Statement

of

Donna K. Alexander

Chief Executive Officer

on behalf of

BAFT-IFSA

before the

Subcommittee on International Monetary Policy and Trade

of the

Committee on Financial Services

United States House of Representatives

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May 24, 2011

Chairman Miller, Ranking Member McCarthy, and Members of the Subcommittee, my name is Donna K. Alexander, and I serve as the Chief Executive Officer of BAFT-IFSA, an international financial services trade association whose membership includes a broad range of financial institutions throughout the global financial services community. Thank you for the opportunity to testify on the subject of congressional reauthorization of the Export-Import Bank of the United States ("Ex-Im" or "Bank"). We were pleased to provide a statement for the Subcommittee hearing on September 29, 2010, regarding Ex-Im Bank and the role of trade finance in doubling exports, and we appreciate the opportunity to present our views again for this hearing.

As background, this committee has a long history with the Bankers' Association for Finance and Trade (BAFT) which was this organization's name prior to a merger with the

International Financial Services Association (IFSA) sixteen months ago. BAFT-IFSA is the association for organizations actively engaged in international transaction banking. It serves as the leading forum for bringing the financial community and its suppliers together to collaborate on shaping market practice, influencing regulation and legislation through global advocacy, developing and adapting new and existing instruments that facilitate the settlement of products and service offerings for clients, providing education and training, and contributing to the safety and soundness of the global financial system.

BAFT-IFSA members around the world are active in trade finance and many deal with export credit agencies (ECAs) like Ex-Im on a daily basis. Similar to other ECAs, Ex-Im plays a crucial role in global finance by providing export financing products that help fill gaps in trade financing otherwise provided by private sector lenders. Since "trade finance is the oil to the wheels of commerce," effective Ex-Im programs have a multiplier effect when the private sector cannot fully shoulder certain levels of risk in trade transactions. Indeed, Ex-Im contributed to the recovery of trade finance markets during the economic crisis. Our industry values a continued working relationship with Ex-Im and other ECAs around the world to ensure the continued availability and affordability of trade finance. For these and the reasons outlined below, we strongly support reauthorization of Ex-Im Bank.

We would like to focus on three major points for this hearing:

- Trade finance should continue to be supported as a driver for economic growth.
- Ex-Im Bank should be swiftly reauthorized to ensure the continued availability of valuable financing for U.S. exports, as trade finance is critical for economic recovery and has an important role in the National Export Initiative (NEI).
- Ex-Im Bank should continue to enhance its programs and competitiveness around the globe.

First, we appreciate the opportunity to review the Discussion Draft of legislation reauthorizing Ex-Im Bank, *Securing American Jobs through Exports Act of 2011* ("Discussion Draft"). We support the direction this proposal is taking, and welcome the opportunity to engage with Members regarding suggestions we believe will enhance the measure.

I. Support Trade Finance as an Economic Driver

Trade finance instruments, such as those offered and supported by Ex-Im, are crucial to sustaining international commerce and the growth of the world economy. Throughout the reauthorization process, it is important to remember that support for a competitive and efficient Ex-Im is also support for the vital financing of international trade. BAFT-IFSA strongly supports the NEI focus on improving conditions that directly affect the private sector's ability to export, and believes that the role of Ex-Im in this initiative is pivotal. BAFT-IFSA remains concerned, however, about implementation of the NEI, particularly with reference to trade finance support. If affordable trade finance is not accessible through Ex-Im and other public-/private-sector partnership programs, BAFT-IFSA believes sustained global economic recovery could be put at risk. Better coordination amongst federal agencies driving the NEI is needed to leverage Ex-Im programs. BAFT-IFSA also supports the core Trade Promotion Coordinating Committee (TPCC), of which Ex-Im is a member, organizing a unified network of support for lenders and exporters to guarantee a user-friendly, fast, and efficient system for trade assistance. Ex-Im needs to be reauthorized to help execute the NEI and the mandate of key public- / private-sector partnerships.

a. Pre- and Post-Crisis Trade Finance Markets

A brief review of the international trade markets and trade finance during the economic crisis provides important context for this hearing. During the economic crisis, world trade fell by more than twelve percent in 2009, in part due to some global banks stopping the flow of credit to reduce losses.[1] While some banks raised their lines of available trade credit during the crisis, the fall in overall demand for trade in goods and services mitigated that rise and largely caused the fall in trade volume. During the London G-20 meeting in April 2009, world leaders recognized that trade finance provides significant support for the $14-16 trillion USD in annual global commerce and helps drive growth and development, particularly in emerging markets.[2] An environment that limits or does not support credit flows for trade finance puts at risk trading of essential goods and poses a threat to importers and exporters in emerging markets--with smaller banks and small- and medium-size enterprises (SMEs) disproportionately affected.

Over the past two years, the BAFT-IFSA working relationship with Ex-Im expanded significantly to respond to the trade finance crisis. BAFT-IFSA convened its first Global Trade Finance Summit in London in January 2009 and brought together for the first time the leading stakeholders in global trade finance markets, including banks, ECAs, credit insurers, multilateral agencies, government ministries of finance and trade, and other government entities. Ex-Im participated in three of our summits and, as part of the global public-/private-sector partnerships, many ECAs, including Ex-Im, launched new programs or made existing programs more robust to provide credit and liquidity for the import/export markets.

b. Trade Finance Trends

From a broader context, the function of trade finance--and the integral role of Ex-Im and other ECAs in those markets--is key. As we noted in our April 2010 comment letter to the Basel

[1] World Trade Organization; http://www.wto.org/english/news_e/sppl_e/sppl148_e.htm

[2] G-20; http://www.g20.org/Documents/final-communique.pdf

Committee on Banking Supervision regarding its recommendation on capital requirements,[3] trade finance transactions are generally fixed, short-term instruments that are not automatically renewed or extended upon maturity, and are self-liquidating by nature (*i.e.*, exposures are liquidated by payment at maturity). Trade finance liabilities arise from trade-related obligations underpinned by the movement of goods or services and evidenced by commercial contracts that document the arrangements between buyer and seller.

Trade finance has also historically maintained a low risk profile in comparison with other financial instruments. According to a survey conducted by the International Chamber of Commerce (ICC) and the Asian Development Bank in September 2010, banks have experienced relatively minimal losses on trade lending--1,140 defaults have been reported within a full data set of 5,223,357 trade finance transactions over five years.[4] In stress situations, countries and banks have traditionally continued to prioritize the repayment of short-term trade finance obligations as they fall due. Additionally, banks active in trade finance are generally able to react swiftly on deteriorations in bank and country risk, as a result of the short-term, self-liquidating nature of the transaction.

The World Trade Organization (WTO) noted that international trade increased by over fourteen percent in 2010.[5] The most recent BAFT-IFSA/International Monetary Fund (IMF) Global Trade Finance Survey, which tracks trends in trade finance markets, found a fourteen

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[3] For more information, please see the BAFT-IFSA Comment Letter to the Basel Committee on Banking Supervision in response to the Basel Consultative Document on Capital, *Strengthening the Resilience of the Banking Sector;* www.baft-ifsa.com

International Chamber of Commerce; http://www.iccwbo.org/uploadedFiles/ICC/policy/banking_technique/Statements/1147%20Register%20Report%20ICC%20Final%20Draft%2021%20September%202010.pdf

[5] World Trade Organization; http://www.wto.org/english/news_e/pres11_e/pr628_e.htm

percent increase in the value of trade finance between Q2 2009 and Q2 2010, a five percent increase from the previous year. Ninety-one percent of respondents cited an increase in demand as the driver for the increase. [6] The U.S. government needs to ensure that a reauthorized Ex-Im Bank operates at maximum efficiency to support trade finance transactions for American exporters and lenders as the recovery for the international sale of goods and services continues.

II. U.S. Export-Import Bank Reauthorization is Important to the U.S. Economy

Ex-Im provides credit support to help make U.S. products more competitive in international markets. Transactions supported by Ex-Im represent incremental export sales by U.S. companies that support the jobs of American workers and help to reduce the national trade deficit. A core component of the work undertaken by Ex-Im is accomplished with the support of the private sector trade finance lending community. The banks are part of a broad constituency of actors in the trade finance space. Ex-Im provides risk mitigation tools that help facilitate liquidity, which is particularly important during this time of continuing recovery.

Ex-Im financing rose considerably in response to the economic crisis, with over $24 billion in financing recorded for 2010. Ex-Im supported $34.4 billion worth of American exports and 227,000 American jobs at more than 3,300 U.S. companies.[7] More than $5 billion of that total was for small businesses, representing eighty-five percent of the entire Bank's activity[8].

BAFT-IFSA strongly supports continued cooperation between Ex-Im and the private sector to revitalize trade lending. Ex-Im leadership in public-/private-sector partnerships was crucial to facilitating recovery programs to address trade finance market dislocations. This

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[7] US Ex-Im Bank: http://www.exim.gov/pressrelease.cfm/0851BE06-9F90-1A8A-C3DD8916849C4303/

[7] US Ex-Im Bank: http://www.exim.gov/pressrelease.cfm/0851BE06-9F90-1A8A-C3DD8916849C4303/

[8] *Ibid*

public-/private-sector collaboration is still needed to sustain economic recovery around the globe.

We support increasing the Bank's lending ceiling to ensure continuation and effectiveness of its programs.

III.Ex-Im Bank Should Continue to Enhance its Programs

BAFT-IFSA supports new Ex-Im programs created to respond to global economic conditions. The Ex-Im supply chain financing guarantee program, designed to increase liquidity in the market, is one example of how Ex-Im programs can have a multiplier effect. The supply chain financing product is intended to support U.S. suppliers – who export to foreign buyers or supply U.S. exporters – by extending financing through the purchase of receivables owed to such suppliers.

Another example is the Take-Out Option, launched in 2009 to reduce bank liquidity risks. If a guaranteed lender exercises the take-out option, Ex-Im Bank will buy, and the guaranteed lender will transfer to Ex-Im Bank, any loans covered by a take-out option and all related transaction documents in exchange for payment of the loan purchase price. Ex-Im Bank will charge an annual fee to the lender for this option, and an additional fee if the option is exercised. The option is available for all new dollar-denominated, floating-rate, medium- and long-term Ex-Im Bank guaranteed loans. BAFT-IFSA provided input on behalf of its banks during development of this program. As evidence of its value, several BAFT-IFSA members completed deals involving the option. The industry looks forward to receiving regular updates on the level of this program's utilization and effect on pricing.

Although Ex-Im remains a valuable resource to lenders and exporters, increasing competition from Organization for Economic Cooperation and Development (OECD) ECAs and non-OECD ECAs highlights the need for maximum efficiency and competitive programs. Ex-

Im competes with other ECAs for business and, unfortunately, ranks among the world's least competitive ECAs. Ex-Im lags behind other ECAs in total funds authorized, operates under restrictions and processes that limit its appeal for users and discourage many U.S. companies from accessing it. Without competitive enhancements to Ex-Im programs, the risk of fewer export sales and loss of jobs is a concern.

Although Ex-Im has enhanced its product offerings in useful ways, the Bank must operate at maximum efficiency for its customers and the economy. An organizational structure and culture at Ex-Im that does not always work effectively and efficiently with private sector partners puts risks its competitive position at risk. In the spirit of constructive feedback, BAFT-IFSA offers the following comments on a number of Ex-Im processes and policies that affect BAFT-IFSA members and the industry as a whole. These comments refer also to provisions in the Discussion Draft. We request your consideration of each of our recommendations.

➢ ***Change Domestic Content Requirement to Support Trade Growth***

In the interest of supporting U.S. jobs, Ex-Im has a restrictive policy of only providing credit support for the value of the U.S. content in an export. Ex-Im limits its involvement in a transaction to the lesser of: (i) 85 percent of the value of eligible goods and services, and (ii) 100 percent of the U.S. content in those goods and services. Thus, if a U.S. export consists of 50 percent U.S.-made components, Ex-Im limits its support to 50 percent of the contract value. This presents a number of challenges for lenders and their clients. First, as complexity increases in manufacturing processes and the sourcing of components, it is increasingly difficult to track levels and sources of non-U.S. content. This is particularly true for small businesses that do not have the resources to devote to tracking such data. Second, such a stringent ratio can result in fewer U.S. exports than might otherwise be achieved. This policy puts Ex-Im at a competitive disadvantage to other ECAs which do not impose such onerous restrictions. Given this restriction, it is more difficult for Ex-Im and private sector lenders to support complex, multinational deals that will ultimately benefit the U.S. market.

The Discussion Draft includes content guidelines for the provision of financing and mandates that Ex-Im establish, by rule, clear and comprehensive guidelines on content of goods and services eligible for financing. This proposal takes incremental steps to address the content issue; however, BAFT-IFSA believes the draft language does not go far enough to alleviate competitiveness concerns. Specifically, the timeframe and method of implementation proposed in the draft legislation, along with the limited considerations under which Ex-Im must operate in forming guidelines regarding content pose concerns. To truly serve the lending and exporting community in an effective manner, the content provisions should be expanded to develop a policy which allows Ex-Im to effectively support U.S. exports and compete globally with other ECAs.

Also, BAFT-IFSA believes that Ex-Im should be mandated to take into account the most flexible form of content available in a transaction. Congress and Ex-Im should look to other global ECAs for examples in how flexible content levels can drive innovation and growth in domestic exports. Export Development Canada (EDC), for example, relies upon a "national benefit" system that evaluates the level of content based on the benefit transferred to the Canadian economy by the transaction. Such a flexible content requirement could enhance the competitiveness of the Bank and U.S. exporters.

We support the most flexible content policy practicable, and view the proposed legislation as a step towards addressing the content issue--we extend our thanks for recognition of this important issue. Although we prefer a substantial liberalization of content requirements, we highlight a few practical changes to the language that may improve the effectiveness of the final guidelines. We look forward to working with Ex-Im and other stakeholders on developing those guidelines. Specifically, considering the weighted average of domestic content levels of goods and services involved in transactions supported by the ECAs of each OECD member country is a step in the right direction, but we respectfully submit that expanding that to non-OECD ECAs such as China and Brazil would be beneficial. This would help ensure that content analysis takes into account financing provided by key players outside the OECD. Additionally, in order to streamline the guideline implementation, the requirement for a procedural rulemaking could be amended to require a Bank evaluation and Ex-Im Board review of content, in consultation with the industry throughout the process.

➢ ***Reexamine MARAD Policy to Support U.S. Jobs***

Transactions supported by Ex-Im guarantees in excess of $20 million or that have a repayment period of more than seven years are subject to a requirement that the goods being financed must be shipped on a U.S.-flag carrier if they are transported by sea. This is administered by the U.S. Maritime Administration—MARAD. The exporter is required to use a U.S.-flag carrier even though other carriers might be available at lower cost, have vessels that are more suitable for the particular cargo being shipped, and provide logistical advantages with respect to their availability and routing. Although waivers are available in certain limited circumstances, the waiver process itself acts as a disincentive for potential purchasers of U.S. goods. The MARAD requirements often increase processing times and costs associated with Ex-Im transactions. This can diminish the competitiveness of Ex-Im programs in relation to other ECAs and the benefits for lenders and exporters doing business with the Bank.

➢ ***Address Economic Impact***

Ex-Im is required by law to consider the extent to which proposed transactions may have an adverse effect on industries and employment in the United States. Ironically, this requirement can have an adverse impact on U.S. exports.

Whenever the Bank turns down a transaction on the basis of economic impact, it means the financing support that a purchaser expected will not be made available and the transaction likely will not occur. Many exports are sold as a package—the goods, plus bank financing (with an Ex-Im guarantee) to cover the purchase price. If a non-U.S. purchaser has doubts about whether Ex-Im support for the financing of its purchase actually will be made available, the likelihood of the U.S. exporter getting the sale is diminished. Conversely, the likelihood of a producer in another country getting the sale is increased. As such, the types of economic impact assessments undertaken now should only be required in the most compelling cases. In addition we would strongly oppose any steps to expand the application of current economic impact assessments to a broader range of transactions or to make those assessments more rigorous.

➢ ***Increase Efficiency in Processing Times and Resources***

Ex-Im staff has fewer than 400 staff to support a wide variety of programs and handle a growing amount of financing requests every year. There is a general sense amongst various stakeholders and interests that work closely with Ex-Im, including our members, that staffing resources have not grown apace with the workload. We acknowledge that increasing staff is not in and of itself a solution to customer service problems, but believe there is room for improvement.

General program processing inefficiencies are generally manifested by inordinately long processing times for transactions and ultimately can compromise some deals. This is particularly true of some small business transactions, where the costs related to lengthy processing periods can cause difficulties in completing transactions. In order to fully support the goals of the NEI and offer incentives for small businesses to use Ex-Im programs, increasing staff resources and tightening transaction processing at all levels of the Bank would benefit the programs.

- ***Support Ex-Im Short and Medium Term Programs***

The Medium Term (MT) program supports transactions under $10 million for tenors of up to five years. The Medium Term (MT) Delegated Authority program is designed to reduce transaction turnaround time, leverage Ex-Im medium-term program resources and increase lender utilization of Ex-Im medium-term programs, while maintaining credit quality and program integrity. Lenders share in credit risk and receive a portion of the Ex-Im exposure fee. BAFT-IFSA supports this program and believes it is crucial in supporting small- and medium-size U.S. businesses. Of concern, however, is that use of the program has dropped significantly. Section 2 (a) (3) of the Ex-Im Bank charter requires that the Bank establish measures to improve the competitiveness of the Bank's medium-term financing and ensure that its medium-term financing is fully competitive with that of other major official ECAs. It also requires it to ease the administrative burdens and procedural requirements imposed on users, and attract the widest possible participation of banks and other sources of private capital in the medium-term financing for exports. BAFT-IFSA believes Ex-Im should invest additional time and resources to support this program.

Specifically, Ex-Im has added a number of onerous requirements to the MT program, which we feel hamper its effectiveness without adding value to portfolio management processes. We look forward to a continued exchange with Ex-Im to ensure that unnecessary burdens on lenders and exporters are addressed in a manner that does not constrain doing business in a recovering economy.

The importance of working capital programs should not be overlooked. Under the Ex-Im Fast-Track Delegated Authority programs, approved lenders will have delegated authority to underwrite and authorize Ex-Im Bank-guaranteed transactions. Given economic conditions in the U.S., some banks are seeing increased requests for Ex-Im Working Capital Guarantees above the current limit of $25 million for Fast-Track Delegated Authority transactions. Both lender and borrower have agreed to remain at the $25 million cap as the economics of the transaction change above that level. We would support increasing the level of delegated authority by proven Fast Track lenders, as the increase could result in increased working capital support for qualified exporters and help create U.S. jobs.

The Discussion Draft includes provisions on monitoring the default rates of Bank financing. It requires calculation of the rate at which entities to which the Bank has provided financing are in default on a payment obligation. The Discussion Draft states that if the aggregate rate of default of all Bank programs exceeds two percent, Ex-Im must submit a report to Congress outlining the reasons for the default rate and include a plan to reduce that rate.

BAFT-IFSA supports the maintenance of secure and efficient lending practices across all Bank programs. Repayment of Ex-Im Bank loans is essential to the Bank's charter. We are concerned, however, that leveling such requirements on Ex-Im Bank programs may hamper their use by lenders and exporters. While high default rates require action, we believe that policies governing the Bank's response to increased default rates should be developed in consultation with the lending and exporting community. This will ensure effective, market-sensitive solutions and encourage more activity in Ex-Im Bank programs.

More specifically, adjusting the default reporting cycle to 180 days will relieve undue strain on the Bank whose resources are already stretched, and also allow for consideration of market trends in a recovering economic environment.

Finally, BAFT-IFSA believes that a two percent default rate threshold for reporting does not allow for flexibility as economic conditions are still in flux. As Ex-Im Bank is not a commercial lender and is, by its very nature, expected to take on additional risk, providing for a more flexible threshold may achieve the desired purpose.

➢ ***Enhance Consultation and Outreach to Industry***

Feedback from some interests in the industry indicates that participation in Ex-Im programs would benefit if Ex-Im engaged regularly with key stakeholders and partners before implementing new procedures or policies. A more collaborative, iterative approach would ensure that Ex-Im policies are more sensitive to customer needs and market dynamics. Open dialogue on key initiatives can help avoid confusion and preempt unintended consequences in new programs or policies.

Ex-Im has responded to some of our concerns by taking preliminary steps to rectify a sporadic consultative process with the industry. BAFT-IFSA and Ex-Im now have quarterly calls between senior Bank leadership and BAFT-IFSA members. This helps drive open communication in the earlier stages of policy or process changes. Regular communication throughout the process, however, is required for meaningful improvements. We look forward to the Bank engaging accordingly.

IV. Conclusion

BAFT-IFSA members believe the U.S. Export-Import Bank has a crucial role in boosting U.S. exports and supporting the economy. The Bank's reauthorization will ensure it continues to provide adequate, affordable trade finance and supporting programs through its private-/public-sector partnerships. In executing its mission, operating with maximum efficiency and streamlining its processes will make it more competitive with other ECAs and ensure that it can fully leverage the benefits it provides to U.S. exporters.

We value our continued working relationship with Ex-Im and look forward to a productive and fruitful dialogue with Ex-Im and the U.S. Congress throughout the reauthorization process and beyond. Thank you again for the privilege of providing the Subcommittee with our views.

United State 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.

1. Name:	2. Organization or organizations you are representing:
Donna K. Alexander	BAFT-IFSA
3. Business Address and telephone number:	
[redacted]	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2006 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2006 related to the subject on which you have been invited to testify?**
☐ Yes ☑ No	☐ Yes ☑ No
6. If you answered "yes" 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 list additional grants or contracts on additional sheets.	
7. Signature: Donna K. Alexander	

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