

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

May 30, 2019

Memorandum

To: Members, Committee on Financial Services

From: FSC Majority Staff

Subject: June 4, 2019 Full Committee hearing entitled, “Promoting American Jobs: Reauthorization of the U.S. Export-Import Bank”

The Committee on Financial Services will hold a hearing entitled, “Promoting American Jobs: Reauthorization of the U.S. Export-Import Bank,” on Tuesday, June 4, 2019, at 10:00 a.m. in room 2128 of the Rayburn House Office Building. This single-panel hearing will include the following witnesses:

- Linda Menghetti Dempsey, Vice President, International Economic Affairs, National Association of Manufacturers
- Owen Herrnstadt, Chief of Staff to the International President, International Association of Machinists & Aerospace Workers
- David Hinson, Vice President, Institute for Diversity & Emerging Business, U.S. Chamber of Commerce
- Roy Kamphausen, Senior Vice President for Research, The National Bureau of Asian Research
- Archana Sharma, Chief Executive Officer, AKAS Tex, LLC
- Steven Wilburn, Chief Executive Officer, FirmGreen Incorporated

In addition, the Committee is also expected to receive testimony from small business exporters.

Overview of the Export-Import Bank

The Export-Import Bank of the United States (EXIM Bank, or EXIM) was established by executive order in 1934 and in 1945, became an independent federal agency. As the official export credit agency of the United States, the Bank’s mission is to promote the export of U.S. goods and services in order to help create and sustain jobs in the United States. Over the last 10 years, EXIM financed more than \$255 billion in U.S. exports, supported more than 1.5 million American jobs, and remitted more than \$3.4 billion in deficit-reducing receipts to the Treasury. The Bank’s core financial products fall into the following categories:¹

- **Direct loans.** EXIM offers loans directly to foreign buyers of U.S. goods and services.

¹ "Export Finance Solutions to Increase Sales for U.S. Business," EXIM Bank Brochure, November 2016, at https://www.exim.gov/sites/default/files/managed-documents/EXIM-Brochure_NOV2016-inhouse.pdf

- **Medium- and long-term loan guarantees.** EXIM promises to repay a lender (typically a commercial bank) to a foreign buyer of U.S. goods and services if the foreign buyer defaults on the loan.
- **Working capital.** EXIM provides a repayment guarantee to lenders on secured, short-term working capital loans made to qualified U.S. exporters. Generally, these are small businesses that have exporting potential but need working capital funds to produce or market their services for export.
- **Insurance.** EXIM issues an insurance policy to a U.S. exporter for payment of outstanding receivables in the event the foreign buyer defaults for commercial or political reasons.

By its charter, EXIM does not compete with the private sector. Rather, EXIM's role is to fill in gaps when the private sector lacks the capacity or willingness to provide the financing required by U.S. exporters.² In most cases, the Ex-Im Bank partners with commercial lenders to provide coverage for geopolitical or credit risks. For example, when private sector lending dried up during the 2007 financial crisis, EXIM provided financing for many export companies that could not otherwise obtain it. During FY 2010, the Bank provided \$24 billion in financing, and the Bank estimates that 227,000 jobs were created or maintained at more than 3,300 companies because of its programs.

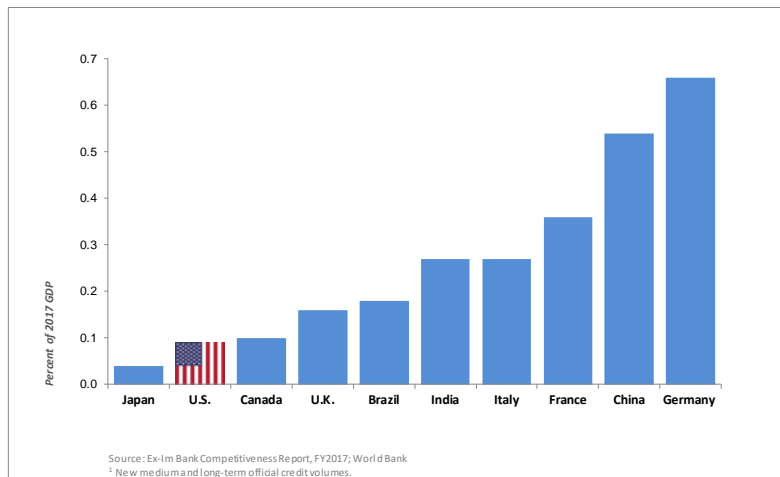
The Bank also plays a key role in leveling the international playing field by offsetting the financing offered by foreign export credit agencies. Ex-Im Bank is one of more than 100 export credit agencies around the world that help their home-country exporters compete in the global markets. Without EXIM, U.S. businesses would be at a competitive disadvantage vis-à-vis their foreign competitors, who receive generous export credit financing support through their own governments.

To avoid a global race to the bottom on government-backed export credit financing, in 1978 the United States and other governments that offer official export credit formed an "Arrangement on Officially Supported Export Credits" through the Organization for Economic Cooperation and Development (OECD). The Arrangement generally establishes limitations on the terms and conditions for government-backed export financing, including minimum interest rates, risk fees, and maximum repayment terms. Even though most large providers of export credit are party to the OECD Arrangement, as of 2013, two-thirds of all official export credit support was not regulated by the OECD. Much of this unregulated financing is offered by China, Brazil, India and Russia on more generous terms than can be offered by Ex-Im Bank and other members of the OECD Arrangement.

The chart below shows how EXIM's support for U.S. exporters stacks up in comparison to the export credit volumes of other major economies as a share of GDP.

U.S. Export Assistance vs. Foreign Assistance as Percent of GDP, 2017

² "The Charter of the Export-Import Bank of the United States, as amended through P.L. 114-94, December 4, 2015." Updated February 29, 2016. See at https://www.exim.gov/sites/default/files/2015_Charter_-_Final_As_Codified_-_02-29-2016.pdf



EXIM Bank is subject to statutory restrictions and oversight to safeguard its fiscal soundness, limit mismanagement, and prevent corruption. The Bank's charter requires the Bank to lend only if there exists reasonable assurance that it will be repaid. EXIM also submits annually a detailed report of its operations to Congress. In addition, the Bank is required to report annually on the ways in which it has helped small businesses and improved competitiveness in comparison to foreign ECAs. The U.S. Government Accountability Office (GAO) and the Bank's Office of Inspector General (OIG) regularly audit the Bank's activities.

Support for EXIM Bank Reauthorizations

The charter under which the Bank operates requires periodic Congressional reauthorization, and its current charter is set to expire on September 30, 2019. Over the years, Ex-Im has been reauthorized 17 times and support for the Bank, under both Democratic and Republican Administrations, has historically been strongly bipartisan. Before 2012, EXIM reauthorizations passed the House by voice vote more often than not, and always by large majorities. But in 2012, EXIM's reauthorization faced a year-long battle between parts of the Republican party that were ideologically opposed to the Bank as an unnecessary interference in the markets, and a majority of Republicans and Democrats who supported the EXIM reauthorization. After months of intense pressure, the 2012 EXIM reauthorization passed both the House and Senate with overwhelming majorities.

During the most recent EXIM reauthorization in 2015, the Bank faced a battle over its existence. The then-chairman of the House Financial Services Committee announced his goal to abolish the EXIM Bank altogether. Several months later, in July 2015, the House leadership allowed the Bank's charter to lapse for the first time in the Bank's 81-year history. After the Bank was shut down for five months, bipartisan supporters of the Bank used a rare parliamentary maneuver known as a discharge petition, which after being signed by a majority of House members, ordered the EXIM bill out of the Committee and forced it to the floor for a vote.

In December 2015, an overwhelming majority of members in both parties voted to renew EXIM's operating charter through September 30, 2019. The reauthorization legislation mandated a number of important reforms, including a provision to boost the share of financing for small businesses and reforms to ensure that EXIM maintains its fiscal soundness, including through measures to better mitigate risk, increase loan loss reserves, and review fraud controls.

Despite this overwhelming support, since 2015 the Senate leadership refused to confirm the directors of the EXIM board, thereby denying the board the quorum it needs to approve transactions over \$10 million. Without the ability to consider the full range of transactions pending approval, EXIM reported that it was unable to approve \$40 billion worth of transactions, which would support an estimated 250,000 jobs. Earlier this month, however, after 4 years, the Senate confirmed three new Board members of EXIM Bank, reviving the agency.³

This hearing will consider the reauthorization of the Bank and different perspectives on how reauthorization legislation can improve the Bank's effectiveness and ensure that a broad range of U.S. companies can benefit from the Bank's programs, among other issues.

³ Reuters, "U.S. Senate approves EXIM Bank nominees, restores lending powers," May 8, 2019