

**WRITTEN TESTIMONY OF
FRED P. HOCHBERG - PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE, SUBCOMMITTEE ON
MONETARY POLICY AND TRADE AND THE HOUSE COMMITTEE ON
OVERSIGHT AND GOVERNMENT REFORM, SUBCOMMITTEE ON ECONOMIC
GROWTH, JOB CREATION, AND REGULATORY AFFAIRS**

“Examining the Export-Import Bank’s Mandates”

April 30, 2015

Chairman Huizenga, Chairman Jordan, Ranking Member Moore, Ranking Member Cartwright, and distinguished members of the Subcommittees, thank you for inviting me to testify before you today.

ABOUT EXIM BANK

The Export-Import Bank (Ex-Im Bank or the Bank) empowers businesses to create more American private sector jobs, while serving as a responsible steward of taxpayer dollars. In FY 2014, Ex-Im Bank supported 164,000 U.S. jobs through financing approximately \$27.5 billion worth of exports. Ex-Im Bank is demand driven. Since 1934, the Bank’s role has both expanded and contracted as a natural response to the needs and demands of the free market—as it was designed to do. Sixteen times, bipartisan majorities in Congress have reauthorized the Bank. In the course of reviewing and reauthorizing the Bank, Congress has also established several mandates requiring the Bank to support small business, environmentally beneficial exports, and exports to eligible markets in sub-Saharan Africa.

The Export-Import Bank Reauthorization Act of 2012 (P.L. 112-122), which was passed by Congress with overwhelming bipartisan support in both chambers – 330 Republicans and Democrats in the House and 78 in the Senate – continued these mandates and required some additional attention to small business and the textile industry. The Bank has complied with these mandates that Congress has placed upon us. The Bank is a self-sustaining agency that charges its customers interest and fees to fund the transactions. As a result, over the past two decades Ex-Im has sent just under \$7 billion to the U.S. Treasury.

Ex-Im Bank fulfills its mission to support U.S. jobs in two ways. First, Ex-Im Bank fills the gaps when the private sector is unable or unwilling to provide financing for U.S. exports—a particularly important role for American small businesses, which often find it difficult to obtain export financing from their local bank even in the best economic times. U.S. businesses also have difficulty securing financing when selling to the developing markets, which accounted for 68 percent of Ex-Im Bank’s authorizations in 2014. Second, Ex-Im Bank seeks to ensure a level playing field for U.S. exports in the hyper-competitive global marketplace by making available financing that encourages buyers to make decisions based on free market factors such as price and quality, rather than on foreign competitors’ state-sponsored or cut-rate financing.

The goal of leveling the playing field is also supported by the Bank's Tied Aid Program, established by President Reagan in 1986. In establishing the program, President Reagan expressed support, saying it will "give the United States needed leverage for use in negotiations to eliminate predatory financing practices whereby countries mix official export financing with concessional foreign aid in an effort to undercut bids on major overseas projects." It is important to note that when we finance exports, it is most commonly in the form of insurance or loan guarantees, and that nearly 98 percent of the time Ex-Im Bank transactions involve commercial financial institutions. The Ex-Im Bank guarantee gives commercial banks comfort to offer their loans to foreign markets, leveraging the private sector to finance a transaction. Commercial banks' willingness to lend to foreign buyers of U.S. exports can form a critical part of the decision to buy from a U.S. business instead of a foreign competitor.

In the course of fulfilling its mission, the Bank properly focuses on achieving the mandates set forth by the U.S. Congress while simultaneously meeting its other Congressional mandate of reasonable assurance of repayment. Today's hearing focuses on three of those Congressional mandates – environmentally beneficial exports, sub-Saharan Africa, and small business.

FINANCING ENVIRONMENTALLY BENEFICIAL EXPORTS

Ex-Im Bank is committed to promoting U.S. exports and jobs that encourage the use of environmentally beneficial products and services. Since the 1980s, Congress has required the Bank to promote the export of environmentally beneficial exports through its Charter and later years through appropriations acts. Congress has also enacted a number of other provisions related to Ex-Im Bank's consideration of environmental factors.

In 1989, Congress directed that Ex-Im Bank should seek to provide at least 5 percent of its energy sector financing for renewable energy projects and undertake to promote renewable energy. Following that action, in 1992 a mandate was added to Section 11(b) of the Bank's Charter by Congress to require the Bank to "encourage the use of its programs to support the exports of goods and services that have beneficial effects on the environment or mitigate potential adverse environmental effects. Similarly, Section 10(b)(5) of the Bank's Charter specifies that its Tied Aid Program "may only be used to defend potential sales by United States companies to a project that is environmentally sound."

In recognition of this mandate, Ex-Im Bank established its Environmental Exports Program in 1994 to expand support for U.S. exports of environmentally beneficial goods and services through offering enhanced financing terms. In 2002, Congress added Section 2(b)(1)(k) to the Charter, which directs the Bank to promote exports related to renewable energy sources. Complementing its efforts under the Environmental Export Program, the Bank created a Renewable Energy Business Development Initiative in 2009. Congress also mandates that the Bank have representation of the environmental community on its Advisory Committee.

In addition to the general mandates in the Charter, since 2008, through appropriations bills Congress has given Ex-Im Bank the following goal: "*That not less than 10 percent of the aggregate loan, guarantee, and insurance authority available to the Bank under this Act should*

be used for renewable energy technologies or energy efficiency technologies.” On top of the Congressional mandates, the Bank also complies with international agreements and principles in the environmental area such as those of the Equator Principles and the Organization for Economic Cooperation and Development.

With respect to greenhouse gas emissions, Congress’ Appropriations Committees also directed the Bank to post on its website any proposed use in fiscal year 2015 of “the aggregate loan, guarantee, and insurance authorities available to the Bank that would result in greenhouse gas emissions from the extraction or production of fossil fuels or the use of fossil fuels in electricity generation that exceeds the average of total emissions in the previous five fiscal years resulting from the use of such authorities, and the amount of the increase.” Additionally, the appropriations legislation continued to suspend enforcement of the Bank’s Supplemental Guidelines for High Carbon Intensity Projects through September 30, 2015. Ex-Im Bank continues to follow the requirements placed by Congress.

Ex-Im Bank, of course, operates in the context of the overall financial strength and production capacity of firms in the U.S. renewable energy industry. According to data from the U.S. International Trade Commission, the total exports of renewable energy technology (solar, wind, hydro, geothermal, and biomass) in 2014 were approximately \$1.4 billion, of which the two leading sectors were \$1.04 billion in wind turbines, towers, and blades, and \$204 million in solar exports. Even if Ex-Im Bank had financed 100 percent of U.S. renewable exports, it would not have been able to meet the 10 percent mandate set forth by Congress.

Ex-Im Bank’s work to meet the environmentally beneficial mandates has resulted in U.S. exports growing from 10 transactions in FY 1994 to 116 in FY 2014. The estimated export value of transactions in FY 2014 exceeded \$3.4 billion, supporting more than 20,300 U.S. jobs.

In 2011, Ex-Im Bank became the first international financing institution to finance a solar power project under the Indian government’s Jawaharlal National Solar Mission to develop 100,000 megawatts of solar power. Ex-Im Bank built a template for Indian solar project sponsors to use as a means to ease the application process and encourage more applications. Today, Ex-Im Bank is one of the largest international lenders for solar projects in India. To illustrate, Ex-Im Bank in July 2012 authorized a pair of loans totaling \$57.3 million to Solar Field Energy Two Private Ltd. and Mahindra Surya Prakash Private Ltd., respectively, to finance the export of American solar panels and ancillary services to India. The solar panels, which are manufactured by First Solar Inc., will be used in the construction of solar photovoltaic plants in Rajasthan, India. These transactions will support 200 U.S. jobs at First Solar's manufacturing facility in Perrysburg, Ohio. In 2014 the Bank signed a \$1 billion Memorandum of Understanding (MOU) with the Indian Renewable Energy Development Agency (IREDA) indicating that the Bank would be willing to finance up to \$1 billion of U.S. renewable goods and services in the coming years, subject to compliance with Ex-Im Bank’s credit, environmental, and other policies and procedures.

Energy infrastructure projects often require multiple sources of funding due to the scale of the projects. For example, Ex-Im Bank has been active in supporting U.S. wind energy turbine makers to gain access to key markets, particularly those in the Americas. In 2010, Ex-Im

Bank financed the largest wind energy project in Central America in Honduras, which in part supported 800 Pennsylvania employees of Gamesa.

REALIZING OPPORTUNITIES SUB-SAHARAN AFRICA

Ex-Im Bank requires a reasonable assurance of repayment, and many economies in sub-Saharan Africa have matured to the point that they can utilize Ex-Im Bank's financing. Throughout its 81-year history, Ex-Im Bank has a long and successful track record when it comes to supporting initiatives and infrastructure development across Africa. As early as 1946, Ex-Im Bank approved a transaction to support Ethiopia's post-WWII reconstruction, including electrification.

In the early 1960s, Ex-Im Bank helped Ghana finance the Akosombo Dam on the Volta River. Praising the project, President Kennedy wrote to the Ghanaian President Dr. Nkruma in 1961, saying: "It is a source of satisfaction that we have been able to join with [Ghana's] Government in helping to make this great day possible..."

In 1997, Congress inserted Sec 2(b)(9) of the Bank's Charter directing the Bank to "promote the expansion of the Bank's financial commitments in sub-Saharan Africa" and to establish the Sub-Saharan Africa Advisory Committee. Ex-Im Bank plays a critical role in enabling American exporters to tap the tremendous sales opportunities in sub-Saharan Africa, which is home to seven out of ten of the fastest growing economies in the world.

We have seen aggressive moves by foreign Export Credit Agencies (ECAs) to gain a foothold in Africa, establish brand loyalties, and support their exporters in these fast-growing economies. Overall, Africa's trade continues to pivot towards the emerging world, with China dominating this orientation. With strong support from institutions such as China Ex-Im and China Development Bank, China's exports to Africa reached \$105 billion in 2014 from \$93 billion in 2013. Additionally, U.S. exporters face intense competition from former colonial powers in sub-Saharan Africa.

It is essential for the United States to play a leading role in sub-Saharan Africa to support U.S. exporters and level the playing field against foreign competitors in this important market. Based on its Congressional mandate, Ex-Im Bank is pursuing new initiatives and strategies to expand financing support of U.S. manufactured goods and services to the region. Last year, the Bank supported manufacturing exports of nearly \$16.6 billion. Sixty-eight percent of total authorizations in FY 2014 went to projects in developing markets, up from 62 percent in FY 2013.

The sub-Saharan Africa region is poised to continue to grow in relevance to U.S. export interests, and Ex-Im Bank is proud of our work in the region. In the past five years, Ex-Im Bank has approved more than \$6.3 billion in financing for U.S. exports to sub-Saharan Africa, including a record \$2.1 billion in authorizations in FY 2014 and a record of 192 authorizations, surpassing the previous record of 188 in FY2013. Ex-Im Bank-supported U.S. exports to sub-Saharan Africa accounted for approximately 8 percent of an estimated more than \$25 billion of total U.S. manufacturing exports to the region in FY 2014. Ex-Im Bank finances a higher

portion of U.S. goods and services in sub-Saharan Africa than in any other region. In FY 2014, 10 percent of Ex-Im Bank's authorizations by dollar volume supported U.S. exports to sub-Saharan Africa.

New investors are also entering the market, including U.S. companies as well as many foreign players. Some companies are considering retooling their production facilities to source from the U.S. and create jobs here. Ex-Im Bank works with other government agencies to play a key role in trade with Africa.

FOCUSING ON SMALL BUSINESS

Equipping U.S. small businesses like Fritz-Pak in Mesquite, Texas, or Tooling & Equipment International in Livonia, Michigan, to grow their exports is at the heart of Ex-Im Bank's work. In FY 2014, nearly 90 percent of Ex-Im Bank's authorizations directly served small businesses, as defined by the Small Business Administration. Nearly a quarter – 24.7 percent – of Ex-Im Bank's authorizations by dollar value went directly to small business exports, and small businesses accounted for 39 percent of the total value of all exports supported by Ex-Im Bank. Those figures do not include the tens of thousands of additional U.S. small businesses in the supply chains of larger American exporters who see their sales go up each time an American company beats out a rival for a big deal overseas.

Congress clearly stated its intent for Ex-Im Bank to support small business in the Bank's Charter, which provides in Section 2 that “[it] is further the policy of the United States to encourage the participation of small business in international commerce” and “the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise.” In 1983, Congress enacted a small business mandate as a percentage of the Bank's loan, guarantee, and insurance authority. This required the Bank to “make available not less than 6% of such authority” in fiscal year 1984, 8% in fiscal year 1985, and 10% in fiscal year 1986 and thereafter. Congress increased the percentage in 2002 to 20 percent. Congress also included several other provisions in Ex-Im Bank's Charter reaffirming its commitment to small business, including small business representation on the Bank's Advisory Committee, and Charter provisions regarding the Bank's Small Business Division, Small Business Specialists, and Small Business Committee.

Ex-Im Bank's objective is to grow small business authorizations in the context of a reasonable assurance of repayment and in response to market demand. Each year, Ex-Im Bank equips thousands of U.S. companies to convert international sales opportunities into economic growth and new jobs here at home. While Ex-Im Bank has approved more small business financing over the past six years than in the previous 16 years combined, there are still many challenges to increasing financing for small business exports. Even in stronger economic periods, small businesses frequently have difficulty securing working capital loans from banks or credit insurance policies from private insurers to support their exports.

Ex-Im Bank most typically supports U.S. small business exports in two ways. The first is export credit insurance. Export credit insurance allows exporters to insure their foreign receivables against the risk of nonpayment by overseas customers. Just like any insurance policy,

U.S. exporters pay a premium for Ex-Im Bank export credit insurance. Ex-Im Bank insurance gives businesses the confidence they need to enter new markets, increase their global competitiveness by offering credit terms, and overcome cash flow obstacles by borrowing against their insured receivables. The other heavily-utilized small business product is Ex-Im Bank's Working Capital Loan Guarantee. Often, banks are frequently hesitant to lend against export-related assets, given the risks and perceived risks associated with international business and foreign receivables. With Ex-Im Bank's Working Capital Loan Guarantee, banks gain the confidence they need to extend credit, giving U.S. exporters the confidence and liquidity they need to accept new international contracts, grow export sales, pay workers, buy inventory and compete more effectively in the international marketplace

For Main Street American small businesses, these Ex-Im Bank products remove the uncertainty of collecting on overseas sales, so that entrepreneurs can focus on beating out foreign competition with high quality, innovative products rather than worrying about whether lack of financing will keep them out of the game. A great example is Droplet Measurement Technologies (DMT) in Boulder, Colorado, which employs a team of 45 people to manufacture cutting-edge cloud and aerosol measurement devices. They export to customers in over 47 countries. DMT began using Ex-Im Bank's insurance products over four years ago to safeguard its international accounts receivable. Since then, with new confidence to pursue overseas customers, the company's export sales have risen 17.5 percent and their workforce has grown by 20 percent.

The Bank can and continues to improve its practices to increase its support of small business. Ex-Im Bank's 12 regional export finance centers focus exclusively on small businesses. In addition, Ex-Im Bank has launched several initiatives to better build awareness and educate small business decision makers on trade finance:

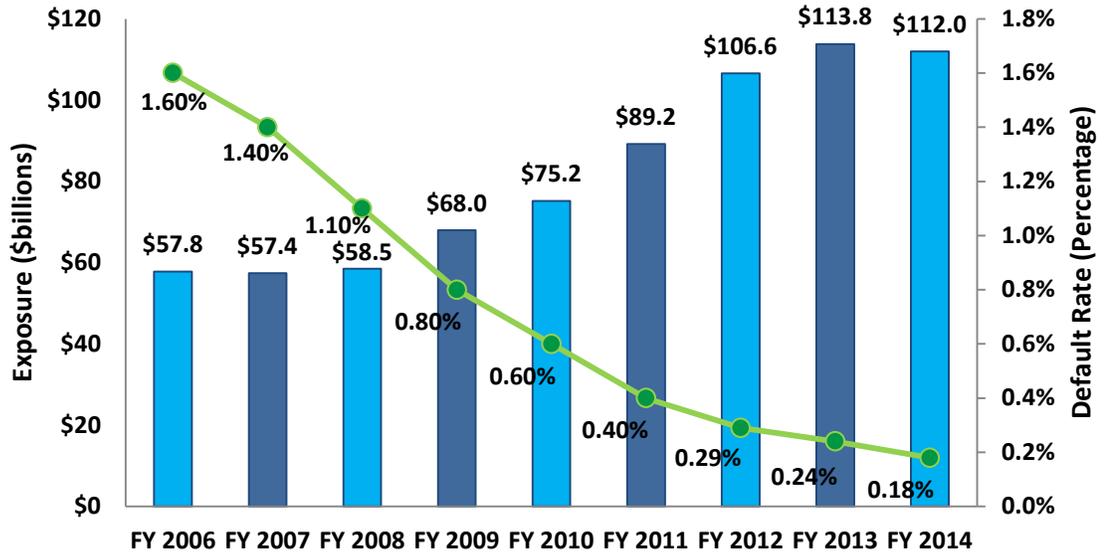
- Placing content on digital outreach channels frequented by small and medium sized enterprises. (e.g., industry publications, business news websites);
- Deployment of new customer relationship management systems to more effectively manage interaction with small businesses; and
- Launch of an Ex-Im Bank Contact Center to support Ex-Im Bank's goal to improve the ease of doing business for customers.

PROTECTING AMERICAN TAXPAYERS

As Ex-Im Bank works to finance U.S. exports, it takes its responsibility to protect the U.S. taxpayer very seriously. To that end, Ex-Im Bank has increased underwriting and exposure monitoring, taken an active stance towards fraud prevention in cooperation with our Inspector General, and implemented a robust, comprehensive risk management regime. In those rare instances where there is a default, costs are estimated to be covered by the fees and interest paid to the Bank by its customers—not by taxpayers.

The Bank’s focus on comprehensive risk management is demonstrated by its low default rate of 0.167% as of March 31, 2014.¹ As a result of the 2012 reauthorization, the Bank now reports its default rate to Congress every quarter.

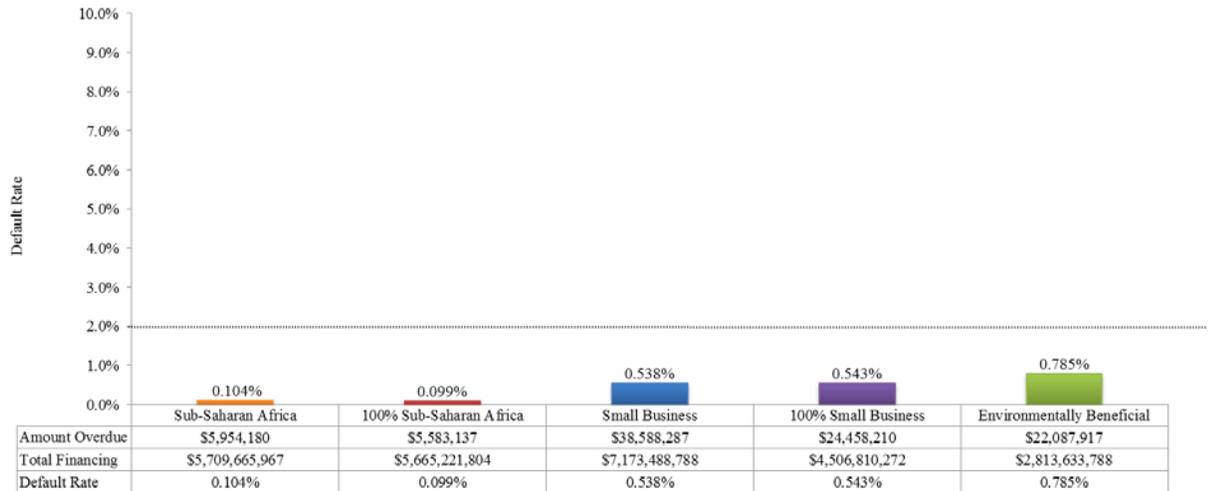
FY 2006 - FY 2014 Exposure and Default Rate



Ex-Im Bank’s congressional mandates to support Small Business, Environmentally Beneficial, and sub-Saharan Africa transactions account for 11.56 percent of the total amount of Ex-Im Bank financing and have experienced a default rate well below 2 percent as shown below.²

¹ This default rate is different than the default rates published in the annual Budget Appendix due to differing definitions. The reported rate in the Budget Appendix reflects projected defaults over the life of the loan while the default rate in this report reflects actual defaults at a particular point in time.

² The Sub-Saharan Africa and Small Business categories are the total amount overdue, financed and calculated default rate. The 100% Sub-Saharan Africa and 100% Small Business are sub-categories within the respective mandates. For these sub-categories, each transaction provides 100% of the financing in support of the mandate. Therefore the overall Sub-Saharan Africa and Small Business categories include both 100% mandate supported transactions as well as the commensurate amount of other transactions that partially support the mandate.



In addition, in FY 2014, almost 80 percent of the Bank’s exposure was backed by collateral or a sovereign guarantee. The Bank’s risk management framework has ensured a low number of defaults, coupled with high recovery rates on those credits that have entered into default. Since the Federal Credit Reform Act went into effect in 1992, the Bank has succeeded in recovering approximately 50 cents for every dollar defaulted in the portfolio. Claims are paid from fees collected from the Bank’s customers. In six of the past ten fiscal years, Ex-Im Bank recovered more money than it paid out in claims.

Since 1992, Ex-Im Bank has risk rated its portfolio using a 1 – 11 budget cost level (BCL) scale, with one being the least risk and 11 being the highest risk. The ratings are based, in general, on a borrower’s (1) ability to make payments, as indicated by relevant economic factors and (2) willingness to pay, as indicated by payment record and political and social factors. Four categories, ratings 1 through 4, are roughly equivalent to “creditworthy” or “investment grade” private bond ratings. Three categories, ratings 9 to 11, are for projects either unable to pay fully, even with extended repayment periods, or currently unwilling to make a good faith effort. Using the BCL at time of authorization and the authorized amount, Ex-Im Bank’s active portfolio’s weighted average risk rating is 3.52, corresponding to an investment grade portfolio. In the chart below are the weighted average BCL for the various Bank mandates.

Category	Budget Cost Level
Sub-Saharan Africa	5.57
100% Sub-Saharan Africa	5.57
Small Business	3.84
100% Small Business	3.75
Environmentally Beneficial	5.23
Active Portfolio	3.52

CONCLUSION

Ex-Im Bank works to fulfill its mandates while serving as a strong steward of taxpayer dollars. We are eager to continue to support American jobs, as the Bank has done effectively and efficiently for more than eight decades. Providing long-term certainty to U.S. businesses

seeking to compete in overseas markets is imperative as they make long-term plans to grow their global sales, to hire more workers, and to invest in innovation.

Exports have accounted for nearly one-third of our total economic growth over the past five years. Right now, exports are amongst record levels, representing over 13% of our GDP, but I think we can do better, which is why the President is trying to open more markets for American goods with bipartisan free trade agreements, and why Ex-Im Bank works to fill in private sector gaps in order to encourage more U.S. exports.

Rising competition and an ever-globalizing world have made Ex-Im Bank more vital than ever for reducing the risks faced by American exporters so that they can unleash opportunity in the form of new jobs. I look forward to continuing to work with you on empowering your constituents to export, grow, and hire more American workers.

Bio of Fred P. Hochberg

Fred P. Hochberg is Chairman and President of the Export-Import Bank of the United States (Ex-Im Bank). During his nearly six years of leadership, Ex-Im Bank has supported nearly 1.3 million American jobs and financed exports with a value exceeding \$200 billion.

Prior to his two terms as the head of Ex-Im Bank, Chairman Hochberg was dean of the Milano The New School of Management and Urban Policy in New York City. From 1998 to 2001, he served as deputy, and then acting administrator of the Small Business Administration (SBA), where he quadrupled lending to minority- and women-owned small businesses.

Prior to his service at SBA, Hochberg was the long-time President and Chief Operating Officer of the Lillian Vernon Corporation, where he led the transformation of a small, family mail order company into an international, publicly traded direct marketing corporation, making him one of the highest ranking business leaders in the Obama Administration.