex-Im Bank board of directors represent small business exporters?

Mr. WATTERS. Well, at the moment, I believe one of the directors of the Ex-Im Bank has the responsibility of small business loans. I am not able to identify that director now, but I think there is a designation for one of the five directors to be responsible for small loan activities.

Chairwoman KELLY. Well, since we heard earlier that there are only three out of the five there, is it possible that you or someone, perhaps you have staff who are here, who might be able to help us with this answer, does there exist currently a small business person whose charge it is to handle—a person on the board of directors whose charge it is to handle the small business loans? Anybody here?

Mr. WATTERS. I believe surely the answer to that is yes, there is one.

Chairwoman KELLY. Currently of the three?

Mr. WATTERS. No, there is a chair that is filled by one of the directors who has that responsibility. I cannot answer whether or not it is filled at this moment.

Chairwoman KELLY. All right, well, that is good to know. Perhaps we can get some information from the Ex-Im Bank on that.

Mr. Sabroske, many of the Ex-Im exporters sell agriculture equipment and implements. You talked about the seasonal nature. Mr. Sabroske. Right.

Chairwoman KELLY. I want to know how important it is to you all to have a loan officer or a relationship manager or someone like that that understands the seasonal nature of exporting agricultural equipment. And if that is important, should we make sure that someone has that chair on the board of directors?

Mr. Sabroske. For us it is absolutely vital that we have what I would consider a relationship manager for our business. We spend a lot of time with Ex-Im Bank, communicating with Ex-Im Bank, both in person and on the phone. I travel here frequently. People on my staff travel here from overseas to meet with Ex-Im Bank senior management. We are I would say in daily phone contact, touching various parts of the organization. The seasonality issue is very real, and we have I think done a good job, I hope we have done a good job, in explaining the implications of that. Once you back up the time, you have to have the equipment in the field to where we have to make a production decision, and when we need to know whether we are getting the support or not from Ex-Im Bank for a particular transaction, we can lay that all out in a very clear timeline. So for us it is critical.
Chairwoman KELLY. And would you feel that—my question was actually also what about our designating, making sure that at least one chair is occupied by somebody who has that seasonal sensitivity and knowledge?

Mr. SABROSKE. I think it would be extremely helpful. That would go a long way towards I believe streamlining the approval process within the Bank for situations like this.

Chairwoman KELLY. I want to go to a question that I asked earlier about the relationship managers working with competitors. Is that an important issue to you, to have someone who is working directly with you and not with competitors?

Mr. SABROSKE. Oh, I would not be comfortable with having a relationship manager that was working, assigned to us and also to one of our domestic competitors. That would be a tremendous potential conflict there, yes.

Chairwoman KELLY. Thank you. Mr. Hayman, do you have anything you would want to add?

Mr. HAYMAN. No. On that subject, no.

Chairwoman KELLY. All right. Thank you; we turn now to Mrs. Biggert.

Mrs. BIGGERT. Thank you. Mr. Hayman, how would you suggest that Ex-Im Bank improve their inter-agency cooperation between the Department of Commerce and State and the Overseas Private Investment Corporation, the Trade and Development Agency, and the Small Business Administration?

Mr. HAYMAN. I think that one of the things that we notice as a bank with many middle-sized customers is that there are a number of people and agencies, both private sector and Government sector, trying to promote U.S. exports. We would say—including banks, so we would say it hasn’t worked as well as it should, and we all bear responsibility for that. But if all of those resources could be leveraged, then it would certainly be a much more effective program. So, for example, an inter-agency group that we know that the Commerce Department is out calling on this sector and they have a goal to create this many export transactions. And over here it is U.S. Chamber of Commerce through their own financial resources have a group doing the same thing and have it more organized.

Mrs. BIGGERT. So you are suggesting that there should be an inter-agency council?

Mr. HAYMAN. Right, yes.

Mrs. BIGGERT. That would make more cooperation. Why not include the Foreign Commercial Service?

Mr. HAYMAN. Absolutely. They can be very helpful in a number of ways.

Mrs. BIGGERT. Okay, thank you. Mr. Watters, what kind of communication goes on between your small business and the Bank throughout the application process?

Mr. WATTERS. Representative Biggert, our company works generally through banks similar to Mr. Hayman’s in which our applications are completed and submitted by our banking relationship directly to Ex-Im. And our communication, therefore, with Ex-Im is generally through our bank.

Mrs. BIGGERT. So you would know with that process whether sometimes you might withdraw it because it is not going to be ac-
cepted or know how to make other points in the application? Is there communication through the bank for that?

Mr. WATERS. Yes, we are generally communicating with our bank to determine the status of a particular application that is moving through the Ex-Im Bank. There is some frustration in that, to find out, and that is why I commented in my remarks that some more openness in terms of being able to determine exactly where a particular application stands is very, very important because you have a customer on the other end who is vitally interested to know, okay, how am I doing; how is my loan coming; is it moving along or not? So it is important for us to know that, so we continue to communicate with our customers throughout the world.

Mrs. BIGGERT. Thank you. Then, Mr. Sabroske, what would you say have been some of the most helpful tools in having such a large increase from $7.5 million to $64 million in 3 years in loans that you obtained? How did you do that; I guess, what are the tools?

Mr. SABROSKE. Yes, I would say we work very closely with Ex-Im Bank with our relationship manager first off, but actually the origin of that business generation came from somebody in my group that is stationed over in Europe that has the responsibility for that market and has been working tirelessly to develop and structure transactions. But we have involved our relationship manager in Ex-Im Bank in every step of the way in expanding that business. The specific products, the credit guarantee facilities for our purposes are probably the most efficient way to handle this increased business from an administrative standpoint. It is much less burdensome in one up transactions. That is getting fairly technical here. But we have been working hard with Ex-Im Bank to expand that business. We just sort of re-dedicated ourselves to that market within the past 3 years and with obvious success. And we couldn't have done it; we absolutely could not have done it without Ex-Im Bank's support.

Mrs. BIGGERT. Would you say that you were able to create or save any jobs in the United States because of the sales generated from the transactions supported by Ex-Im Bank?

Mr. SABROSKE. I have some information on that in terms of exports. Waterloo Works, for example, says about one in every four tractors that comes off their line, that is 25 percent, is exported. Now not all of those are going to the CIS region and not all are supported by Ex-Im Bank. But of the numbers I gave you, in terms of business that we have booked in the past 2 to 3 years, those are all transactions that would not have happened without sales and financing. I can't tell you how many jobs that affected directly; I don't have that information, but that is a significant amount of business.

Mrs. BIGGERT. Right, thank you very much. I yield back.

Chairwoman KELLY. Thank you, Ms. Waters.

Ms. WATERS. Thank you very much, Madam Chairwoman. I would like to talk about small business. Ex-Im is required to allocate 20 percent of its annual lending to small businesses, measured in dollar terms. The reauthorization also called on the Bank to increase its transactions with women- and minority-owned businesses and with very small businesses, those with fewer than 100 employees. However, the legislation I am told did not establish a
binding threshold for transactions in these areas. The Bank has failed to meet its 20 percent requirement for small businesses in each of the 3 years since the reauthorization. What, if anything, are you who are part of the advisory committee?

Mr. Hayman. I was a part of the advisory committee until a couple of weeks ago, so the last 2 years I was part of the advisory board of the bank, yes.

Ms. Waters. Anybody here on the advisory committee still?

Mr. Watters. No, ma'am, I was on the Advisory Committee on Africa, but I terminated that about a year ago.

Ms. Waters. What about you, sir?

Mr. Sabroske. No, I am not. A colleague of mine was previously on the advisory committee.

Ms. Waters. I see. Well, what do you know about—well, what are your recommendations having served for what can be done to increase small business participation? It appears that the Bank works well when it is working with the large banks and large businesses but that not many small banks are involved. Is that true? And could this increase, the participation of small businesses? Anybody?

Mr. Watters. Well, I would respond, first of all, the Small Business Exporters Association, as well as my company, we are delighted to see the action that President Lambright has taken by establishing the small business unit. We would like to maybe move it up a level, frankly, so it is more institutionalized and have it report directly to the board of directors. I think that would bring a greater focus on developing that 20 percent or even higher, frankly. I think that would work well, and I think what he has done has certainly put an emphasis on further developing small business transactions. While we like to see it move up a level, we are delighted with what he has taken. And we are very interested to see what the results will be as we move forward. That is certainly I think a major step on the part of Ex-Im to cure this or to help them achieve their mandated 20 percent.

Ms. Waters. Anyone else? On the 20 percent, how can we get there?

Mr. Hayman. Well, I think—I totally agree with that; I think Ex-Im is making its effort. We certainly would support more interagency cooperation as we were talking about and leverage all the resources that could be leveraged to promote exports, which would then flow to Ex-Im Bank and allow them to achieve their objective. I think clearly Chairman Lambright, John McAdams, Ken Tinsley, the new management group at Ex-Im Bank, will work very hard to make the process of underwriting credits, getting them approved more quickly improved because that is important to small business. We need those transactions to move through more quickly. So that combination of things certainly has the potential to pass the 20 percent mark.

Ms. Waters. What about how do you get women businesses involved?

Mr. Hayman. I think there has been some good progress made, as Chairman Lambright mentioned. I think there is a whole network, mostly Department of Commerce; SBA has a strong program. There is a lot being done. But as I was saying earlier, if you had
a more interagency and private sector group where you could say these three groups are going to give huge focus on minority or women owned businesses and here are the targets that they are going to have, then it makes it all—

Ms. WATERS. Were there any women on the advisory committee when you served?

Mr. HAYMAN. Quite a few.

Ms. WATERS. Were there any minorities when you served?

Mr. HAYMAN. Yes, Lieutenant Governor Steele.

Ms. WATERS. Beg your pardon?

Mr. HAYMAN. Yes, Lieutenant Governor Steele, for example.

Ms. WATERS. How big is the advisory committee?

Mr. HAYMAN. I am sorry?

Ms. WATERS. How big is that committee?

Mr. HAYMAN. I think there were nine, and I think five would have been minority or female.

Mr. WATERS. About the same representative orders, I was on the subcommittee for the Africa Advisory Committee on which there were a number of female members and from minority groups, absolutely.

Ms. WATERS. Thank you very much.

Chairwoman KELLY. Thank you.

Ms. WATERS. I yield back.

Chairwoman KELLY. Mr. Manzullo.

Mr. MANZULLO. Thank you. Nothing runs like a Deere; I have got two of them.

Mr. SABROSKE. Thank you.

Mr. MANZULLO. And our congressional district has over $100 million presence of John Deere in it and really appreciate the quality green that comes out of mowing. As I am going through the testimony here, a little bit of institutional history, I believe until the 2002 reorganization of Ex-Im, there was I believe a person who was a senior vice president that reported directly to the president and that person was in charge of small businesses. And I took over the chairmanship of the Small Business Committee 4 years ago and prior to that I chaired a subcommittee. And we have had I think half a dozen hearings on Ex-Im. And ever since that reorganization, Ex-Im has just fallen through the floor. Any comments on that, Mr. Watters, Mr. Hayman?

Mr. WATERS. Representative Manzullo, when you say “fallen through the floor,” are you suggesting that Ex-Im is failing in its efforts to achieve the 20 percent?

Mr. MANZULLO. I am talking in terms of transparency, accountability, response. You know I am frustrated today.

Mr. WATERS. Well, I can sympathize with you, sir, and I will tell you that as a small business we also get frustrated on the time it takes to process a deal through the Ex-Im Bank. That is why we are so I think pleased with some of the decisions that Mr. Lambright and his staff have made, not only to form this special committee for small business, this group but also to streamline the processing. That is the most difficult challenge for small business to tolerate with respect to processing an Ex-Im transaction. We just can't afford to nursemaid these transactions.
Mr. MANZULLO. I understand. The problem is that all we have heard is promises and it gets worse. And I tried to hold the Ex-Im Bank accountable at a hearing that we held last April and charged the president, and obviously Mr. Lambright was aware of the situation, to personally look at the documents. They just took it and shoved it right in the face of a committee chairman. Apparently no one is in charge over there. The nature of the answers that we got from Mr. Lambright, he didn’t personally look at the file. So I am going to have to hold a hearing the week of December 5th again. That will be about my sixth or seventh hearing on Ex-Im Bank because they just don’t seem to get it with regard to small businesses. And this time I am going to put them under oath because I am just tired of this organization continuing with the promises.

Chairwoman KELLY. If the gentleman will yield?

Mr. MANZULLO. Of course.

Chairwoman KELLY. Mr. Manzullo, do you want to make that a joint hearing?

Mr. MANZULLO. Absolutely, absolutely. We are going to do that. One of the things that I had noticed, oh, by the way, I am looking for a used Gator, okay, a four by six. One of the things I noticed on the testimony, Mr. Hayman, on page—was your recommendations, on page 3, where it says the five recommendations that you make there.

Mr. HAYMAN. Yes.

Mr. MANZULLO. And the first one is enhanced training of Ex-Im staff. You have the same problems we do.

Mr. HAYMAN. I think we all have the same problem with banks, but this is certainly, if you look at the process of Ex-Im, and I think that all of the gentlemen are aware of the subject, clearly creating a more experienced, knowledgeable group of underwriters would help address the issues that have been mentioned.

Mr. MANZULLO. Do you deal with OPIC also?

Mr. HAYMAN. Yes.

Mr. MANZULLO. Have you had different experience with OPIC in terms of facilitating those loans?

Mr. HAYMAN. I think it is pretty comparable. There are some easy ones that OPIC will move more quickly. The more difficult ones—the volume at OPIC isn’t the same as Ex-Im. Ex-Im has a lot of transactions going through where OPIC is more crafting a transaction.

Mr. MANZULLO. I don’t know if anybody here could be able to answer this question with regard to the dealer finance initiative. Any of you familiar with that?

Mr. SABROSKE. Yes, we have had some limited experience with that. Both applications were turned down which we thought were actually reasonable bets from a credit standpoint. So I think it has a tremendous amount of potential.

Mr. MANZULLO. It is another failure by Ex-Im. If they can turn down John Deere, just think what they are doing to the small businesspeople.

Mr. SABROSKE. The two instances were in Central America. These were not particularly large dealers, but they were well established, had a long term history, we felt. We don’t own the dealers.
These are independent dealers, but they are exclusive dealers and we have had an extensive history with these entities, and we felt that they were fair bets.

Mr. MANZULLO. Mr. Hayman, did you have a comment on that?

Mr. HAYMAN. The dealer finance program was wildly successful or very successful in the 1970s and 1980s, so this is bringing that program back. We have not taken our first transaction in yet, but we are about to. So we will see what the experience is on that. But it is a good program, and we really think it would promote what we are trying to accomplish here.

Mr. MANZULLO. Okay, appreciate that very much.

Chairwoman KELLY. Mr. Manzullo, thank you very much.

Mr. MANZULLO. Thank you, Ms. Kelly.

Chairwoman KELLY. The Chair notes that some members may have additional questions for the panel, which they may wish to submit in writing. So without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

I want to thank my colleagues, Chairman Pryce, and Vice Chairman Biggert, and Chairman Manzullo and all of the others of my colleagues who have been here today. This has been an important informational hearing for all of us. And I especially want to thank all you gentlemen on the panel for sharing time with us this morning. With that, this hearing is adjourned.

[Whereupon, at 12:10 p.m., the joint subcommittees were adjourned.]
APPENDIX

November 10, 2005
Good morning. This is the second hearing this committee has held to evaluate the performance of the Export-Import Bank of the United States. The goal of these oversight hearings is to assess the Bank’s performance and the evolution of trade finance business practices so that we can understand better what kinds of statutory provisions will be needed next year, when the Bank’s charter is up for reauthorization. I commend subcommittee chairmen Pryce and Kelly for conducting this joint oversight hearing and providing Members of the Committee to start expressing their views on what issues the Committee may want to address next year.
As many of you know, I am a strong supporter of free trade and open trading relationships. American companies are the most innovative, flexible, and efficient ones in the world. Finding ways to facilitate their participation in global commerce contributes to economic growth and job creation in this country. It also fosters innovation and can contribute substantially to reduction of the American trade deficit. For these reasons, I support the work that the Bank does to promote economic growth and jobs associated with the export sector. I also support the Bank’s strategic efforts to support trading relationships in countries around the world, particularly Africa and Latin America.
Supporting the Bank’s mission also means that Members of this Committee need to monitor closely whether the execution and implementation of the Bank’s charter is as efficient and effective as possible. If we are going to direct taxpayer dollars to supporting the export sector of our economy and related jobs, we need to be sure that the Bank’s clients in fact are able to access the Bank’s products and services. At the same time, we need to be cautious not to expose taxpayers to excessive risk. Overly lenient credit standards can create inappropriate crutches to weak companies even as overly strict credit standards can retard export-led growth.

This is a delicate balancing act that we must face each time we reauthorize the bank: determining what the risk profile should be for the Bank’s activities. The current statutory language requires that the Bank secure a “reasonable assurance of repayment” before engaging in any transaction using taxpayer funds. Interpreting that phrase is not easy.
Some witnesses today will tell Committee Members that the phrase has been interpreted inappropriately to mean that the Bank will assume no risk of loss at all. It is true that the private sector is able to absorb more risks in the trade finance business than in the past, due to modern hedging techniques. However, witnesses will tell the Committee that consolidation in the banking business means that the only banks willing and able to take on trade finance risks (with or without support of the ExIm Bank) are large banks that are not well-equipped to respond to the needs of small business exporters.
As a supporter of the Bank, I am troubled by the steady stream of complaints and concerns the Committee has been receiving regarding the Bank’s business practices and management. The Bank has never met its statutory requirement of devoting 20 percent of its balance sheet to support small business exporters. Concerns exist about the transparency of the Bank’s processes and standards for considering and approving transactions, including the process for determining whether an adverse economic impact would result from a given transaction. Concerns exist about governance processes at the Bank. Questions have been raised about the Bank’s ability and desire to support transactions to Sub-Saharan Africa.

I look forward to working with my fellow Committee Members and the Bank to find good solutions to these difficult issues. This hearing provides a good first step to airing some of the issues that will require the attention of the Committee as we head towards consideration next year of reauthorizing the Bank’s charter.

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Opening Statement of U.S. Representative Judy Biggert (R-IL)
Financial Services Joint DIMP and O&I Subcommittees
Hearing on "Oversight of the Export-Import Bank of the United States"
Thursday, November 10, 2005
10:00 a.m.

Thank you, Chairman Pryce and Chairman Kelly for holding this joint hearing today.

Four years ago, this Subcommittee scheduled to markup the previous U.S. Export-Import Bank reauthorization bill at 9:30 a.m. on Tuesday, September 11th. I remember sitting in my office, preparing to go to mark-up, when we saw the terrible images and evacuated the building.

Needless to say, that meeting was abruptly postponed, but we rescheduled and held a markup the following week. In so doing, we proved that in the wake of terrorist attacks, we would not isolate ourselves from the world but instead take bold steps to promote international trade, increase U.S. exports, and strengthen our economy. Our Committee united and produced legislation to strengthen the functions of the Bank, directing the Bank to increase its assistance to small businesses and help U.S. businesses to maintain a competitive edge in trade and commerce around the world.

The Exlm Bank has been through a lot of changes since that time -- in leadership and through reorganization. So today, I am hopeful that the dust has settled, the on-line system can be up and running and that the staff can get back full time to the business they know best, and that is facilitating U.S. exports.

Let’s face it, in our increasingly competitive global environment, we as policy makers have to ensure that we provide every advantage – and remove every disadvantage – for our companies to compete successfully abroad. That means all of our government policies must work together – from tax to foreign assistance, trade, regulatory and export financing.

Make no mistake: Ex-lm is one of the best tools we have to ensure that our businesses are allowed to beat the competition abroad.

In short, we’re here today to make sure that we win the sale. We don’t want to lose the sale because another country offered better financing. We don’t want to lose the sale because another country was more aggressive in encouraging small businesses to compete abroad. And we don’t want to lose the sale because our businesses can’t even access an export financing application on-line.

So I want to thank the witnesses for sharing their expertise with us today, and I look forward to ensuring that this next reauthorization puts in place everything you need from us to win the sale abroad.

I yield back.
I want to start by thanking the Committee for holding this important hearing today.

The EX-IM Bank supports U.S. exports and American jobs as the nation's official export credit agency.

It is charged with financing and promoting exports of U.S. goods and services.

In doing so, EX-IM also assumes commercial and political risk.

It also levels the playing field for U.S. businesses seeking to enter challenging markets by providing financing for U.S. exports that is not available in the private market.

However, it does not compete against private lenders.

The Ex-Im Bank was created in 1934 and established under its present law in 1945 to aid in financing and to facilitate U.S. exports.

Today, exports are seen as vital for sustaining U.S. economic growth.

The U.S. economy is increasingly internationalized, and exports form a larger share of the gross national product than in the 1930s.

Globally, trading and financial systems are more interdependent and international competition is more intense.

EX-IM Bank's financing annually sustains an estimated 200,000 jobs directly among exporters and suppliers, and another one million jobs indirectly among sub-suppliers.

But EX-IM is not only helping the U.S. stay competitive, but it is helping New York City and my district.

Overall, EX-IM has provided loans and guarantees to 3 suppliers in my district totaling over $2.8 million and dozens of small businesses throughout New York State.

Companies such as Namco Machinery in Maspeth, and Warner Meat Distributing Company in the Bronx have benefited from working with the EX-IM bank.

With EX-IM's help, these and other companies in New York have exported their products around the world.

I look forward to hearing our witnesses as we work towards reauthorization of this important institution.
Hon. Sue W. Kelly
Opening Statement
Oversight for the Export-Import Bank of the United States
Subcommittee on Domestic and International Monetary Policy,
Trade and Technology And
Subcommittee on Oversight and Investigations

The Export-Import Bank of the United States was designed to allow American businesses to export goods on an open playing field.

Congress created it during the Depression to force open markets for factories that would otherwise close, and to keep jobs in the US that would otherwise be lost.

From then until now EX-IM’s original role is important, BUT it has the NEW responsibility to make sure America’s small businesses, which are the center of the American economy, have the same access to world markets through EX-IM Bank.

Last time EX-IM testified before me was with Chairman Manzullo on the Small Business Committee.

We were extremely disappointed to hear that the percentage of small business loans made by the banks still had not reached the required statutory limit of 20%.

That hearing was in April of this year.

Not only did EX-IM bank not meet this requirement, BUT the number of small business loans had fallen 2.5% between 2003 and 2004 – AND this even as EX-IM’s total business soared.

EX-IM promised to do better – and we told EX-IM that we expected better and that we would be watching.

I want to thank Chairman Pryce for giving me the opportunity to hold his hearing with her subcommittee – that helps follow up on mine and Chairman Manzullo’s concerns regarding EX-IM Bank.

Unfortunately, the results for 2005 are in and EX-IM is STILL not in compliance with the law. I’m hopeful that EX-IM will do better.

It’s a problem that EX-IM has not complied with law. The loan program for small business at EX-IM is lacking.

I’m aware of suggestions that Congress should take into consideration the larger loans provided to big business from EX-IM eventually benefit small businesses. And, that Congress should be taking this fact into consideration when determining whether EX-IM has met the 20% threshold.
HOWEVER – I was in Congress when Congress passed that law and I’m well aware of the intent behind the 20% and frankly – allowing such consideration is not within the original intent of Congress.

This is not my only concern. I’m also interested in learning about EX-IM’s current initiatives regarding online access and Relationship Managers – especially for small businesses. I look forward to hearing the testimony today and addressing my concerns in some follow-up questions.

Thank you, Mr. Chairman.
Opening Statement
Congresswoman Barbara Lee
DIMP/O&I Export-Import Bank Hearing
November 10, 2005

Madame Chairwoman, let me first begin by thanking you and the Ranking Member for organizing this timely and important hearing as we begin laying the groundwork to re-authorize the Charter for the Export-Import bank.

I believe that it is critical for Congress and this committee to conduct these oversight hearings on a periodic basis in order to maintain our system of checks and balances with the executive branch. Far too often in the last five years we have shirked our responsibility as a body to conduct proper oversight on a range of issues important to the American public, which is again why I appreciate the bipartisan nature of this hearing.

Four years ago we came together in a bipartisan manner to review and re-authorize the charter of the Export-Import bank, and to assess its performance in accomplishing its mission.

We found that the bank was not focusing enough on reaching out to small businesses, particularly minority and women owned businesses, and that the Ex-Im was not doing enough work in Sub-Saharan Africa.

In re-authorizing Ex-Im’s current charter we required that the bank provide 20 percent of its loans (measured in dollar terms) to small businesses. Since 2002, the bank has yet to achieve this requirement.

We also required Ex-Im to expand its outreach to minority and women owned businesses. Although the bank claims that transactions in this area have increased by 36 percent since 2005, these transactions still represent less than 10 percent of Ex-Im’s total authorizations.

Meanwhile since 2002 the bank’s total number of transactions in Sub-Saharan Africa and the overall dollar value of those transactions have declined.

Clearly there is some sort of disconnect between what Congress would like the Export-Import bank to focus on, and what it is actually doing. I hope that the testimony today may shed some light on these two issues.
Opening Statement
Rep. Carolyn Maloney
DIMP/ O&I Subcommittees
"Oversight of the Ex-im Bank"
November 10, 2005

Thank you, Chairman Pryce.

I appreciate your convening this hearing so that we can prepare for reauthorization of the Bank in 2006.

I am especially pleased to welcome Mr. Lambright, who has done a great job in his new position.

The Bank has helped many of my constituents and New York residents with loan and guarantee disbursements, insurance shipments, and working capital approvals, to the tune of over three Billion dollars in export value in my district in the past year alone. And I fully support its mission.

Indeed, I hope that the Bank can expand its activity, so as to allow U.S. companies to go more aggressively into new markets, and increase its activity particularly in the small business arena where it has not lived up to its Congressional mandate that 20 percent of its loans go to small businesses.

I would like to hear from the witnesses what Exlm has done to address the small business issue and how those efforts have paid off, from their point of view.

Also, I am concerned that the present corporate governance structure does not incorporate some of the checks and balances that are common to private sector corporations and represent best practices in this area.

For example, I would like to hear from the witnesses on whether they think that applying parts of Sarbanes-Oxley to the Bank would be an effective tool to increase transparency and improve corporate governance.

I look forward to hearing from the witnesses on these issues.
Statement of the Honorable Donald A. Manzullo (IL-16th)

House Financial Services Committee
Subcommittees On
Domestic and International Monetary Policy, Trade, and Technology
and Oversight and Investigation

“Oversight of the Export-Import Bank of the United States”

November 10, 2005 10:00AM  Room 2128 Rayburn House Office Building

Chairwomen Pryce and Kelly, and Ranking Members Maloney and Gutierrez, good morning and thank you for this opportunity to discuss important issues regarding the Export-Import Bank of the United States. As you know, ExIm plays a vital role in supporting American exports and American jobs. I was proud to support ExIm during previous reauthorization debates. ExIm is the primary, and in many cases the only, source of assistance to small businesses that must overcome the challenges of globalization in order to survive. Small businesses often find themselves trying to open new export markets in the face of unfair competition and foreign government subsidies. Foreign governments pursue aggressive programs to subsidize homegrown companies, and they play to win. Accordingly, the need for the ExIm Bank is essential for the survival of American small businesses in the global market.
ExIm’s programs for credit insurance, working capital, and loan guarantees to U.S. exporters play an essential role in maintaining America’s competitive edge.

Against that background, I am pleased that this Committee has taken note of some disturbing trends regarding ExIm and one category of its core client base -- American small businesses. In 2002, as part of ExIm’s reauthorization, Congress imposed on ExIm a small business set-aside of 20 percent. But ExIm failed to meet this statutory mandate, peaking at 19.7 percent in 2003 and dropping to a mere 16.7 percent in 2004. During the 2002 reauthorization debate, then ExIm Chairman Merrill emphasized “the mandate of the Export-Import Bank is to sustain jobs here in the United States by helping to finance U.S. exports that would not take place without us.” Chairman Merrill also said: “Our motto is jobs through exports; and our mantra, of course, is jobs, jobs, jobs.”
On April 6, 2005, I convened a hearing before the Small Business Committee, which I chair, to explore why the bank was not addressing these mandates. I asked former Chairman Phillip Merrill to testify. The findings we uncovered at that hearing were very disturbing. My staff has set forth those findings in a detailed Memorandum, and I would appreciate the opportunity to enter our Committee Memorandum into the record.

I sincerely hope that the new management of the Bank will address our concerns and take to heart the issues we uncovered. While we acknowledge some worthy efforts to improve and streamline ExIm’s processes, and to make it user-friendlier to small business, we believe these efforts often remain frustrated by bureaucratic inertia and a pervasive culture within the Bank that regrettably at times fosters adversarial relationships between ExIm and its customers and partners.

Before, and after, the April 6th hearing, the Small Business Committee has had stream of Bank customers, employees and stakeholders come through my office. And the concerns they have outlined are uniform and consistent. Let me outline some of these issues:
There are significant problems at the Bank. It is, and has always been, intended to be the “lender of last resort.” In that sense, it differs from a commercial bank. Rather, it is, and must embrace, the role of an export credit agency. Perhaps a change of the ExIm’s name to the “U.S. Export Credit Agency” would get this point across to the Bank’s staff and management.

In my opinion, current management views its role as akin to a for-profit commercial bank. For example, we have heard repeatedly that the Bank imposes credit and underwriting requirements that are as harsh and as stringent as anything available in the private sector. Its products, as well as the terms and conditions it imposes, appear to many to be “lawyer-driven” to maximize the bank’s profits and minimize its business and financial risks. Yes, taxpayers deserve to have a reasonable reassurance of repayment. But this should not translate into an absolute guarantee of repayment. Rather, ExIm should focus on enabling US exports, especially for small business. In so doing, its mission is to assume more risk than a private bank. Why do we need government-subsidized agency that does nothing but duplicate existing private sector products and services?
What purpose does the bank serve under these circumstances? As long as the bank has a reasonable assurance of repayment, it should move heaven and earth to provide the financial products and services necessary to drive US exports and support American small businesses.

Examples of these concerns can be seen in ExIm’s handling of the current master guarantee agreement and the dealer financing initiative. It is my understanding that the banks which partner with ExIm have reluctantly agreed to the new revisions to the master guarantee agreement but they think it will not do too much for small business. The dealer financing initiative is also a far cry from the original vision of the effort to now only focus on established large companies with a dealer network, such as Caterpillar. Now, I want Caterpillar to export more from the U.S. but we were trying to help small exporters go to the next level in international trade by including dealers and distributors of their products overseas.

Second, in my opinion, the Bank has a seriously flawed internal structure. Applications are disjointed, standards are applied haphazardly, and there is little real commitment to the special needs of small businesses, particularly in medium-term credit. To fix this problem, the bank needs to make structural changes to the back end of its systems.
It needs to develop a seamless process that facilitates and expedites applications with transparency and dispatch. Credit reviews, terms and conditions, and a streamlined process to submit applications must be developed that meet the business needs of small businesses.

Also, I have concerns about the new small business effort at the Bank. The head of the “small business” office does not report directly to the President of the Bank or the board of directors, unlike in the past. He is two layers away from the top. He does not have the power to intervene directly in individual transactions in the process to be an advocate. The office is more of an outreach or public relations operation. Saying that 10 percent of the entire staff at ExIm will work on small business does not mean that all these staff members are dedicated 100 percent of the time to small business. So, there’s a little smoke and mirrors there.

I’m not arguing that ExIm discard prudent business standards. I’m simply saying that the resources and realities of small businesses do not match those of large multinational corporations, and ExIm should recognize this fact when it creates its products and manages its customers.
One final note -- we know that China poses an historic challenge to the United States in terms of trade. Recent statistics show that the U.S. is running the largest trade deficit on earth with China. Last year, U.S. imports from China were $196.7 billion, representing an increase of 29 percent, and exceeded our exports to China by five times. Solving this trade deficit is of overriding significance. ExIm should play an integral part in addressing this imbalance.

I urge ExIm to consider the following key reforms. Otherwise, I’ll be offering amendments to Ex-Im reauthorization next year to correct these problems.

- First, Ex-Im needs timely and effective roll out of programs designed specifically for small businesses.

- Second, Ex-Im needs to create an effective small business advocacy office modeled after the one at the Overseas Private Investment Corporation that is able to intercede in individual transactions with a direct reporting line to the Board of Directors at the Bank.
Third, Ex-Im needs new marketing initiatives to get more banks to partner with ExIm to offer export financing.

Finally, Ex-Im needs to increase transparency in all of its processes, and develop internal procedures that are pragmatic, timely and squarely address challenges faced by American exporters and those who wish to purchase from American companies.

Chairwomen Pryce and Kelly, thank you for this opportunity to express my concerns.
Congress of the United States
House of Representatives
109th Congress
Committee on Small Business
2360 Rayburn House Office Building
Washington, DC 20515-4015
May 5, 2005

Memorandum

Recent Oversight of the Exim Bank: Summary of Issues and Findings

Pursuant to Clause X (3)(l) of the House Rules for the 109th Congress, the House Small Business Committee (HSBC) has the special oversight responsibility to “study and investigate on a continuing basis the problems of all types of small business.” Pursuant to this obligation, the HSBC recently undertook oversight activities over the Export-Import Bank of the United States (ExIm Bank or Bank). Specifically, the HSBC undertook a hearing on April 6, 2005 entitled “What has ExIm Bank Done for Small Business Lately?”

The Committee’s hearing addressed ExIm’s compliance with statutory requirements concerning support for American small business. Witnesses at the April 6 hearing were: the Hon. Philip Merrill, President and Chairman, Export-Import Bank of the United States, Washington, D.C.; Mr. Michael

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1 The April 6, 2005 hearing built upon previous Congressional oversight activities, such as the Hearing before the Subcommittee on Domestic and International Monetary Policy, Trade and Technology of the Committee on Financial Services of the House of Representatives: Oversight of the Export-Import Bank of the United States (May 6, 2004). The Bank’s commitment to small business has been an issue since 1975. See generally, CONGRESSIONAL RESEARCH SERVICE, EXPORT-IMPORT BANK: LEGISLATIVE MANDATE FOR SMALL BUSINESS (2005). In addition to Congressional activity, the statute generally mandated Export-Import Bank Advisory Committee made recommendations to the Bank’s commitment to small businesses in December 2002 and September 2003. Much of this memo draws upon the work of Jim Memmel and Barry Posner.

2 An expeditious draft of the hearing was prepared and published shortly after the hearing and is available from the Committee staff. Hearing Before the Committee on Small Business of the House of Representatives: What has Ex-Im Bank done for Small Business Lately? (Committee Draft April 6, 2005) (hereinafter “Transcript”).
Vaden, CEO, Rutland Plastics Technologies, Inc., Pineville, NC; and Ms. Victoria Hadfield, President, SEMI North America, Washington, DC.

The hearing followed fact-finding by the Committee staff that included, *inter alia*, meetings with the Small Business Exporters Association, Bankers Association for Finance and Trade, and ExIm officials. Subsequent to the hearing, the Chairman and committee staff met with ExIm officials and other interested parties concerning the Bank's commitment to small businesses.

Based on its investigation and hearing, HSBC has determined that ExIm violates its statutory obligation to support American small business. Equally troubling is our conclusion that ExIm's current management structure violates various federal statutes by enabling the Chairman to control the ExIm Board's agenda and thus giving that person *de facto* control over approval applications that ExIm will approve.

**ExIm Bank Statutory Requirements to Consider Small Businesses**

"The policy of the United States is to foster expansion of exports of manufactured goods ... thereby contributing to the promotion and maintenance of high levels of employment, ... and increased development of the productive resources of the United States." To meet this objective, Congress created ExIm as a government-chartered corporation and an

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3 Rutland Plastics Technologies manufactures plastisol and polyurethanes for commercial applications and is represented by the Hon. Sue Myrick (R-NC).
4 SEMI North America represents the North American interests (primarily American) of the semiconductor equipment and materials industry. Ms. Hadfield testified about Semiconductor Manufacturing International Corporation's (SMIC) loan application that would result in $770 million in United States' semiconductor manufacturing equipment exports by Applied Materials, Inc. (Applied), a Santa Clara, CA-based manufacturer. Representatives of SMIC attended the hearing but did not testify.
5 Fear of bank retaliation hampered, and continues to hamper, HSBC's efforts to uncover problems with Bank operations in relation to assisting small businesses. Committee staffer Jim Mecman attended the ExIm's conference the week after the April 6, 2005 hearing and confirmed the fear of ExIm retaliation with many attendees who did not wish to be quoted on the record.
6 If the Chairman does not place an application on the agenda for Board review, the Board can neither approve nor disapprove the application. Thus, the Chairman has *de facto* control over the review process.
7 12 U.S.C. § 635(b)(1)(A). In one interview conducted by HSBC staff, a senior official at the Bank noted that the core mission of the Bank, which is to serve as an export credit agency of last resort, had apparently been discarded by ExIm's existing management team. In his view, the existing management team had embraced a commercial bank "P&L" philosophy in terms of risk aversion. As proof, he noted that the 6th largest bank of a major EU country had incurred $1.9M Euro in outstanding loans to a major developing country, whereas the lead United States export bank had incurred a total loan portfolio of $350M to the same locale. This locale has significant export potential for US exporters but is woefully underrepresented as a result of ExIm's risk averse "commercial bank" culture.
agency of the United States. Its primary mission is to "aid in financing and to facilitate exports of goods and services, ... and in so doing to contribute to the employment of United States workers." In carrying out its mission, Congress directed ExIm to encourage participation of small business in international commerce as part of a broader federal government effort to protect the interests of small business. To ensure full participation by small businesses, Congress mandated that ExIm undertake the following:

1. Cooperate with Commerce Department and Small Business Administration in order to make small businesses aware of medium-term financing for exports;
2. Set rates, terms, and conditions of its loans for its small business programs to be fully competitive with those made by foreign countries;
3. Develop mechanisms to ensure fair consideration is given to applications by small businesses;
4. Designate an officer answerable to the President of ExIm whose responsibility is to address all Bank matters concerning small businesses;
5. Have at least one Director of the Bank's Board be from the small business community and represent the interests of small business;
6. Appoint an advisory committee that shall have at least three members who are representatives of the small business community, and

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8 Id. at § 635(a)(1).
9 Id. It is important to note that, as explained by one senior Bank employee, ExIm is not intended to serve as a commercial bank, but as an export engine for American business. In this capacity, ExIm’s charter set by Congress is to serve as the lender of last resort covering those areas of risk that traditional banks do not cover.
10 Id. at § 635(b)(1)(E).
12 Id. at § 635(a)(2)(B).
13 Id. at § 635(b)(1)(B).
14 Id. at § 635(b)(1)(E)(ii).
15 Id. at § 635(b)(1)(E)(ii)(I). Such activities include outreach to the small business community about ExIm's programs Id. at § 635(b)(1)(E)(ii)(II). This individual also acts as ExIm's liaison with the Small Business Administration and any other federal agency whose activities affect small business. Id.
16 Id. at § 635(a)(8)(B). The President of the United States nominates all Board members subject to confirmation by the Senate. Thus, it is the President of the United States, and not the Bank's officers, that must ensure one Director represents the interests of small business. Congress mandated that this Director ensure that ExIm carry out its responsibilities to small businesses. Id. at § 635(b)(1)(E)(iv).
7. Utilize not less than 20 percent of its annual loan authority to finance exports of small businesses as that term is defined by § 3 of the Small Business Act.18

The Bank does not Satisfy its Statutory Mandate to further the Interests of Small Business

HSBC's investigation and hearing revealed the following failures of ExIm to comply with its statutory mandate:

1. Senior management of ExIm does not encourage or support small business;
2. Bank programs are woefully out of touch with small business needs and concerns as demonstrated by the Foreign Dealer Insurance and Fast Track Working Capital programs; and
3. No member of the ExIm Board has been nominated from the small business community and it does not appear that Chairman Merrill has prompted the President to rectify the situation.

17 Id. at § 635a(d)(7)(A). Although the President of the United States makes recommendations on members of the advisory committee, the responsibility for selecting members ultimately rests with the Bank's Board of Directors. Id. at § 635a(d)(1)(A).
18 Id. at § 635(b)(1)(E)(v). Although federal agencies have the authority to establish different definitions of small business for purposes of § 3 of the Small Business Act, Committee staff is not aware of any regulations promulgated by the Bank that exercised such authority.
19 We had initially understood that Board Member Senator Max Cleland would assume this role. However, in a meeting with Senator Cleland on April 28, 2005, Senator Cleland informed HSBC that while he was receptive to assuming such a role, in reality there were no resources, staff or other support to actually take on this work. In terms of our legal analysis, the failure of the President specifically to nominate a small business director must be addressed through amendments to the Bank's organic act. At the April 6 hearing, Mr. Merrill testified about this as follows: Chairman MANZULLO: “Max Cleland is a board member, is that correct?” Mr. MERRILL: “Yes, he is.” Chairman MANZULLO: “… he has been designated by you as the small business person on the board, is that correct?” Mr. MERRILL: “That is correct.” Transcript at 20. One possible change would be that if the President does not nominate a small business member within a specific period after confirmation of the Chairman by the Senate, the Chairman shall designate one of the existing members to represent the interests of small business until the President of the United States nominates a small business individual. Another possible statutory change to address the issue could prohibit the Board from having a quorum until such individual has been nominated and confirmed by the Senate. This has the advantage of utilizing large businesses to pressure the President of the United States to take action to benefit small businesses.
In testing whether ExIm is truly committed to advancing the interests of small businesses, the Committee examined two programs as "litmus tests," the Foreign Dealer Insurance (FDI) and Fast Track Working Capital programs (FTWC). Rather than solely relying on the hearing record, Committee staff attended the annual ExIm conference on April 14-15, 2005 in Washington, D.C. During the conference, Committee staff spoke with members of the Board, professional staff of the Bank, and executives from the private sector that utilize ExIm financial products.

Both private sector stakeholders and Bank employees were fully supportive of the HSBC’s effort to bring order and transparency to the Bank's internal operating procedures. This support also included strengthening the role of the Board of Directors in the management of ExIm's activities. In addition, attendees noted that the Bank's legal staff has taken what was widely perceived as too large a role in the Bank's operation thereby hindering ExIm's ability to meet its obligations to assist small businesses. The intercession of Bank legal personnel appeared particularly problematic in the delays and final issuance of "guidelines" for the FDI Program which, as discussed in more detail below, were uniformly derided by the private sector participants as an unsuitable product for small businesses.

A. Website Design

ExIm’s website, a logical place for small business owners to look for information about ExIm, is about as transparent as the Bank's operations. Rather than having an identifiable place on its home page for discovering information, a small business owner would have to select the "Shortcut" link. It is only through that link does one find information about ExIm's products and policies. If ExIm wants to promote its mission of assisting small businesses to export, one would expect that ExIm have a website that is more user-friendly to small businesses.20

B. The Foreign Dealer Insurance Program

One of the lynchpins of ExIm’s outreach to small businesses is the FDI program, a product designed to assist small businesses in setting up dealer/distributor networks overseas to enhance their chances at becoming

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20 To be fair, once someone has found the link for information, the website does provide adequate identification of where forms and more information can be found through appropriate hypertext links.
an exporting success story. Obtaining a foreign dealer/distributorship network is a particularly difficult proposition for many small businesses.

At our April 6, 2005 hearing, significant issues arose regarding the FDI program. When questioned by Congresswoman Sue Kelly, Mr. Merrill admitted ignorance to the details and why guidelines had not been issued for small businesses.

Ms. Kelly: “…You have no guidelines yet for the dealer/distributor financing program. Why is that?”
Mr. Merrill: “I heard about that just a few minutes ago while we had the waiting period here, I called back to find out. I mean I just heard about that, I never heard of guidelines. We don’t have any guidelines. We don’t need any guidelines. The program is open.” Transcript at 14.

When asked how many people had availed themselves of the FDI program Mr. Merrill testified:

Mrs. Kelly: “How many people have taken advantage of that?”
Mr. Merrill: “I don’t know.”

* * *

Mrs. Kelly: “My question is whether or not anyone had taken advantage of the dealer/distributor financing program.”

Mr. Merrill: “I genuinely do not know the answer to that question.” Transcript at 15.

It took a member of his staff, Jeff Miller, to give Congresswoman Kelly the answer - zero.

Mr. Miller: “No one has taken advantage as of yet”. Transcript at 15.

When Congressman Bradley inquired into these programs Mr. Merrill stated as follows:

Mr. Bradley: “…Mr. Merrill I have a couple of questions…Over the past year or so, the board of directors has approved several new financing programs which have been aimed at small businesses, lease financing,
dealer financing, but the Bank’s staff seemed to have dropped the ball from what we have heard in implementing what the board has approved. When will these board approved initiatives actually be implemented, because they would help in increasing small business financing?"

Mr. Merrill: “I am listening to two representatives of Congress saying they received complaints, which I have not received. I take what the Chairman and you, sir, say seriously. We will have to look into it. I wish I had been aware of this even a day or two ago.” Transcript at 18.

At the subsequent ExIm conference, ExIm staff held a briefing to introduce the modified FDI program. Rather than having insurance professionals or other appropriate staff, the Bank allowed the legal staff to explain the program and answer questions.

The fact that the question and answer period lasted longer than the explanation of the program showed us that there is significant interest by the business community in this program. It also showed us an absence of preparation by ExIm staff in drafting materials that were responsive to the needs of the business community in general and the small business community in particular. In certain instances, legal staff did not have answers to questions that should have been considered in the development of the product and would have to get back to attendees on the answers.

It appears that the legal staff rather than the finance professionals at the Bank were primarily involved in the development of FDI. According to legal staff, no demand analysis or any other market study was done to see if the modified FDI was useful to the business community and, in particular, small businesses, as required by statute. Essentially, the legal staff asserted that the modified FDI was introduced to test the market. Individuals examining the product, including the person who originated the concept, declared that the product was essentially useless, especially for small businesses.

In addition, the terms rolled out by ExIm for the FDI program do not appear to be commercially acceptable or useful to the small business community.

21 More information on the program can be found at http://www.exim.gov/products/insurance/dealer.html
22 In this regard, Jim Meenan reported "I just received the call ... on this subject and was advised that the subject package [i.e.- materials only recently provided by the Bank purporting to set forth long-awaited procedures for the Foreign Dealer Insurance Policy] that was just released is no different from what the
As a result, when examining the FDI as a “litmus test” HSBC concludes that ExIm has failed to address the needs of small businesses as required by statute.

C. Fast Track Working Capital Program

The second “litmus test” that we examined was the FTWC program. At the ExIm conference, it was confirmed that Jeff Miller would be the person in charge to move these enhancements to the FTWC Program.

At the April 6 hearing, Chairman Merrill was closely questioned by Congresswoman Sue Kelly about why this program was taking so long to roll out. He stated that it was a source of frustration and that the delay was occasioned by disagreements amongst the banking community over the specific terms of the FTWC program. Our contacts within the small business community reported to us that the delay was occasioned by the bank’s legal department, who were taking months to review and evaluate the program.

At the ExIm conference a week later, Mr. Miller advised HSBC staff that the Bank would address the matter of completing the guidelines for FTWC program after the Annual Meeting. Our understanding is that the Bank now anticipates further delays in rolling out the guidelines for the FTWC program.

We believe the handling of the FTWC program stands in stark contrast to the repeated assurances of Bank staff and its Chairman regarding the Bank’s commitment to small businesses.

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Bank floated last June 2004. It is still lacking in three major areas: medium term credit standards - too tight, 1 Yr. flip is defective in 2 of 3 major points that would foster rental/leasing small business participation, and does not permit inventory being carried for the needed 270 days. Similar comments on the problems with the subject package have been received from other private sources, as well. It seems we need to push to have the Bank make use of the private sector advice it receives.” E-mail dated April 14, 2005.

23 Transcript at 14-15.
24 Transcript at 14.
25 Jim Meenan reported this understanding. During the hearing, Mr. Merrill would not commit to a time certain for Fast Track. He again alleged that the delay was occasioned by the outside Banks, not ExIm. He appeared to repeatedly confuse the FDI program with Fast Track in this regard. Transcript at 45.
26 Transcript at 45 for several examples.
The Current Structure of Bank Governance Violates Various Federal Statutes

One major focus of our April 6, 2005 hearing involved the failure of the Bank to consider an application for export financing pursuant to 12 U.S.C. § 635j(a). The failure of ExIm to consider that specific filing raises troubling issues regarding the governance of the Bank with its organic act, and the Government in Sunshine Act.

ExIm’s handling of this application reflected its current practices that appear to represent violations of the procedures set forth in its organic act for review of applications. These procedural violations occur because the Chairman of ExIm has eviscerated the Board’s ability to consider loan applications through absolute control of the Board’s agenda.

The status of the SMIC application is a matter of puzzlement; especially it would seem, for the Bank. ExIm’s own Chairman claimed to lack knowledge of the status of the Application. Even Chairman Merrill’s

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27 A more detailed chronology of the SMIC application can be found in a Letter to Chairman Merrill from SMIC, Attachment A. Transcript at 77.
28 5 U.S.C. Sec 552b.
29 We were particularly interested to note that Mr. Merrill had not undertaken a detailed review of the merits of the application prior to blocking it from having an up-or-down Board, and testified as follows: Chairman Manzullo: “Have you seen the economic analysis provided by your staff? Have you had a chance to read it?” Mr. Merrill: “I have not personally looked at that economic analysis except in a glancing way.” Transcript at 24. Instead, he relied upon an outside study paid for by Micron and prepared by ex-OMB director James Miller. According to Merrill’s own description, Mr. Miller is “...an old friend of mine. I supported him when he ran for public office and I supported his wife when she ran for public office.” Transcript at 26. We note that by relying on the study prepared by CapAnalysis LLC (the “Miller study”) submitted and paid for by Micron as part of its comments to the 23 December 2005 Federal Register notice (69 FR 76945), the basis for Chairman Merrill’s view on economic impact are contrary to ExIm’s policy guidelines in that they are:

- Not fair, consistent, and transparent;
- Only one part of an overall set of information that would be provided to the ExIm Board of Directors; and
- Not performed according to established procedures by ExIm staff as outlined in the legislation and the procedures.


Making a decision by refusing to place a transaction on ExIm’s agenda based on the conclusions of an advocacy study prepared by “an old friend”, while examining ExIm’s own staff’s analysis only “in a glancing way” is decidedly not fair, consistent, nor publicly transparent.

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senior staff were unsure as to the “pending” or discharged status of the application. If a large business cannot obtain, after intervention by a Congressional committee, a straight answer on the status of an application, one can only imagine the problems that a small business faces in navigating the nontransparent procedures of the Bank in an effort to obtain approval of an application.

Irrespective of the status of the application, one thing is abundantly clear – Chairman Merrill absolutely and completely controls the decision of whether an application (and specifically the SMIC application) should be taken to a vote before the full Board. In so doing, he has accreted to himself the power that Congress delegated to the Board to make decisions on applications by tightly controlling the Bank’s agenda.

This appears to violate the organic act creating the Bank, the bylaws of the Bank, and the Government in Sunshine Act.

The Record Shows that Chairman Merrill Controls the Bank’s Agenda With Absolute Control

As noted, at the hearing it was abundantly evident that Chairman Merrill controls the Agenda of the Board with absolute authority.

30 In his testimony, Chairman Merrill and senior officials at the Bank appeared confused about the precise status of the SMIC application. Compare testimony of Mr. Miller (stating that application has not been withdrawn) and testimony of Mr. Merrill (denying knowledge of application status), Transcript at 32, with testimony of Mr. Saba (claiming that SMIC will be given denial letter), Transcript at 35. For further support about the Bank’s confusion over the status of the SMIC application, see Letter from Chairman Merrill to Chairman Mansuillo (March 21, 2005) [reciting SMIC’s confusion about the status of the application]. There are three possible conclusions that can be drawn from the Exim response to the application. If the application was withdrawn, no denial need be issued. If the application was not withdrawn, is the Bank going to render a decision on the application as it now stands? Or will the Bank allow the applicant to supplement the application?

31 Mr. Saba testified that Mr. Merrill ran the Bank this way as a matter of historic powers as the Bank’s chairman, Transcript at 33.

32 Our April 28, 2005 interview with Senator Cleland was particularly instructive in this regard. Senator Cleland noted that the Bank was structurally “not a horse, but a camel” i.e. a hybrid organization that was neither entirely a private enterprise nor a public agency; however, in any event, it was “Phil Merrill’s Bank” and he ran it in whatever fashion he deemed appropriate. These views were reaffirmed in our May 4, 2005 interview with Director Grandmaison.

33 Chairman Merrill stated: “If you are asking does the buck stop here, the buck stops here” Id. at 30. Historical practice was that the Chairman controlled the agenda but only after consultation with other board members. Under Chairman Merrill, other Board members are kept in the dark about the direction of the Bank and have little or no input to the Chairman about the applications that they would like to see brought up for Board consideration. In adopting this practice, HSBC believes that the Chairman has undermined
Mr. Merrill's views and management procedures appear on their face to contradict ExIm's organic act. For example, one of the obligations of ExIm is to ensure that small businesses benefit from the Bank's activity. This includes ensuring that ExIm uses at least 20 percent of its authorizations for small business exporters. If Mr. Merrill controls the agenda without any recourse by the Board members, Mr. Merrill could ensure that only large businesses receive approval of applications by the Board.

Control of the agenda in this manner clearly violates the organic act of ExIm. Congress could not have established a process by which the head of a collegial body agency can obliterate the will of Congress.

Furthermore, ExIm is an agency of the federal government. As such, the operations of ExIm Bank are controlled not only by its organic act but also by the Government in Sunshine Act because the Bank is a collegial body composed of two or more members, a majority of which are appointed by the President. In fact, Chairman Merrill acknowledged in his testimony that the Government in Sunshine Act applied to meetings of ExIm's Board.

Congress enacted the Government in Sunshine Act to ensure that behind-the-scenes machinations (as apparently occurred in consideration of the SMIC application) occurred in broad daylight. Any covered agency is required to "jointly conduct or dispose of agency business other than in accordance with this section." The organic act of the Bank requires that the Board make determinations on export financing applications. Taken together, these two statutes require that the Board conduct business on

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decades of actual custom that did not necessitate putting explicitly in law what implicitly or practically happens on a daily basis in the operation of the Bank. As a further noted, the change in Bank procedure did not result from any change in the bylaws of the Bank or statute. As an agency of the federal government, one can argue that changes in agency practice that affect outside parties must be undertaken pursuant to notice and comment rulemaking mandated by the Administrative Procedure Act, 5 U.S.C. § 553. Cf. Paralyzed Veterans of America v. D.C. Arena, LLP, 117 F.3d 579, 588 (D.C. Cir. 1997), cert. denied, 523 U.S. 1003 (1998) (noting that modification of longstanding interpretations of statutes require notice and comment rulemaking even if the rule itself was not promulgated pursuant to notice and comment rulemaking).

34 12 U.S.C. §§ 635(a)(1); 635a(a).
36 Transcript at 33; see also 12 C.F.R. Part 407 (Ex-Im regulations implementing Government in Sunshine Act).
38 12 U.S.C. §§ 635(b), 635.
applications in open meetings in which a quorum of the Board is at the meeting.

ExIm cannot cite chairmen in other collegial body agencies that control agendas as useful precedent. To be sure, chairmen of other collegial body organizations control the agenda of those meetings. However the chairmen of those agencies are explicitly vested with the power to control the agenda of the agency. 39

Nothing in the organic act of the agency, its regulations, or bylaws authorizes the Chairman to control the agenda of the agency. In fact, the organic act of ExIm, the minimal regulations promulgated by ExIm, and the bylaws do not address the issue of control of the agenda.

However, it is clear from ExIm’s authorizing legislation that it is the assigned duty of the Board of Directors, not the Chairman, to pass judgment as to the merits of a loan or loan guarantee application.40 That provision reads:

[that loans, so far as possible consistent with the carrying out of the purposes of subsection (a) of this section, shall generally be for specific purposes, and, in the judgment of the Board of Directors, offer reasonable assurance of repayment; and that in authorizing any loan or guarantee, the Board of Directors shall take into account any serious adverse effect of such loan or guarantee on the competitive position of United States industry, the availability of materials which are in short supply in the United States, and employment in the United States, and shall give particular emphasis to the objective of strengthening the competitive position of United States exporters and thereby of expanding total United States exports.” (emphasis added).41

As a result, our conclusion is that ExIm Board itself, operating as an entity pursuant to the Government in Sunshine Act and governing statute, must

39 E.g., 47 U.S.C. § 155(f)(a) (Chairman coordinates and organizes work of Federal Communications Commission); 42 U.S.C. § 5841(a)(2) (Chairman of Nuclear Regulatory Commission exercises all executive and administrative functions of agency); id. at § 7171(c) (Chairman of Federal Energy Regulatory Commission is responsible for all executive and administrative operations of commission).
41 Id.
control the agenda of the Board. Only through this process can there be any certainty that the will of Congress will be met with respect to meeting the Bank's statutorily mandated small business objectives.

Further, we note that this usurpation of power by Chairman Merrill opens ExIm to significant litigation risk. The Government in Sunshine Act is enforceable in federal district court and attorney's fees may be awarded by the court to a party that substantially prevails in litigation.\textsuperscript{42}

Furthermore, the Administrative Procedure Act authorizes suits against federal agencies for agency action unlawfully withheld.\textsuperscript{43} Such action is avoidable by the Board asserting its right to rule on applications before the Board.

These issues give us grave concern regarding ExIm's compliance with, and adherence to, the needs and requirements of small businesses.

\textsuperscript{42} 5 U.S.C. § 552b(6).
\textsuperscript{43} Id. at § 706(1).
OPENING STATEMENT

Chairman Deborah Pryce
Joint Hearing —DIMP and O&I —EXIM Bank Oversight
November 10, 2005

I am pleased to welcome you all here today to this joint hearing on the Export-Import Bank. I would like to thank Chairwoman Sue Kelly for her interest in this issue and support in this joint hearing.

The Bank’s current charter is set to expire next year, and we anticipate this hearing will touch upon a wide range of issues that will need to be addressed in the new charter. My subcommittee has been hearing from many current and former clients of the Bank on issues they feel should be included in any reforms to the Bank next session. These issues include the need for greater transparency, increased oversight and improvements in outreach.

The Bank has a varied history of success in bolstering the US export business as a lender of last resort, coupled with a constant drumbeat of the need for improved management within the Bank. On April 6 of this year, Chairman Manzullo held a hearing on the need for stronger corporate governance and further advocacy for small business exporters. I commend Chairman Manzullo for his work over the last year to get EXIM to achieve its goal of a 20% activity devoted to Small Business — and also to Congresswoman Barbara Lee who has worked with the Bank to elevated the activity devoted to minority—owned small businesses.

An issue of interest to me and of importance to the many small businesses in my district in Ohio is the simplification of the application for small business and the ability to use technology – like filing an application online – to ease the burden of cost and work-time a small business must devote. In the last reauthorization (2002), according to the language in their charter, the Bank was instructed to “implement technology improvements that are designed to improve small business outreach, including allowing customers to use the Internet to apply for the Bank’s small business programs.”

In the testimony of then-Chairman Merrill, received by this subcommittee in 2003, the Bank stated: “We are focusing on three key priorities: putting customers first, improving cycle time, and expanding support for knowledge-based and services exports... In fiscal year 2003, Ex-Im Bank revised and updated its Website to provide all customers with improved access to information, applications and forms. As a result, all of Ex-Im Bank’s applications and forms are available through the Website... Letter of interest applications can now be processed electronically and claims filing can now be handled online.”

However, the business community has provided this subcommittee a cutting review about the Bank’s inability to make these products and services available through the internet. We have heard from businesses wishing to file online that they are unable to
and must manually fill out the paperwork and fax it in to the Bank. Of further concern is the reduction in operating costs (from $2.6 BILLION in FY2000 to $530 MILLION in FY2004) that have been expended for small businesses, especially given that the Bank is required to provide greater internet access for small businesses.

The Bank provides a greatly needed service to the businesses in our country that would like to export but cannot get a guaranteed loan from a commercial loan institution. It is my intent to work to improve upon the Bank's efforts in outreach to our community businesses and to work with my colleagues to make any reforms necessary in the 2006 charter.

We welcome our witnesses here today and look forward to hearing their testimony. I now would like to recognize the Chairwoman of the Oversight and Investigations Subcommittee, my co-chair at this joint hearing, Sue Kelly for her opening statement.
Testimony of the Bankers’ Association for Finance and Trade on Oversight of the United States Export-Import Bank before the Subcommittee on Domestic and International Monetary Policy, Trade and Technology and the Subcommittee on Oversight and Investigations of the United States House of Representatives Committee on Financial Services

November 10, 2005

Harry G. Hayman III
Senior Vice President and Group Head
PNC Bank Treasury Management and Global Services
Philadelphia, PA
and
Vice President and Director
Bankers’ Association for Finance and Trade
Washington, D.C.
Introduction

Chairwomen Pryce and Kelly, Vice Chairwoman Biggert and Vice Chairman Paul, Ranking Members Maloney and Gutierrez, and Subcommittee members, I thank you for holding this timely and important hearing on oversight of the U.S. Export-Import Bank. My name is Harry G. Hayman, and I am a Senior Vice President and the Group Head of the Global Services Division of PNC Bank. I am testifying today on behalf of the Bankers' Association for Finance and Trade—an organization founded in 1921 by bankers "to aid the development and maintenance of foreign trade."

I currently serve as Vice President of BAFT, which comprises 150 financial institutions and service firms dedicated to fostering and promoting international trade, finance, and investment between the U.S. and its trading partners. For 84 years, BAFT has played a unique role in bringing together financial institutions worldwide which have an interest in international business, commerce, and finance. In July 2002, BAFT affiliated with the American Bankers Association, the oldest trade association in the United States.

I have served as a member of the Export-Import Bank's Advisory Board for the past two years and have significant experience working with the Bank through PNC's active participation in global trade finance for our customers and the promotion of U.S. exports. Thank you for providing me with the opportunity to speak with you today on a subject of great importance to American financial institutions and our exporting clients.
The Export-Import Bank Plays an Important Role in the U.S. Economy

Expansion of exports is a critical element for the U.S. economy. The U.S. Export-Import Bank plays an important role in supporting exports of American goods to foreign markets. In the last five years, the Bank has completed almost 11,000 financial transactions, totaling $65.5 billion. By offering American companies a secure source of financing for their export sales, Ex-Im enables American businesses of all sizes to expand their markets by serving overseas customers that require financing in order to purchase American goods. The exports supported by Ex-Im financing stabilize local economies across our country by creating and maintaining domestic jobs that enable communities to flourish.

As we are all aware, the U.S. current account deficit now exceeds 6% of GDP. This is clearly not sustainable from either an economic or geopolitical standpoint, and requires, among other actions, a significant growth in U.S. exports.

The Role of the U.S. Export-Import Bank in Export Trade Facilitation

In my two years as a member of the Ex-Im Advisory Board, I have seen a number of positive and successful new initiatives on the part of the Bank. Examples include the continued expansion of the Bank's City/State Partners program, and the initiation of the Environmental Exports program.

The staff of the Export-Import Bank should be congratulated for their work and progress in promoting effective, efficient programs for end-users of the Bank's services. I am particularly pleased with Acting Chairman and President Jim Lambright's recognition that the next major effort needed is to improve the Export-Import Bank's transaction application approval process,
which can be cumbersome for parties involved and detrimental to U.S. exports. The focus should be on both consistent and transparent credit standards and improvements in the use of technology. This would include, for example:

1.) enhanced training of Ex-Im staff
2.) further training of smaller banks
3.) improved access to credit information by EX-IM
4.) electronic applications
5.) effective database for checking the status of transactions

We look forward to working with him and the Bank to streamline and improve this process.

We do not believe any changes are required to Ex-Im Bank’s charter at this time.

Steps Required to Improve U.S Government Support of Exports

An additional area that continues to require improvement is the way in which governmental entities cooperate on facilitating international business. The Export-Import Bank needs to have greater interagency cooperation with the Departments of Commerce and State, as well as the various governmental trade-related agencies, such as the Overseas Private Investment Corporation (OPIC), Trade and Development Agency (TDA), and Small Business Administration (SBA). I am aware that Chairman Lambright is moving forward in this area.

Overall, we need to develop a cohesive and coordinated U.S. government strategy for increasing American exports and assisting domestic firms and manufacturers to provide their goods and services to the world market.
Ex-Im can more effectively leverage its resources with banks and private associations as well. The City/State Partners program is an example of an effective effort to bring Ex-Im programs to a broader audience, but continued business community outreach is essential to convincing domestic producers of the strategic viability of international commercial opportunities. Governmental trade sponsors need to work together to develop their program offerings to ensure that local businesses receive a consistent message and procedure for action.

**Progress of Ex-Im's Working Capital Guarantee Program**

With regard to the progress of the Export-Import Bank's Working Capital Guarantee Fast Track program, we are pleased that a new agreement has been completed after two years of work. The program is extremely important to SME exporters. The new agreement, however, will make it more difficult for smaller banks to support their exporter-customers. We are concerned about the impact of any impediments to export facilitation that may arise as an unintended consequence of the requirements imposed by the new legal agreement.

**Conclusion**

The Export-Import Bank continues to fulfill its mandate as the official export credit agency of the United States by assisting in financing the export of U.S. goods and services to international markets. Over the past 70 years, the Bank has supported more than $400 billion of U.S. exports, primarily to developing markets worldwide. The Bank estimates that 85 percent of its approved transactions provide direct benefits to American small businesses. We are very pleased with the leadership direction the Bank has taken with regard to improving the way in which export applications are approved and processed, and believe that further progress in improving these procedures should be a goal of the Bank. We look forward to working constructively with the
Bank in these efforts to promote efficient and effective U.S. trade and ensure American competitiveness in the global marketplace.
STATEMENT OF
JAMES H. LAMBRIGHT
CHAIRMAN AND PRESIDENT (ACTING)
BEFORE THE
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE AND TECHNOLOGY
AND THE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

November 10, 2005

Chairman Pryce, Chairman Kelly, Congresswoman Maloney, Congressman Gutierrez, Members of the Subcommittees:

I am pleased to have this opportunity to appear before you today to bring you up to date on what we are doing at the Export-Import Bank of the United States to help create and maintain U.S. jobs by financing U.S. exports that otherwise would not go forward. The Bank steps in when financing is not available or because Ex-Im Bank financing support is necessary to level the playing field for U.S. exporters competing against companies in other countries supported by Ex-Im Bank’s foreign counterparts.

Today, America’s exporters and their workers could use a boost. The international economic environment is arguably more competitive than at any time since Ex-Im Bank’s founding 71 years ago, and the Bank is needed now more than ever. “Globalization” is a topic that is debated in the media every day, and no less frequently in the halls of Congress. If there is one point in particular that I want to stress to you today, it is that Ex-Im Bank is a critical tool in the U.S. government’s arsenal when it comes to keeping U.S. exporters competitive and U.S. workers employed. To help U.S. workers and exporters, we at Ex-Im Bank are continuing to do our part to strengthen the American economy by helping to preserve and expand the U.S. jobs base.

To achieve our mission, however, Ex-Im Bank itself must remain competitive with our foreign counterparts. As we go through reauthorization over the course of the next year, we ask you to bear in mind the need to give Ex-Im Bank the resources and authority to keep U.S. exporters competitive in the international marketplace.

THE EX-IM BANK MANDATE AND PERFORMANCE

Ex-Im Bank helps finance the export of goods made in the United States and services performed by U.S. workers. Ex-Im Bank plays two roles in supporting U.S. exports. We provide financing support for U.S. exports that the private sector will not finance, often because the transactions are too small or the buyer’s market is too risky. Ex-Im Bank also supports U.S. exports that are competing against foreign exports backed by a foreign
export credit agency. Ex-Im Bank financing ensures that the overseas buyer makes its sourcing decision based on the price and quality of the products and services offered by the exporter, not the availability or cost of financing. For most of our larger transactions, Ex-Im Bank provides a guarantee to a commercial bank that lends directly to the overseas buyer.

Ex-Im Bank also plays a key role in encouraging and supporting U.S. small business exporters. For small business exporters and smaller export deals, we provide a variety of insurance policies that allow exporters to extend term financing to their buyers, thus eliminating up front cash payments. We also offer a working capital guarantee program, which helps provide exporters, especially small business exporters, with the capital they need to meet export orders.

Ex-Im Bank helps give U.S. exporters a fair chance to win export contracts by providing competitive financing. In the tough world of international competition, if a U.S. exporter loses an export sale, those jobs go overseas to its foreign competitor. Since many multinational corporations can source exports from more than one country, Ex-Im Bank financing is critical to keeping jobs here at home. If Ex-Im Bank can supply financing in the face of competing financing from Hermes in Germany, EDC in Canada, Sinosure in China or the export credit agencies in many other countries, then U.S. exporters will remain competitive.

In FY’05, Ex-Im Bank authorized $13.94 billion to support $17.86 billion in U.S. exports. This represents 3,128 transactions, of which 2,617 — over 80% — directly benefited small business. Over the last three years, we have supported about $50 billion in U.S. exports, and $473 billion since the Bank’s creation. Ex-Im Bank-supported transactions comprise a significant percentage of total U.S. exports to certain markets. For instance, from FY’02 to FY’04, we supported 76% of U.S. capital equipment exports to Romania, 35% to the Dominican Republic, and 20% to Algeria. Unlike many foreign export credit agencies, we do not compete with the private sector. As a result, Ex-Im Bank often becomes involved in deals that are not attractive to commercial lenders because they are in higher risk markets.

In carrying out its mandate, Ex-Im Bank offers great leverage for the U.S. taxpayer. For every taxpayer dollar used in FY’05, Ex-Im Bank supported $57 in U.S. exports. This compares to $50 last year and $35 the year before. For every administrative budget dollar used, Ex-Im Bank supported over $245 in U.S. exports. Ex-Im Bank achieved this performance without adding any employees and without competing with private banks, while responsibly managing taxpayer resources. For every transaction we approve, we have to find that there is a “reasonable assurance of repayment.” The Ex-Im Bank has a claims rate comparable to many commercial banks.

LEGISLATIVE ISSUES

We are pleased that recent legislative actions on our FY’06 appropriations have reinforced principles essential to Ex-Im Bank’s functioning. As noted above, Ex-Im
Bank must have the tools necessary to offset foreign competition. These tools include a fully funded administrative budget so that Ex-Im Bank may conduct important outreach efforts to U.S. exporters and foreign buyers. It is also essential that U.S. exporters have confidence that Ex-Im Bank’s commitments carry the full faith and credit of the U.S. government and will be honored in all circumstances. We listened to all who had a stake in these issues and did our best to come to fair resolutions. The good work done by all of those involved will be a great help to the Bank going into next year.

We are especially pleased that the Administration request for $1 million to fund the office of Inspector General was approved. While Ex-Im Bank has in place a fully functioning audit committee and has both an internal audit unit and an external audit firm under contract, Congress has determined that an I.G. would be helpful to Ex-Im Bank operations, and we agree. We hope for a timely nomination and urge prompt action by the Senate.

SMALL BUSINESS

Ex-Im Bank’s Charter requires the Bank to encourage the participation of small businesses in international commerce. In this regard, the Charter requires the Bank to make available, from the aggregate loan, guarantee, and insurance authority available to it, an amount to finance exports directly by small business concerns, which shall be not less than 20 percent of such authority for each fiscal year.

I am pleased to report that our latest figures regarding small business confirm that Ex-Im Bank is on the right track. In FY’05, Ex-Im Bank completed 2,617 transactions, with a value of $2.66 billion, involving direct small business exports. By way of comparison, in FY’02, the year of the Bank’s last reauthorization, the Bank approved 2,154 small business transactions totaling $1.8 billion, or 17.6% of total authorizations. In FY’03, the figures were 2,258 transactions totaling $2.1 billion, or 19.8% of total authorizations; and in FY’04, Ex-Im Bank financed 2,572 transactions totaling $2.257 billion, or 16.9% of total authorizations. Thus, in the past four years, Ex-Im Bank has increased its direct small business transactions by over 21% measured by number of transactions, and over 47% measured by dollar volume. Ex-Im Bank’s efforts have resulted in a steady increase in small business throughout this period. It should also be noted that small businesses derive substantial sales from their indirect role in larger Ex-Im Bank transactions.

The Bank’s Working Capital Guarantee Program, which benefits primarily small business exporters, had a record year in FY’05. Of the Bank’s total working capital authorizations of $1.056 billion, 78% or $850 million directly benefited small business exporters.

The language in the Charter requiring the Bank to make available 20% of its aggregate authority for the direct support of small business has to be considered in context. First, Ex-Im Bank is demand driven. In other words, while Ex-Im Bank does as much as possible to build awareness of its programs and to make its programs user friendly for small businesses, we can play a role only in export transactions that meet our criteria,
which include the lack of available commercial financing. Second, Ex-Im Bank has never turned down a small business transaction based on a lack of budgetary resources. Ex-Im Bank's goal is to support as many small business transactions as possible, and the growth in the Bank's small business authorizations demonstrates that we have made significant strides in that regard.

Ex-Im Bank has also taken other steps to increase its support for small businesses as well as women- and minority-owned businesses. Ex-Im Bank has named a Vice President for Small Business to manage a larger staff focused solely on small business outreach. In addition, the Bank's regional offices in New York, Florida, Illinois, Texas and California are now dedicated solely to small business outreach and support.

We have developed a new strategic approach to small business outreach. This approach includes:

- Increasing core distribution by adding new working capital lenders, and expanding/energizing City/State partnerships.
- Identifying new, non-traditional organizations with which to collaborate.
- Utilizing selective, targeted marketing campaigns.
- Adding new brokers and increasing the constructive role of existing brokers.

Ex-Im Bank believes that we are complying with both the letter and the spirit of our Charter with respect to small business, but we are prepared to work with Congress in our upcoming reauthorization to make changes that, consistent with Ex-Im Bank’s broad mission and resources, position the Bank to maximize support for small business transactions.

My comments concerning Ex-Im Bank’s administrative budget bear repeating in the small business context. Outreach, new initiatives and training in technology are necessary to make our small business processing more efficient and transparent. All of these initiatives are dependent on full funding of Ex-Im Bank’s administrative budget.

**ECONOMIC IMPACT**

Through the economic impact process, the Bank seeks to determine whether a transaction under consideration might cause substantial harm to U.S. production or employment, or result in production of a good subject to specified trade measures. While Ex-Im Bank’s consideration of economic impact pre-dates our 2002 reauthorization, Congress made substantial changes to the economic impact section of our Charter in 2002. Following those changes, in March 2003, Ex-Im Bank issued economic impact procedures -- after a public notice and comment period -- to ensure that transactions are screened for economic impact implications and evaluated in a transparent manner. The method for determining economic impact is a comprehensive analysis that draws from a wide range of sources. It involves issues such as the existence of countervailing duties and other trade actions, whether the supported export would result in the production of exportable
goods, an assessment of the global supply and demand for the good to be produced, and the broad competitive impacts on U.S. industry from increased production.

Economic impact is the most significant issue facing Ex-Im Bank, because we must weigh the competing interests of exporters seeking Ex-Im Bank support with those of other U.S. companies that may be harmed by expansion of foreign production. While Ex-Im Bank understands the need to conduct this analysis, as well as the importance of the economic impact issue to Congress, U.S. industry and the U.S. exporting community, no other export credit agency is subject to similar restrictions, and specific economic impact decisions may impact future procurement by foreign buyers.

In recent years, economic impact determinations have affected financing support for many exports, including steel-making equipment, glass-making equipment, greenhouses, microchip manufacturing machinery, soda ash processing equipment, and others. I anticipate that Congress and Ex-Im Bank will confront the economic impact question again. Whatever the outcome, we need to agree on a fair and transparent process. When the Bank makes a decision to support a transaction by extending the full faith and credit of the U.S., we feel that it is very important that the decision be final and respected by all interested parties.

**KEEPING THE COMPETITIVE EDGE IN NEW PRODUCTS AND SPECIAL MARKETS**

Since we at Ex-Im Bank are in the business of helping create and sustain U.S. jobs, we see it as our constant challenge to come up with new ways to help American companies become more competitive. The tough global market rewards boldness -- and so Ex-Im Bank sustains jobs by helping American companies break new ground by making exports work in some difficult markets.

For the United States to remain the world's economic superpower, we cannot only work to make sure our technologies are the best in the world today. We also must look ahead to the future and develop new, innovative products for tomorrow. A major example of Ex-Im Bank's forward-looking approach is our environmental exports program. Over the past four years, Ex-Im Bank has authorized nearly $1.1 billion for environmentally beneficial exports. Across the world, the market is growing for renewable energy, and Ex-Im Bank is helping ensure that U.S. exporters can compete for the contracts anywhere there is a job to do. Over the last year, Ex-Im Bank supported an OECD agreement to extend terms for renewable energy and water projects to 15 years. As a result, it is easier for U.S. companies to compete for solar, biomass, wind and other forms of renewable energy projects.

Making U.S. companies more competitive in environmental technologies leads to social as well as economic benefits. The same can be said of Ex-Im Bank's financing for U.S. companies working to compete in some of the difficult markets of sub-Saharan Africa. Trade in the region is good for American exporters and beneficial to the economies of the region. In FY'05, Ex-Im Bank supported 115 transactions in 20 countries in the region,
totaling $461.8 million. While the dollar volume of transactions to this region has increased by 36.4% over the FY'04 volume, there has been a decrease in the number of transactions, due primarily to a decline in applications from Nigerian banks, which have historically been active in Ex-Im Bank programs. The Nigerian banking sector has undergone major reform and consolidation in the past year, and we expect business to rebound significantly. We have always felt that there is great potential for U.S. exporters in sub-Saharan Africa, and the Bank is dedicated to helping U.S. companies benefit from it.

As a nation, our institutions work best if they reflect the society in which we live. This holds true for business. It is easier to successfully market a product or services to a community if you know that community and are a part of it. With this in mind, we at Ex-Im Bank are striving to help the American export community be more competitive by working to increase our transactions involving women- and minority-owned businesses. For FY'05, our authorizations in this area were $353 million, compared to $296 million in FY'04. We have increased our outreach to achieve this goal. In FY'05, Ex-Im Bank staff participated in 57 speaking engagements and attended 13 conferences expressly aimed at these target audiences, and we are committed to continuing these efforts.

One example of a success is the winner of Ex-Im Bank’s Small Business Exporter of the Year Award in 2004 -- Bluefield Associates of Ontario, California. It is a minority-owned small business manufacturer of skin care products that uses Ex-Im Bank’s multibuyer export credit insurance and working capital guarantees to export to 12 countries in West Africa and Europe. The company was founded in 1991 and has about 50 employees, 32 of whom were added to the payroll after the company began using Ex-Im Bank’s small business insurance policy in 1999. Over the five years ending in 2004, the company increased its sales by more than 100% and tripled the number of its foreign buyers.

CONCLUSION

My comments have just touched on some of the areas in which this Committee will take a leading role during next year’s reauthorization process.

None of us is able to predict the future, but I know that international economic conditions coupled with the particular concerns of Washington will, as always, pose challenges for the Export-Import Bank. One thing I can say with confidence is that our institution will rise to meet them as we always have. We have been able to meet challenges and solve problems because what we do makes sense -- creating and maintaining jobs here in the United States by supporting exports that would not otherwise go forward. We have supported exports large and small throughout the country. And with your help, we will continue to do so in the future.

Thank you.
Statement of Deere & Company and John Deere Credit Before the Subcommittee on Domestic and International Monetary Policy, Trade and Technology Committee on Financial Services U.S. House of Representatives

November 10, 2005

Madam Chairman and members of the Subcommittee.

Introduction

My name is John Sabroske. I am Director of Global Trade Finance for John Deere Credit, the wholly-owned financial services arm of Deere & Company. I appreciate the opportunity to appear before you today to present our views on reauthorization of the charter of the Export Import Bank of the United States.

Since its founding in 1837, Deere & Company has grown to become the world’s leading manufacturer of agricultural equipment, and among the leading global manufacturers of construction, forestry, commercial and consumer grounds care equipment. In addition, John Deere provides a range of financial services, technology, and healthcare solutions to businesses and consumers, typically to those who work the land.

Deere has manufacturing operations in the U.S. as well as in 15 other countries, and our products are sold to customers in more than 160 countries – virtually across the globe. Our financial services group, John Deere Credit, provides credit and other financial services to support John Deere equipment sales to customers both here in the U.S. and in global markets.

Our business structure gives us a unique perspective, both as an exporter and lender, from which to comment with regard to the operations and value of the EXIM Bank.

John Deere and EXIM Bank

EXIM Bank’s support for John Deere exports has grown from about $7.5 million in 2003 to $43.5 million in 2004, to $64 million in 2005. So far for fiscal year 2006, EXIM’s support for John Deere equipment sales have totaled $11.5 million. Over the past three years, then, EXIM loan guarantees of $127 million
have supported about $143 million in export sales of John Deere equipment. Virtually all of these export sales were in the commercially and politically challenging former Soviet states of Russia, Kazakhstan and Ukraine. EXIM’s loan guarantees supported exports of John Deere combine harvesters manufactured in East Moline, Illinois; tractors produced in Waterloo, Iowa; and seeders made in Valley City, North Dakota. Without EXIM support, it is fair to say that much of this business would have gone to non-U.S. competitors.

The emerging global markets in which John Deere sells equipment are extremely competitive. These markets have changed dramatically in the past decade. There is today a strong and growing demand in many parts of the world for more efficient, productive technology and machinery made in the West. And there is strong and growing competition for this business from agricultural equipment manufacturers in Belgium, Canada, Finland, France, Germany, Italy, and other countries. Each of these manufacturers is aggressively backed by its own export credit agency, or ECA. And because the demand for Western equipment is so strong, it is often the terms of credit and its timely approval that determine which manufacturer gets the sale.

We often find a customer preference for John Deere’s U.S.-made equipment, but the customer’s demands for credit can override that preference. The financial risks of doing business in these markets means that, without government-supported credit enhancement, the cost of credit to the customer are prohibitive.

So it is vitally important for us to have an aggressive and innovative EXIM Bank that enables us to compete against non-U.S. manufacturers. We view EXIM as a strategic partner in helping John Deere compete for this business. In doing so, EXIM Bank makes an important contribution to promoting Deere’s U.S. exports, the U.S. manufacturing jobs these exports represent, and the communities in which we operate.

EXIM Bank Reauthorization

Not only is ours an extremely competitive business, but in emerging markets especially this business is in a constant state of change. In particular, new agricultural producers in the CIS are constantly emerging to meet growing domestic demand for agricultural commodities, and to participate in global markets.

These agricultural producers operate in seasonal, relatively high-risk commercial environments. They are increasingly demanding of suppliers to provide quality farm inputs at low cost, and in an efficient and timely manner. As these markets continue to evolve, so, too, do our overseas competitors – with the active support of their export credit agencies.
This changing business environment means that EXIM products, policies, and procedures must continue to evolve to keep U.S. exporters ahead of customer demands and foreign competitors.

In this regard, we encourage the Congress and the EXIM Bank to work together through the charter reauthorization to streamline Bank review and approval processes; to minimize undue restrictions on Bank lending activities; and to develop more innovative and flexible policies for supporting U.S. manufacturers and U.S. workers through enhanced credit in emerging markets.

In our experience, the Bank’s procedures for documentation, review and approval of applications have historically taken far longer than other ECAs. This created obvious competitive pressures in our seasonal business — an approval that comes two weeks too late is in reality twelve months too early. We have recently seen a shift of attention and resources toward expediting application reviews, and we appreciate that the Bank has taken our specific concerns to light. Your reauthorization effort should encourage the expedited consideration of cases before the Bank and more streamlined procedures for transaction approval.

We also appreciate that the Bank has moved forward with some new and innovative programs, such as its new dealer financing program. This product addresses a real marketplace need, and we encourage the Bank to consider and approve transactions through in which this concept can be implemented.

To stay competitive, we believe that the Bank must also be willing to assume greater risk through its lending practices. As stated before, emerging markets for U.S. exports are evolving, and competitor ECAs have become more aggressive in supporting transactions for foreign exporters. We recognize that these markets are inherently more risky — if they were not, the Bank’s loan guarantees, insurance, and other products wouldn’t be necessary. And we fully recognize the necessity of the Bank’s “reasonable assurance of repayment” obligation. However, the inflexible application of this standard in the face of changing market conditions, where additional risk-taking is both reasonable and prudent, can work against U.S. exporters. We believe that Congress, through the reauthorization process, should work with the Bank to consider more aggressive standards for underwriting risk and extending the credit enhancements needed to develop these evolving markets for U.S. exports.

Nor should policies that govern the Bank’s lending practices become an undue barrier to U.S. exports. We certainly respect Congress’ role in directing the Bank’s lending practices with regard to the achievement of certain public policies that benefit our country. What must also be considered, however, is whether such policies tilt the playing field in favor of non-U.S. manufacturers, with ECAs that operate under less restrictive rules. In working with EXIM, our
objective is to reach a level playing field on financing, so that we can compete and win on product performance and quality. More flexibility in EXIM rules ranging from loan tenor to MARAD requirements can have a positive impact on achieving the Bank’s overriding mission.

In short, we encourage Congress and the Bank to work together to develop a more agile and flexible institution, that helps U.S. exporters compete better in the face of changing market conditions and customer expectations.

As you might expect, we have shared these views directly with the EXIM Bank and are working together to address several operational and policy issues, and to improve the Bank’s overall level of service. We think these improvements will enhance our competitive position in emerging markets and lead to increased John Deere exports. And we appreciate the Bank’s attentiveness and responsiveness to these concerns.

Likewise, John Deere appreciates the opportunity to share its views with this Subcommittee, and we would be pleased to work with you to help build on the contributions the EXIM Bank makes to promote U.S. exports and U.S. jobs.

I will be glad to answer your questions.
Statement of

JOSEPH WATTERS

Director of International Sales,
Hoffman International
Piscataway, New Jersey

And on behalf of

THE SMALL BUSINESS EXPORTERS ASSOCIATION OF THE UNITED STATES

Before the
Subcommittee on Domestic and International Monetary Policy, Trade and Technology
Committee on Financial Services
U.S. House of Representatives

"Oversight of the Export-Import Bank of the United States"

10 November 2005

The Small Business Exporters Association of the United States
America's Premier Association for Small and Mid-Sized Exporters®

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CHAIRMAN FRYCE, VICE-CHAIRMAN BIGGERT, REPRESENTATIVE MALONEY, MEMBERS OF THE COMMITTEE, GOOD MORNING. AND THANK YOU FOR THE INVITATION TO TESTIFY AT THIS HEARING.

MY NAME IS JOSEPH WATTERS AND I AM THE MANAGING DIRECTOR OF INTERNATIONAL SALES FOR HOFFMAN INTERNATIONAL, LOCATED IN PISCATAWAY, NJ.

I'M BEFORE YOU TODAY, REPRESENTING MY COMPANY AS WELL AS THE SMALL BUSINESS EXPORTERS ASSOCIATION OF THE UNITED STATES OF WHICH WE ARE PROUD MEMBERS.

BY WAY OF BACKGROUND, HOFFMAN INTERNATIONAL IS A PRIVATELY OWNED FIRM, ORIGINALLY FOUNDED IN 1920 AND WE CURRENTLY EMPLOY SOME 70 PEOPLE WITH AN ANNUAL TURNOVER OF APPROXIMATELY $50 MILLION. WE ARE A DISTRIBUTOR, REPRESENTING MAJOR MANUFACTURERS OF CONSTRUCTION, EARTHMOVING, AND LIFTING EQUIPMENT FOR THE SALE, RENTAL, LEASE AND SERVICE OF THE EQUIPMENT THROUGHOUT NEW JERSEY, NEW YORK CITY, LONG ISLAND AND EASTERN PENNSYLVANIA.

IN ADDITION TO OUR DOMESTIC BUSINESS, WE HAVE, FOR THE PAST 35 YEARS, OPERATED AN INTERNATIONAL GROUP WITHIN OUR COMPANY. IT FOCUSES EXCLUSIVELY ON THE GLOBAL MARKETPLACE FOR THE SAME SALE OF PARTS AND NEW AND USED EQUIPMENT. WE TARGET EMERGING MARKETS AROUND THE GLOBE. OUR PRIMARY MARKETS INCLUDE CENTRAL AND SOUTH AMERICA, RUSSIA AND THE NIS COUNTRIES, EGYPT TOGETHER WITH EAST, WEST AND SOUTH AFRICA.

SBEA, FOR WHOM I SERVED AS CHAIRMAN OF THE BOARD FROM 1999 TO 2002, REPRESENTS ITS OWN GROUP OF SEVERAL HUNDRED ACTIVE EXPORTERS, AS WELL AS OVER 22,000 MEMBERS OF THE NATIONAL SMALL BUSINESS ASSOCIATION MANY OF WHOM ARE INVOLVED IN EXPORTING.

SBEA'S PRESIDENT, JIM MORRISON, REGRETS THAT HE COULDN'T JOIN US, DUE TO TWO MAJOR EVENTS THAT SBEA AND NSBA ARE HAVING IN LOS ANGELES TODAY AND TOMORROW.

SBEA HAS HAD A LONG AND CONSTRUCTIVE RELATIONSHIP WITH EX-IM BANK. MANY OF OUR MEMBERS ARE FREQUENT USERS OF THE BANK'S PRODUCTS AND I MIGHT ADD THAT ASSURING THE CONTINUED VITALITY AND SMOOTH FUNCTIONING OF THE BANK IS THE SINGLE STRONGEST BOND THAT CONNECTS THE MEMBERS OF OUR ASSOCIATION.

CONGRESS ORIGINALLY DESIGNED EX-IM TO BE THE "LENDER OF LAST RESORT" FOR AMERICAN EXPORTERS. YET FOR US, AS SMALL AND MID-SIZED COMPANIES, THE BANK IS FREQUENTLY THE "LENDER OF ONLY RESORT."
BANKS ALL OVER THE WORLD FEAR FOREIGN RISK! THAT'S WHY EVERY MAJOR
INDUSTRIAL NATION HAS AN EXPORT CREDIT AGENCY COMPARABLE TO EX-IM
BANK.

RELATIVELY FEW BANS IN THE U.S. GET PAST THAT FEAR OF FOREIGN RISK TO THE
POINT OF UNDERSTANDING INTERNATIONAL TRADE FINANCING.

AND OF THOSE FEW COMMERCIAL BANKS THAT DO UNDERSTAND INTERNATIONAL
TRADE FINANCING, EVEN FEWER OF THEM WILL ASSIST "SME'S" WITH TRANSACTIONS
OF UNDER A MILLION DOLLARS.

WITHOUT THE GUARANTEES AND INSURANCE THAT EX-IM PROVIDES, VIRTUALLY NO
COMMERCIAL BANK WOULD UNDERWRITE SME EXPORT TRANSACTIONS,
PARTICULARLY WHEN THE COLLATERAL COVERED BY THE TRANSACTIONS WILL BE
OUTSIDE THE UNITED STATES.

SO LET'S BE DIRECT -- SME'S THAT EXPORT NEED THE EX-IM BANK.

MY COMPANY WOULD SUFFER A MAJOR LOSS OF BUSINESS WITHOUT IT, AND WE
WOULD CERTAINLY HAVE TO EXAMINE OUR DEDICATION AND FINANCIAL
COMMITMENT TO THE GLOBAL MARKET PLACE IN ITS ABSENCE. FINANCING PLAYS
AN INCREASINGLY IMPORTANT ROLE IN EXPORT SALES. THIS IS PARTICULARLY TRUE
FOR SMALLER COMPANIES LIKE MINE, AND THOSE OF OTHER SBEA MEMBERS, WHOSE
FOREIGN BUYERS NEED FINANCING TO AFFORD TO BUY WHAT WE AND AMERICA HAS
FOR SALE.

AND IT'S ALMOST MANDATORY FOR BUYERS IN DEVELOPING COUNTRIES. THEY HAVE
ENORMOUS NEEDS FOR EVERYTHING OUR COUNTRY SELLS, FROM MY BULLDOZERS
FOR BUILDING THEIR ROADS -- TO MEDICAL AND HYGIENE PRODUCTS FOR CLINICS
AND SCHOOLS -- TO TYPICAL CONSUMER GOODS. THEY NEED TO PAY FOR THESE
PURCHASES OVER TIME, BUT MORE OFTEN THAN NOT, THEIR OWN BANKING
SYSTEMS CANNOT SUPPORT EITHER SHORT OR LONGER TERM FINANCING.

SMALL USA COMPANIES CAN PLAY AN IMPORTANT ROLE IN THESE MARKETS. WE
CAN HANDLE SMALL OR LARGE ORDERS, BY BEING MORE NIMBLE AND FLEXIBLE
THAN LARGE COMPANIES. BUT WE NEED MORE THAN A QUALITY PRODUCT AND A
SALESMAN'S SMILE. WE NEED TO PROVIDE THE MEANS FOR OUR CUSTOMERS TO PAY
FOR THESE GOODS AND SERVICES. IN A WORD, WE NEED FINANCING AND FOR
CAPITAL GOODS, LIKE THOSE WE SELL. WE NEED 3 TO 5 YEAR MEDIUM TERM
FINANCING THAT MEETS A CLIENT'S CASH FLOW CAPACITIES.

IF SMALL BUSINESS IS INDEED THE ENGINE OF THE U.S. ECONOMY, THEN OUR
COMPANIES THAT EXPORT CRITICALLY NEED AN AGGRESSIVE AND EFFECTIVE EX-IM
BANK TO KEEP THAT ENGINE HUMMING! VIRTUALLY EVERY LARGE COMPANY IN THE
U.S. EXPORTS. LESS THAN TEN PERCENT OF THE SMALL ONES DO. IF WE ARE SERIOUS
ABOUT ADDRESSING THE $50 BILLION-A-MONTH TRADE DEFICIT, WE HAVE TO GET
MORE OF OUR SMALL COMPANIES OUT ON THE INTERNATIONAL PLAYING FIELD,
AND THAT MEANS WE HAVE TO BACK THEM UP WITH DEPENDABLE EXPORT FINANCE.
SO WE AT SBHE KEEP A CLOSE WATCH ON EX-IM. WE OFTEN MAKE SUGGESTIONS TO THE EX-IM LEADERSHIP FOR IMPROVEMENTS IN THE BANK'S OPERATIONS.

IN THAT SPIRIT, I WOULD LIKE TO SHARE WITH THE SUBCOMMITTEE SOME RECOMMENDATIONS THAT WE HAVE MADE TO BANK OFFICIALS OVER THE PAST YEAR OR TWO. WE HOPE THESE RECOMMENDATIONS WILL PROVIDE YOU WITH A WAY OF STRENGTHENING EX-IM AS YOU MOVE FORWARD ON THE BANK'S REAUTHORIZATION NEXT YEAR.

OUR RECOMMENDATIONS FALL INTO THREE CATEGORIES.

FIRST, TRANSPARENCY.

THE BANK NEEDS TO BETTER CONNECT WITH ITS CLIENTS THROUGH GREATER OPENNESS ABOUT ITS GUIDELINES AND REQUIREMENTS, AND THE STATUS OF PROCESSING OF PARTICULAR TRANSACTIONS. CUSTOMERS SHOULD KNOW, AS THEY ONCE DID, WHICH UNDERWRITERS ARE ASSIGNED TO A CASE. THEN THERE SHOULD BE A MORE OPEN AND HONEST DIALOG BETWEEN THE UNDERWRITERS AND THE CUSTOMERS. THE BANK SHOULD QUICKLY ASSESS A POTENTIAL TRANSACTION AND JUST AS QUICKLY OFFER SUGGESTIONS, IF ANY ARE NEEDED, FOR STRENGTHENING A POTENTIAL DEAL. THIS IS COMMON PRACTICE IN COMMERCIAL BANKING, AND IT SHOULD BE COMMON PRACTICE AT EX-IM.

SECOND IS EFFICIENCY.

EFFICIENCY MEANS RAPID PROCESSING. THE BANK SEEMS TO DO QUITE WELL WITH ITS SHORT TERM FINANCING PRODUCTS BUT FOR MEDIUM TERM VIRTUALLY ALL OUR MEMBERS FIND THE TRANSACTION PERIOD ENTIRELY TOO LONG. MUCH TOO LONG!!!! TIME IS A CRITICAL COMMODITY! IF WE DON'T MOVE RAPIDLY, WE LOSE CUSTOMERS! SMALL COMPANIES SIMPLY CAN'T AFFORD TO NURSEMAID A TRANSACTION THROUGH THE EX-IM BUREAUCRACY.

KEEP IN MIND THAT FOR THE COUNTRY AS A WHOLE, MEDIUM-TERM TRANSACTIONS OFFER SOME OF THE BEST PAYOFFS IN HIGH-DOLLAR EXPORT SALES.

EFFICIENCY ALSO MEANS AUTOMATION. CERTAINLY, BETTER IMPLEMENTATION OF I-T WOULD HELP.

WE BELIEVE EXPANDED PARTNERING PROGRAMS WITH COMMERCIAL BANKS WOULD ALSO IMPROVE THE BANKS EFFICIENCY. EX-IM CURRENTLY HAS A SUPERB WORKING CAPITAL GUARANTY PROGRAM WHICH IS ENORMOUSLY HELPFUL TO SME'S. OUR COMPANY HAS A FACILITY COVERED BY THIS PROGRAM AND SOMETIMES I WONDER HOW WE WOULD EVER ARRANGE OUR PRE EXPORT FINANCING WITHOUT IT. THE PROBLEM IS LARGELY HANDLED BY COMMERCIAL BANKS USING EX-IM'S DELEGATED AUTHORITY. WE'D LIKE TO SEE THIS TYPE OF DELEGATED AUTHORITY EXPANDED TO INCLUDE MEDIUM TERM PRODUCTS.

THE SBA DELEGATES MUCH OF ITS EXPORT LENDING AUTHORITY TO COMMERCIAL BANKS AND NOW OPIC IS MOVING MORE OF ITS GROWING SME BUSINESS OUT TO
BANKS AND DEAL MAKERS. EX-IM'S MEDIUM-TERM FINANCING SEEMS TO BE THE ONE EXCEPTION TO THIS TREND. WHY? IF A RELIABLE COMMERCIAL BANK CAN DO MUCH OF EX-IM'S HOMEWORK BEFORE SUBMITTING A DEAL, THEN WHY DOES EX-IM NEED TO "REINVENT THE WHEEL" BY DOING IT AGAIN? AND IF THE BANK PROVES UNRELIABLE, THEN EX-IM HAS THE SAME POWER THAT SBA AND OPIC HAVE TO PULL THE DELEGATED AUTHORITY.

THIRD AND OUR FINAL TOPIC: FOCUS.

CONGRESS HAS MANDATED THAT 20% OF EX-IM'S BUSINESS MUST INVOLVE SMALL BUSINESS EXPORTER TRANSACTIONS. THIS IS A SIGNIFICANT CHALLENGE FOR THE BANK BUT MEETING OR EXCEEDING IT ONLY ADDS MORE FUEL AND FIRE TO THAT SMALL BUSINESS ENGINE. SHARPER FOCUS ON THIS OBJECTIVE WILL HELP AND BY THAT WE MEAN THE ESTABLISHMENT OF A DEDICATED SMALL BUSINESS DIVISION AT THE BANK, COMPARABLE TO THE HIGHLY SUCCESSFUL ONE AT OPIC, ONE THAT ANSWERS DIRECTLY TO THE EX-IM BOARD.

IT MEANS HAVING UNDERWRITERS THAT WORK ON NOTHING ELSE BUT SME DEALS. AND IT MEANS DEVELOPING INCENTIVE PROGRAMS TO BETTER MOTIVATE EX-IM EMPLOYEES TO ORIGINATE SME DEALS, MOVE THEM EXPEDITIOUSLY THROUGH THE BANK AND THEN REWARD THOSE PEOPLE WHO PERFORM AND DO A GOOD JOB.

IN SUMMARY WE BELIEVE, EX-IM BANK PLAYS A VITAL ROLE IN FACILITATING EXPORTS BY PROVIDING FINANCING PROGRAMS THAT ALLOW A SMALL BUSINESS EXPORTER TO BRING SHORT AND LONGER TERM CUSTOMER FINANCING TO THE NEGOTIATING TABLE. A CRITICAL INGREDIENT TO ANY EXPORT TRANSACTION. BUT WE ALSO BELIEVE THAT THE BANK NEEDS TO OPERATE MORE RAPIDLY, MORE FLEXIBLY, AND MORE OPENLY WHICH WILL CREATE A EVEN GREATER POSITIVE IMPACT ON THE EXPORT OF USA PRODUCTS BY SMALL BUSINESSES.

THANK YOU FOR YOUR TIME AND ATTENTION TO MY REMARKS!
Biographical Data

Joseph F. Watters
49 Golf View Drive
Little Egg Harbor, NJ 08087

Piscataway, NJ 08855
Managing Director of International Sales

1978 to 2002 - President and Part Owner
of Hoffman International, Inc.

1967-1978 - Various management positions with
Hoffman International Inc.

Military Services - Capt. USMC 1958-1962

Education - BS Business Management
St. Peters College
Jersey City, NJ

Other Achievements - *1999-2002
Former Chairman of Small Business Export's Association

*Previously served in various association management positions

*2002-2004
Former Board Member of National Small Business Association

*2002-2004
Former Member of Sub Sahara (Africa) Advisory Committee
USA Export-Import Bank
United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

<table>
<thead>
<tr>
<th>1. Name:</th>
<th>2. Organization or organizations you are representing:</th>
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<tr>
<td>Joseph F. Watters</td>
<td>Small Business Exporters Assn</td>
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<tr>
<th>3. Business Address and telephone number:</th>
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<tr>
<td>300 South Randolphville Road</td>
</tr>
<tr>
<td>Piscataway, NJ 08855</td>
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<tr>
<td>(732) 752-3600</td>
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</tbody>
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<tr>
<th>4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify?</th>
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<tr>
<td>□ Yes</td>
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<td>□ No</td>
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<th>5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify?</th>
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<td>□ Yes</td>
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<th>6. If you answered &quot;yes&quot; to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may use additional sheets if necessary.</th>
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<th>Signature:</th>
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<td>Watters</td>
<td>Nov 8, 2005</td>
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Please attach a copy of this form to your written testimony.
Questions Submitted to
James H. Lambright (Acting) Chairman and President
By Congresswoman Barbara Lee

Minority and Women-Owned Businesses

**Question:** Can you please describe some of the outreach efforts that the Bank has undertaken to advertise its financial products to minority and women-owned small businesses?

**Answer:** In FY 2005, Ex-Im Bank has undertaken several outreach efforts to increase the number of minority and women-owned exporters supported. We participated in 70 minority and women-owned events as compared to 20 events in FY 2004. In that process, we expanded our interaction with smaller, local trade associations. This was facilitated by increasing both the staffing of this outreach and the travel budget dedicated to this activity. We also expanded our efforts to engage Trade Promotion Coordinating Committee partners, including Small Business Development Centers (SBDCs). In this effort, we identified 25 SBDCs that can benefit from greater Ex-Im Bank awareness. In addition, more local level minority chambers of commerce were engaged as we coordinated seminars for their exporting members. Finally, City/State partners are a key supplement in our ability to reach minority and women-owned exporters. Two additional City/State Partners (Idaho and Grand Valley) have been added since July, 2005, bringing this key multiplier category to 44. Grand Valley serves western Michigan. Two additional applications have just been received that will add California and Hawaii to our roster.

**Question:** Have you done an assessment of the effectiveness of these outreach efforts? For example how many applications do they generate, and how many of these applications lead to approved authorizations?

**Answer:** Assessment of results is not as complete as desired due to our inability to require exporters to identify themselves as minority or woman-owned businesses. We can report that 307 minority and women-owned exporters received Ex-Im Bank support in the amount of $363 million in FY 2005 or 13.6 percent of all small business support during the year. The growth in Ex-Im Bank support for minority and women-owned exporters in terms of dollars and transactions mirrors the steady growth for small business exporters overall. Of our FY 2005 working capital guarantee program authorizations, $229 million or 26 percent were in support of minority and woman-owned businesses.
**Question:** Does Ex-Im Bank solicit feedback from minority and women-owned businesses that it reaches out to and does business with to determine how to conduct better outreach and provide better account management?

**Answer:** Ex-Im Bank is in regular contact with prospects that have been identified as our staff strives to educate and inform minority and women-owned exporters how to expand their foreign sales and reduce the risk of extending credit terms to their buyers. Minority and women-owned exporters usually work closely with Ex-Im’s registered insurance brokers and Delegated Authority lenders as they access Ex-Im’s services. Exporters and Ex-Im’s financial sector facilitators provide feedback on both specific transactions and on Ex-Im’s operations in general. This market input forms part of the basis for changes and improvements in Ex-Im’s strategic and tactical plans for outreach and servicing of the minority and women-owned exporting community.

Resources have been, and currently are, heavily devoted to expanding outreach in order to increase market awareness of the federal programs available to support minority and women-owned exporters. Discussions with applicants suggest that many of these applications develop either due to Ex-Im Bank exporter education activities or the activities of Ex-Im Bank’s multiplier partners in both the public and private sector.

**Question:** Do you believe the Bank is doing all that it can to outreach to minority and women-owned businesses?

**Answer:** Ex-Im Bank continues to refine and expand the channels used to identify and reach minority and women-owned businesses. Increased emphasis has recently been placed on identifying and using multipliers such as SBDCs within the United States government and state and local minority organizations, i.e., Korean American Traders Association (Washington, DC), Tri-County Black Chamber of Commerce (Houston, TX), African Connection (Northwestern University), et al. Greater use of our existing City/State Partners has also begun including joint direct mail campaigns to supplement those undertaken with the TPCC and on a solo basis by Ex-Im Bank.

In the area of government contracting, Ex-Im Bank has significantly exceeded the government-wide goals for contract awards to small, small disadvantaged, and women-owned firms. Of the total contracts awarded in Fiscal Year 2004 (about $10.4M):

- 61% were awarded to small businesses
- 31% were awarded to small minority-owned businesses
- 26% were awarded to small women-owned businesses
Sub-Saharan Africa Advisory Committee

**Question:** Can you describe the process by which the Bank acts upon the recommendations of the Advisory Committee?

**Answer:** The SAAC met two times in fiscal year 2005 to review existing initiatives and provide suggestions for further improvements with regard to the Bank’s activities in SSA. In addition to its regular meetings, the SAAC formed three sub-committees, which met individually with Ex-Im Bank staff to concentrate on improvements for business development, credit risk, and country risk.

Ex-Im Bank management and staff take SAAC recommendations very seriously. Past recommendations that have been acted upon include:

"Place special focus on the countries of the Gulf of Guinea" (FY05 recommendation) prompted the International Business Development Division to modify its FY06 BD strategy to research the regions opportunities, identify local banks, and plan travel accordingly.

"Travel not be limited to Business Development Staff only" (FY01 recommendation) prompted missions by Ex-Im Bank Divisions such as the Asset Management Division, the Office of General Counsel, the Credit Risk Division, over the past several years.

"Redefine acceptable risk thresholds in Africa" (FY04 recommendation) prompted the Credit Risk Division to draft the High Risk Country Credit Standards provided to the market in December 2004.

**Question:** How do you explain the drop in transactions in sub-Saharan Africa over the last few years?

**Answer:** From FY 2001 to FY 2004, the number of transactions in sub-Saharan Africa increased from 91 to 160. In FY 2005, the number fell to 115, largely due to a consolidation in the Nigerian Banking sector that has adversely affected the flow of transactions. Credit issues with transactions in Ghana have also reduced the number of transactions.

**Question:** Can you compare the Bank’s businesses in sub-Saharan Africa with other regions of the world such as Central America, South America, the Caribbean, Asia, etc.?

**Answer:** In FY ’05, the Ex-Im Bank authorized about $14 billion to support US exports. Of this amount, $461.8 million were authorized to support exports to sub-Saharan Africa. Exports to other regions of the world comprise higher percentages of Ex-Im Bank’s portfolio. However, Ex-Im support as a percentage of total US exports show that efforts in sub-Saharan Africa are yielding benefits. In FY ’04, total U.S. exports to SSA were $8.4 billion, and Ex-Im Bank covered $383 million or 4.6% of the exports. In FY05, exports are expected to
reach $10.3 billion, and Ex-Im Bank covered $462 million, or 4.5% of the exports. Worldwide, Ex-Im Bank covers approximately 1.3% of U.S. exports.

**Question:** If the Bank's mission is to specifically provide financing to allow exporters to access markets that are otherwise unavailable through private lenders, why have transactions in sub-Saharan Africa dropped?

**Answer:** While the number of transactions in sub-Saharan Africa declined from 160 in FY 04 to 115 in FY '05, the value of transactions actually increased from $383 million in FY 04 to $462 million in FY 05, largely due to an increase in the value of aircraft transactions. Declines are largely due to a consolidation in the Nigerian Banking sector that has adversely affected the flow of transactions. Credit issues with transactions in Ghana have also reduced the number of transactions. It should also be noted that the total number of applications to Ex-Im Bank from the lenders had declined in FY05 for this region of the world.

**Question:** Do you believe that the Bank should accept a greater level of risk in order to make transactions in Africa, or do you believe that Congress will be unwilling to accept the increased risk because of the greater potential for default?

**Answer:** In sub-Saharan Africa, as well as all of the markets in which Ex-Im Bank operates, the Bank must balance its mandate to support U.S. exports with its responsibilities as stewards of taxpayer resources. Within the scope of the Bank’s reasonable assurance of repayment mandate, Ex-Im Bank has taken significant risk in sub-Saharan Africa. Ex-Im Bank is open in 39 countries in sub-Saharan Africa for at least short-term transactions and in 47 for specially structured transactions. Ex-Im Bank has been aggressive in seeking opportunities in sub-Saharan Africa to support U.S. exports. At the same time, Ex-Im Bank has experienced very high (50% or higher) default rates in a number of markets in sub-Saharan Africa. Those high default rates have led Ex-Im Bank to take a more cautious approach to particular markets. Ex-Im Bank, nonetheless, remains committed to the sub-Saharan Africa market and is exploring ways of expanding Ex-Im Bank support in the region.

**Question:** What are your plans to increase transactions within sub-Saharan Africa and reverse the current trends?

**Answer:** The goal of the Export-Import Bank is to increase transactions in sub-Saharan Africa while remaining demand driven, as mandated by Congress. Ex-Im Bank has and is developing numerous ways to maximize its efforts in the region. The challenge is to find the appropriate "business model" for the transactions in these markets. Ex-Im Bank is actively engaged with its participants (exporters and lenders), other government agencies in the U.S. and in the region, as well as with local banks and other financial institutions, on ways to better underwrite transactions in the market.

For example, Ex-Im Bank staff representing Credit Underwriting, the Office of the General Counsel, Asset Management, and Business Development traveled to Nigeria on several occasions to meet with Nigerian bankers, government officials and the Central Bank of
Nigeria Governors to obtain a better understanding of the consequences of CBN's recapitalization policy on Ex-Im Bank support for transactions in Nigeria. Importantly, Ex-Im Bank's Board of Directors and staff remain determined to fulfill the Congressional mandate to increase business in SSA. Since 1998, Ex-Im Bank's Board of Directors has appointed a Sub-Saharan Africa Advisory Committee (SAAC) to bring practitioners from the field to advise Ex-Im Bank in its efforts to fulfill the Congressional mandate. In addition, Ex-Im Bank devotes two business development officers to the SSA region. This staffing level is comparable to other markets. We also draw on roughly 10 staff members from various divisions in the Bank who are experienced in SSA transactions. This team meets periodically to discuss, monitor and implement strategies to improve transaction processing and marketing efforts for the region. In addition, Ex-Im Bank has a Board member who is responsible for promoting exports to the region.

Overall, Ex-Im Bank's efforts to fulfill the Congressional mandate are being met. Over the last seven fiscal years, Ex-Im Bank has authorized transactions supporting nearly $3.3 billion in U.S. exports to SSA. With the anticipated stabilization of Nigeria's banking sector and through the collaborative efforts of Ex-Im Bank's Board of Directors, staff and SAAC, we are optimistic that business will rebound in SSA during FY 2006.
Small Business

**Question:** How do you respond to the criticism that Ex-Im is basically corporate welfare?

**Answer:** Ex-Im Bank is not corporate welfare. Our mission is to support U.S. jobs (not corporations) by financing creditworthy U.S. export transactions that cannot obtain financing from commercial sources because either: (1) a foreign government is providing financing on behalf of its exporter at terms more attractive than private lenders could provide; or (2) private lenders are unwilling or unable to provide financing terms required by the transaction. Further, contrary to welfare “grants”, we are repaid at a rate that is as good, or better, than the majority of commercial banks.

**Question:** Have you undertaken a study to determine the net benefit of Ex-Im services in terms of jobs created and economic activity generated for small businesses versus large corporations?

**Answer:** While, in the past, Ex-Im Bank has considered quantifying jobs created and economic growth associated with Ex-Im Bank financing support, Ex-Im Bank has not been comfortable doing so because of the absence of a reliable estimation methodology. In other words, Ex-Im Bank wants to avoid either underestimating or overestimating the benefits attributable to Ex-Im Bank financing support. In addition, it can be very difficult to separate support for large business from support for small businesses, as Ex-Im Bank financing support for exports involving goods manufactured by large companies indirectly benefits the small business suppliers and sub-suppliers to large manufacturers.
Acting Chairman James Lambright's
Responses to Questions Submitted by
Congressman Patrick McHenry

1.) What percentage and dollar amount of loans has been defaulted on overall since the last reauthorization of the Ex-Im Bank?

2.) How much money does the Bank currently make from fees and interest?

Ex-Im carries out its mandate of financing U.S. exports under budget rules established by the Federal Credit Reform Act of 1990 (“Credit Reform”). Under Credit Reform, Ex-Im Bank’s level of export finance support is governed by its program budget, which represents the present value difference between expected fee and interest income and expected losses. Ex-Im’s fees and interest rates are heavily influenced by an international agreement that governs financing terms offered by most competitor export credit agencies, while expected losses are driven by OMB assumptions. The program budget cost represents the amount of taxpayer resources necessary to, when added to fee and interest income, provide an adequate reserve against expected net losses in future years.

Between FY 2002 and FY 2005 Ex-Im Bank loan, guarantee and insurance financing has supported approximately $30 billion in U.S. export shipments to date. On those transactions, the Bank has collected approximately $1.240 billion in revenues (including fees of $929.7 million and interest of $310.2 million). To this amount Ex-Im has added $1.592 billion in program budget resources. Therefore, the Bank has $2.832 billion in resources available to pay claims on these authorizations.

To date, as a result of payment defaults occurring on those authorizations Ex-Im has paid claims of approximately $300 million, resulting in a gross claims rate of 1.0% ($300 million divided by $30 billion in shipments). In addition, Ex-Im has received net recoveries of $21 million to date on those claims paid, resulting in net claims paid to date of approximately $279 million or a net claims rate of 0.93% (i.e. $279 million in net claims divided by $30 billion in shipments). However, these results should be considered preliminary given that Ex-Im transactions can have a repayment term of up to twelve years.

3.) If the Bank was involved in more risky loans but charged higher interest rates on these loans, would the money generated help to counteract higher defaults while also allowing for a greater amount of loans to be processed?

The vast majority (in dollar terms) of Ex-Im supported transactions are in the form of guaranteed loans. The interest rates on those loans are not set by Ex-Im Bank but rather are agreed between the lender and the borrower. In transactions where Ex-Im is the direct lender the Bank does establish the interest rate and can charge more for higher risk transactions, but must balance this against our mandate to be competitive with terms offered by competitor export credit agencies. Ex-Im could increase fees on riskier transactions to offset increased default risk but we believe that doing so could result in decreased demand for U.S. exports traditionally supported by Ex-Im Bank.
Acting Chairman James Lambright's
Responses to Questions Submitted by
Congressman Ed Royce

**Question:** Does the Export-Import Bank (Ex-Im) take steps to ensure that approvals of applications do not adversely affect U.S. exports and U.S.-domiciled jobs? If so, could you please outline those steps for the Committee?

**Answer:** Yes. As detailed in the Export-Import Bank of the United States' Revised Economic Impact Procedures Fact Sheet dated March 2003, Ex-Im Bank does take steps to ensure that the Bank does not approve applications that adversely affect U.S. exports and U.S.-domiciled jobs. A copy of the fact sheet is attached.

**Question:** Are U.S. businesses that would be potentially harmed by an Ex-Im financial assistance package given an opportunity to raise concerns with Ex-Im prior to a vote by the Ex-Im Board of Directors?

**Answer:** Yes. Ex-Im Bank provides for the notification of U.S. businesses that would be potentially harmed by an Ex-Im Bank financial transaction in section 3a of the Export-Import Bank of the United States Economic Procedures of March 2003. Section 3a, Public Notice and Comment, states: “When Ex-Im Bank determines that a transaction poses a risk of substantial injury (i.e., the resulting production is equal to or exceeds 1% of U.S. production), an announcement of the transaction will be made on Ex-Im Bank’s Web site and in the Federal Register. Concurrently, Ex-Im Bank will specifically notify relevant U.S. government agencies of the transaction and weigh carefully the analytical and policy views of such agencies. The announcement will include information on the: (i) type of equipment being exported; (ii) specific good to be produced by the equipment; (iii) amount of increased production expected as a result of the transaction; (iv) country of destination of the equipment; (v) potential sales markets of the resulting products; and (vi) transaction’s value. The buyer’s and the applicant’s names, as well as any proprietary information, will not be released. Potentially affected parties will have two weeks from the date of announcement in which to submit their views to Ex-Im Bank. A summary of these comments will be included in the economic impact Board memo. The full text of comments received by Ex-Im Bank will be attached as an appendix to the Board memo.”
Economic Impact

EXPORT-IMPORT BANK OF THE UNITED STATES
FACT SHEET: REVISED ECONOMIC IMPACT PROCEDURES
March 2003

What is Economic Impact?

Ex-Im Bank's Charter requires Ex-Im Bank to assess whether the extension of its financing support is likely to yield a net economic impact on U.S. production and employment or would result in the production of substantially the same product subject to specified trade measures. A transaction is deemed by Ex-Im Bank to meet the legislatively specified standard economic impact can be the basis for denial of Ex-Im Bank support. The purposes of Ex-Im Bank's Economic Impact Process are: (1) to ensure that all transactions are screened for economic impact implications; (2) identify those transactions that are subject to specified trade measures or that pose a risk of substantial injury to the U.S. economy; and (3) put only those cases that further economic impact analysis through a more extensive process that is fair, consistent, and publicly transparent.

The Economic Impact Procedures.

Ex-Im Bank implements the requirement to analyze the economic impact of transactions it is asked to support through its Economic Impact Procedures. Transactions are subject to screens designed to (1) identify those transactions associated with specified legislative prohibitions and (6) determine the potential of a transaction to cause substantial injury to the U.S. economy. The Economic Impact Procedures consist of three stages, which are analyzed consecutively.

Stage I: Transactions Not to Expand or Expand Production Capacity. The first stage of the Economic Impact Procedures determines if a transaction supports the export of capital goods that will enable a foreign buyer to establish or expand production capacity of an exportable good. Only those transactions are subject to further economic impact analysis in Stages II and III.

Stage II: Categorization of Transactions. The second stage of the Economic Impact Procedures divides transactions into three categories for further analysis. These three categories are:

- Category I: Transactions Not Subject to the Final or Preliminary Trade Actions Contained in Categories II and III.
- Category II: Transactions Subject to Specified Final Trade Measures.
  (i) Final anti-dumping or countervailing duty orders
  (ii) Suspension agreements arising from anti-dumping or countervailing duty investigations
  (iii) Section 201 injury determinations
- Category III: Transactions Subject to Specified Preliminary Trade Actions.
  (i) Preliminary anti-dumping or countervailing duty injury determinations
  (ii) Section 201 investigations initiated by the Executive or Legislative Branch

Stage III: Analysis of the Economic Impact of Transactions by Categories. The third stage of the Economic Impact Process consists of screens to determine whether a transaction requires a detailed economic impact analysis (summarized below for each category).
Ex-Im Bank :: Products & Policies :: Economic Impact

Page 2 of 2

109

exceeds 1% of U.S. production.

• Category II: Transactions Subject to Specified Final Trade Measures.
Transactions in this category are subject to automatic prohibition under Ex-Im Bank's Charter. A detailed economic analysis is not performed. An exemption to this automatic prohibition may be granted by Ex-Im Bank's Board if an
shows that the exporter and/or the U.S. economy will be extraordinarily harmed by denial of Ex-Im Bank support. Notice and comment period is required prior to board action on such a transaction.

• Category III: Transactions Subject to Specified Preliminary Trade Measures.
For transactions in this category, a 14-day public notice and comment period will be provided on all transactions exceeding $10 million that are subject to a preliminary anti-dumping or countervailing duty determination and an all-bank
Economic Impact Analysis.

If a transaction requires a detailed economic impact analysis, Ex-Im Bank staff will assess: (i) the global supply and demand for the product in question (e.g., by considering indicators of overcapacity such as price trends, U.S. employment trends, bankrup
ture trends, and other U.S. government agendas. All of the information gathered, including the beneficial impact of the export on the U.S. economy, will be presented to the Ex-Im Bank Board of Directors for its consideration in determining the net impact of the

1. If Ex-Im Bank financing is $10 million or less, exclusive of the exposure fee, a transaction is not subject to economic impact analysis. However, these transactions are aggregated by both buyer and product for impact analysis in Ex-Im Bank's annual review.

2. To ensure the efficient processing of small business transactions, a $10 million threshold will apply to capital and short-term insurance transactions subject to a preliminary AD/CVD injury determination.
Questions Submitted to
James H. Lambright (Acting) Chairman and President
By Congressman Brad Sherman

Question: What percentage of all Ex-Im small business transactions came from the agriculture sector in 2003, 2004 and 2005?

Answer: Ex-Im Bank’s reporting for small business is not specific to sector, i.e. agriculture, construction, etc. For 2003, 2004 and 2005 the percentage of all of the small business transactions from the agricultural sector is estimated at 4% for each year. Please note that this level of detail is not collected, and this estimated percentage has not been verified through the same check and audit procedures as required of other figures reported by Ex-Im.

Question: Can you please explain the decision-making process used by the Bank in developing such a substantial change in U.S. policy that has resulted in creating standards that have nearly shut down one of the biggest U.S. export sectors --- the agriculture technology, equipment and supplies, particularly as it relates to Mexico?

Answer: The agricultural sector is certainly a key U.S. export sector and Ex-Im Bank support for the industry continues. Changes in our approach to underwriting transactions in the sector for all countries were deemed necessary as Ex-Im Bank faced rapidly mounting claims, primarily but not exclusively in the greenhouse sub-sector beginning in 2004 (we currently have approximately 44 claims totaling more than $33 million in the greenhouse/shadehouse sub-sector, representing 50% of the total transactions authorized). Analysis of the portfolio and the deteriorating claims situation revealed that our credit standards did not adequately capture many of the special risks that exist in connection with the operation of greenhouses. For example, we have found that many of our buyers were ill-equipped to enter this highly specialized industry, as they had little or no experience in controlled-environment farming. Also, the deals that were presented to us largely were not structured to address this issue. This was compounded by a number of other factors including questionable financial reporting and inadequate financial flexibility to take on what was for most a major undertaking and/or new line of business. Further, there have been allegations made and evidence presented of possible exporter performance issues. Our new underwriting benchmarks address these issues and happen to be much closer to those of other ECA’s active in this sector. This approach should assist in improving the quality of our portfolio while continuing to support U.S. agricultural efforts.
Question: Have you analyzed the potential economic, political and immigration ramifications of this new policy for the U.S., U.S. consumers and U.S. exporters? Further, does the Bank take into consideration the effects such policy changes have for our neighbors in Mexico?

Answer: With respect to specific transactions, Ex-Im does not analyze immigration ramifications. With regard to political ramifications, we have programs that offer coverage to U.S. exporters to mitigate the political risk for countries to which they are exporting. Economic situations of each country are taken into account through an inter-agency rating process, which corresponds to the exposure fee charged by Ex-Im to each transaction. As far as our policies affecting Mexico, our primary focus is the U.S. exporter. We are demand driven and support U.S. jobs through exports measured against reasonable assurance of repayment by the foreign buyer.

Question: If Mexico poses an undue risk for defaults on Ex-Im loans, particularly in the agricultural sector, what has the Bank done to facilitate debt collection?

Answer: Ex-Im Bank has one recovery officer assigned to all of these claims (for consistency) and is working closely with our recovery contractor (Global Recovery Group) which has two officers assigned to these cases. Ex-Im Bank and Global Recovery Group have made trips to Mexico to meet with debtors in an effort to work out these transactions. This effort is ongoing. We have had several meetings, in person and via the telephone, with the main exporter involved in these claims. Ex-Im Bank is attempting to recover the debt in several different ways. Where farms appear viable, Ex-Im Bank has offered to restructure these transactions. Where farms do not appear to be viable, Ex-Im Bank is attempting to find other assets to liquidate that may be available to pay off some portion of the debt.

Question: What steps, if any, has the Ex-Im Bank taken to control inherent risks in the agriculture sector while maintaining an open and vibrant sector for U.S. exporters?

Answer: In order to address the issue of inexperience, we are requiring at least three years of experience in operations being supported by the export products being purchased. This preference pertains primarily to the risks Ex-Im Bank has incurred in providing coverage for extensions of credit to buyers that lack the experience, sophistication, knowledge or financial flexibility to engage in substantial new undertakings in an unfamiliar field of endeavor.
If a buyer is deficient in this area, we would consider other possible mitigating factors such as, requiring installation as part of the exporter’s contract, requiring the buyer to procure the services of a technical consultant, e.g., an agronomist, and requiring the buyer to have a satisfactory marketing and distribution plan. Also, we would require estimates of the ramp-up costs likely to be incurred in connection with the purchase of agricultural products that represent a major expansion and/or a new line of business. This enables Ex-Im Bank to assess the buyer’s likely need for additional cash resources or access to bank credit. In lieu of the aforementioned, we would consider an acceptable local bank guarantee.

In order to address concerns about the reliability of financial statements, Ex-Im Bank has expressed a preference for audited financial statements for agricultural buyers in general. With respect to greenhouse transactions, audited financial statements are now a requirement, as is background information on the accountant preparing the statements if the accountant is with a local firm unknown to Ex-Im Bank. This is necessary going forward because the financial statements we obtain on the foreign buyer form the bedrock of our analysis and the basis of our conclusions concerning reasonable assurance of repayment. If the statements are not reliable, then no reliable conclusions can be drawn from them.

With regard to adequate financial flexibility, for agricultural buyers outside of the greenhouse sub-sector, Ex-Im Bank requires that the ratio of contract price to gross depreciable fixed assets not exceed 75%; for the greenhouse sub-sector, this percentage should not exceed 50%. This provides greater flexibility than the manufacturing sector where 25% of depreciable fixed assets is our guideline. The requirement for all agricultural sector deals is that the ratio of contract price to the last fiscal year’s revenues not exceed 100%. These ceilings have been implemented to reduce the risk of a foreign buyer being put into a situation in which an over-reliance on the productive capacity of the imported products jeopardizes its ability to continue as a going concern, and thus compromising its debt servicing capacity.

Given the correlation between insufficient cash on the buyer’s balance sheet to cover the down payment on the products to be exported and the likelihood of a claim, Ex-Im Bank requires that the buyer’s balance sheet indicate sufficient cash for making the down payment. Ex-Im Bank also requests six months of bank statements on the buyer in order to assess the overall, sustainable cash liquidity of a buyer for the purpose of covering additional working capital needs that may result from the installation and operation of a greenhouse, or other large equipment purchase, which may have substantial ramp-up costs.
It is important to note that the new benchmarks are not “Pass/Fail” requirements, i.e., Ex-Im Bank is willing to consider reasonable mitigating factors for one or more benchmarks that may be missed.

**Question:** Has the Bank received and, if so, fully taken into consideration, any reasonable suggestions from U.S. exporters on steps that can be taken to alleviate risk in the agriculture sector?

**Answer:** Exporters have made several promising suggestions, including: (a) the taking of liens on products to improve Ex-Im Bank’s negotiating position on restructuring and net recoveries in the event of claims, (b) retention of risk by the exporter to demonstrate commitment to the viability of the deal; and (c) encouraging participation by buyers in certain educational programs offered by the Agriculture Department of the University of Arizona. Ex-Im Bank is considering all of these suggestions as possible enhancements to lending in the agricultural sector.

**Question:** Is it true that the export credit agencies of various other countries – such as Spain, the Netherlands and Israel – continue to provide agriculture-related lines of credit? Do current Ex-Im Bank policies put U.S. exporters at a disadvantage vis-à-vis their foreign competitors in the agriculture sector?

Other ECA’s do provide support for agriculture products; however, only Ex-Im Bank provides 100% coverage of the financed portion of U.S. content. Other ECA’s also require credit enhancements not heretofore required by Ex-Im Bank, e.g., liens, substantial exporter retention of risk (in some cases), and audited financial statements. The additional benchmarks established by Ex-Im Bank for establishing reasonable assurance of repayment are thus not out of line with the requirements of other ECA’s.

**Question:** Does the Bank have a dispute mechanism in place to address cases where a foreign client places blame on a U.S. supplier as the excuse for failing to make payments in a timely fashion?

**Answer:** The promissory notes represent an unconditional promise to pay on the part of the debtor and guarantor(s). This is regardless of whether or not the exporter performed. A debtor's option is to seek a remedy with the exporter and, failing that, through court or arbitration. The Asset Management Division, which is responsible for claim processing and recovery activities, reports possible exporter problems to other Ex-Im Bank divisions.
Question: Finally, what steps are you taking to implement the “Controlled Environment Agriculture Provision” directions for the Export-Import Bank contained in the House Committee report on the Fiscal year 2006 Foreign Operations Appropriations bill?

Answer: Ex-Im bank welcomes transactions supporting the export of controlled environment agricultural technology, and continuing to evaluate these transactions according to the Congressional mandates in our charter. These mandates include: reasonable assurance of repayment, environmental guidelines, and analysis of economic impact.