

**STATEMENT OF  
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OF THE  
EXPORT-IMPORT BANK OF THE UNITED STATES  
BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL TRADE AND FINANCE  
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS  
OF THE  
UNITED STATES SENATE**

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Mr. Chairman, Senator Bayh, Members of the Subcommittee:

I am pleased to be here today to testify on the 2006 reauthorization of the Export-Import Bank of the United States (hereinafter “Ex-Im Bank”, or “Bank”). Ex-Im Bank was originally chartered in 1934 and has played an active role in assisting in the financing of U.S. exports ever since. The mandate of the Bank as expressed in our charter is to create and sustain U.S. jobs by supporting U.S. exports that otherwise would not go forward. And while there are many issues pertaining to Ex-Im Bank policies that I will discuss in this testimony, that mandate remains at the core of why the Bank exists and why it should be reauthorized.

There is little argument that we are living in a very competitive global economic environment, and there are many instances when our exporters cannot be left to go it alone if we are to sustain the well-paying jobs behind those exports. In this kind of environment, the United States cannot afford to unilaterally disarm. The specific role of the Bank is to help provide export financing in instances where otherwise creditworthy transactions would not go forward. That can occur when private sector banks find a market or a buyer too risky for commercial financing, or when the export credit agencies of other countries offer support to their exporters in order to secure a sale for their workers and industries.

Make no mistake about it – I believe that U.S. workers make goods and services that can more than match the price and quality of any of our major competitors. But when other export credit agencies such as COFACE of France, Hermes of Germany, or ECGD of Great Britain offer financial support to their exporters, Ex-Im Bank steps in to “level the playing field” for our exporters and our workers. We want to make it possible to keep those jobs here in the United States.

We do this by offering direct loans to foreign buyers of U.S. goods and services, guaranteeing commercial bank loans to those same buyers, guaranteeing working capital loans to U.S. exporters to make it possible for them to make the exports and offering insurance policies so exporters, especially small business exporters, can offer extended

payment terms to their foreign buyers. It is through working capital guarantees and our insurance policies that we do the great bulk of our small business transactions, a topic I will discuss in depth below.

The Congress, through our charter, has offered us clear guidance on how to meet our mandate. I liken it to steering a ship between two beacons. One beacon represents the benefits we offer to U.S. workers and exporters when we assist in the financing of exports that otherwise would not occur, while the other represents the risks associated with credit. Over the years, those exports have helped to sustain U.S. jobs, jobs that on the average offer higher wages than non-export jobs. Since our 2002 reauthorization, we have authorized \$47.9 billion in financing support of an estimated \$63 billion in U.S. exports. Some of those have been big ticket items such as aircraft or power generation equipment. But over 80% of those transactions have been made available to directly support small business exports.

But we adhere just as strictly to the other beacon – the one that represents assuming reasonable risk and responsible stewardship of the resources provided by taxpayers necessary to bear those risks. The beacon of risk is “reasonable assurance of repayment,” a term Congress has explicitly put in our charter as our standard for making credit judgments. Once we decide to finance a transaction, we set aside a “loss reserve” to cover expected future losses. This reserve is provided for by the appropriations for our “program budget,” which represents the taxpayers’ contribution necessary to, when added to fees paid by our customers, serve as an estimated loan loss reserve against expected losses on transactions underwritten in a given year. So the taxpayers assume the risk represented by the program budget and also provide for our administrative budget. The results have been a bargain. Currently, every taxpayer dollar invested in the Bank’s program and administrative budgets makes financing available for over \$50 in U.S. exports. The overall loss rate for Ex-Im Bank over the course of its history has been less than 2%. That compares favorably to rates for commercial banks. Loss rates vary between markets and products, and we keep a close eye on what is occurring with every type of transaction. We believe Ex-Im Bank’s financial success is attributable to (i) productive international negotiations to create a level playing field with other Organisation for Economic Co-operation and Development (OECD) countries, (ii) responsible credit underwriting standards that seek reasonable assurance of repayment and (iii) rigorous management of our portfolio.

The conclusion is that we are conscientious fiduciaries of taxpayers’ dollars. When we manage to steer a course between the beacons of supporting exporters and workers on the one hand, and assuming reasonable risk on the other, we are of real benefit to the U.S. economy.

Congress also guides us on some course refinements along the way. It has instructed us to make 20% of our financing authority available for small business transactions, and though the 20% has never been fully realized, we have never turned down a small business transaction due to lack of resources. We are still seeking the best course to steer in order to maximize support for small businesses, within the context that Congress has

instructed us to be a demand-driven institution and not to compete with the private sector. We are happy to follow Congress' guidance on that issue. Congress has also told us to include efforts to promote exports to sub-Saharan Africa. As a result, Ex-Im Bank supported 115 transactions in 20 countries in the region, totaling \$461.8 million, a 36.4% increase over the FY'04 volume. In addition, Congress told us to support exports from businesses owned by women and minorities, which I will discuss later.

I was privileged to become Acting President and Chairman in July, 2005, and I am happy to continue in that role until the Senate acts on my nomination to be President and Chairman. If I am confirmed, I will continue to steer the Bank between those beacons, to keep an even and predictable course. But I won't be able to do it by myself. I will need the help of our very capable Bank staff, upon whom all Board members depend for the vital information that makes it possible for the Bank to function. Moreover, I want to emphasize that the Chairman and President of the Bank cannot act in isolation from the other Board members and expect to have an effective, smooth-running institution. I depend upon my fellow Board members for advice and counsel right now, and I can promise that I will continue in that practice if I am confirmed. That includes assuring that members of the Board have access to all of the information available on transactions and Bank policies, and have access to Bank staff to supply that information. That is the way I work now, and that is the way I will work in the future, if confirmed.

In the eight months I have held the position of Acting President and Chairman, and the four years I served on the staff level at the Bank, I have participated in Bank decision-making and become familiar with Bank policies. The Administration's decision not to request any substantive changes in the policies laid out in our charter is appropriate to our needs. Although the role and need for official export credit are constantly evolving in the face of the changing nature of export credit competitors (from France and Japan to China and Brazil) and the massive flows of private capital into the emerging markets since 2000, we at Ex-Im Bank believe the current charter language provides the institution with sufficient powers and flexibility to adjust our programs and policies to meet those challenges.

We are requesting an extension of the charter for five years, to September 30, 2011. We are also requesting that our existing authority to approve dual-use transactions, as well as the life of the Sub-Saharan Africa Advisory Committee, be extended to that same date.

Ex-Im Bank currently has the authority to approve transactions supporting the financing of dual-use exports as long as the items are of a non-lethal nature and are used primarily for civilian activities. While not widely used, that authority is important to some of our exporters. And the Sub-Saharan Africa Advisory Committee has proved to be a valuable source of knowledge to the Bank as we attempt to increase our exports to this important part of the world that offers great potential for our exporters.

## **APPROPRIATIONS**

For FY 2007, Ex-Im Bank is requesting \$26.4 million for its program budget. When added to other available budget authority, that will give us a total estimated program budget of \$176.5 million. We further estimate that it will allow us to authorize financing of approximately \$17.5 billion in support of \$22.5 billion in U.S. exports. From FY 2002 through FY 2005, the Bank has authorized financing of \$48 billion in support of U.S. exports using \$1.6 billion in program budget. That is a bargain for the U.S. taxpayer.

The Administration is also requesting \$75.2 million for our administrative budget, compared to \$72.5 million enacted for FY 2006. This pays for every aspect of our operations, from salaries to rent. I would like to emphasize that it is the administrative budget that is most important for our small business initiatives. It covers our outreach efforts and technological upgrades.

## **SMALL BUSINESS**

Since I was appointed Acting President and Chairman about seven months ago, no topic has received more attention at Ex-Im Bank than small business. We have been working with Congress on its concerns as well as with the U.S. Government Accountability Office (GAO) as they prepared a report on how we interpret our small business legislation and account for our small business transactions. We have conferred with small business representatives on changes I am about to discuss. And while I cannot say we have reached total agreement on all issues with all of the parties involved, we are embarking on major changes in our administrative structure with the purpose of continuing to increase our support for small businesses.

I say *continuing* to increase because we have already laid a strong foundation for growing our small business program. In FY 2005, Ex-Im authorized 2,617 transactions that were made available for the direct benefit of small business, compared to 2,154 in FY 2002, which represents a 21% increase. In terms of dollar volume, the Bank supported \$2.66 billion in small business transactions in FY 2005 compared to \$1.8 billion in FY 2002, a 47% increase. And the Bank's Working Capital Guarantee Program, which benefits primarily small business exporters, had a record year in FY 2005. Of the Bank's total Working Capital authorizations of \$1.096 billion, 78%, or \$850 million, directly benefited small business exporters.

While I recognize that we have been making progress, I am also aware that there is room for improvement. As I stated above, Congress has placed in our charter the mandate to make available 20% of our resources for direct support for small business. We have consistently made these resources available but they have never been utilized at the 20% level. We feel the way to move to the 20% level and beyond is to improve our outreach programs in order to increase demand. I have appointed John Emens to the new position of Senior Vice President for Small Business to manage his own unit, a staff focused

solely on small business outreach. He will report directly to the President and Chairman of the Bank. The person holding the position of Senior Vice President will serve as the primary small business advocate on the staff level, and will of course work closely with the Board member given responsibility for small business matters. In addition, the Bank's regional offices in New York, Florida, Illinois, Texas and California are now dedicated exclusively to small business outreach and support. Since his appointment in August as Vice President for Small Business, Mr. Emens has had a total of 129 meetings with, and sales calls to, small businesses.

Because the new Senior Vice President for Small Business is responsible to the President and Chairman for outreach to small business, and therefore has the lead responsibility for increasing the number of our small business transactions and the overall dollar amount of those transactions, we are separating those responsibilities from Bank personnel who are responsible for actually processing the transactions – that is, those in what we call the “business units.” That reflects what we do for all businesses, large and small, within the Bank. It is part of our credit culture, and reflective of the culture in the private sector, that those who must objectively evaluate credit not be the same as those responsible for business outreach.

However, I want to assure you that small business transactions are processed only by personnel experienced in small business and who are sensitive to the special needs of the small business exporter. To further enhance our services to small business, I have designated all such employees throughout our business units as “small business specialists,” so that when representatives of small business come into the Bank to discuss their transactions, they will interact with personnel who are familiar to them and knowledgeable about what their needs are.

The GAO report mentioned earlier finds that Ex-Im Bank “generally classifies small business status correctly.” Ex-Im Bank employs a transparent and reliable methodology for determining our customers’ small business status and reporting our direct support for small business. We have appreciated GAO’s cooperative approach to the small business review. It has been a positive experience for Ex-Im Bank, both in terms of reaffirming our methodology and from the perspective of identifying areas in which Ex-Im can improve the efficiency with which we determine and report our direct small business support. For example, in conjunction with the introduction of our Ex-Im Online program, we are this fiscal year updating electronic participant records, strengthening internal controls around small business reporting and arranging for an independent external audit of the Bank’s direct small business reporting starting with FY 2006.

#### Ex-Im Bank’s Small Business Committee

We also realize that outreach to small businesses and processing small business transactions involve almost every division within the Bank. Therefore, we have established an Ex-Im Bank Small Business Committee (SBC) to coordinate, evaluate and make recommendations regarding the many Bank functions necessary for a successful small business strategy. The SBC will be co-chaired by the Senior Vice President of

Export Finance and Senior Vice President for Small Business, who will report to the President and Chairman of the Bank. And we have institutionalized this structure by having the Board formally approve it. The SBC will be composed of representatives from Domestic Business Development under the Senior Vice President for Small Business as well as the principal processing units within our Small Business Group – Export Finance (Business Credit, Trade Finance and Insurance and Multi-Buyer Insurance), Credit Underwriting, the Office of the General Counsel and Asset Management. Other divisions within the Bank, including Congressional Affairs, will also participate at meetings.

The goals for the SBC are to:

- Provide a Bank-wide focus on small business;
- Report and evaluate each unit's small business performance;
- Identify opportunities for cross-selling and expanding the use of Bank programs for small business;
- Measure the progress and take steps toward meeting small business plan objectives; and
- Serve as a forum for exploring new small business initiatives.

#### Claims Committee

In addition, we have established a new claims reconsideration procedure and "Claims Committee." The Claims Committee will be responsible for evaluating and making final decisions with respect to claims originally denied by the Office of the Chief Financial Officer. I believe these changes will help all of our customers, but will be particularly useful to small businesses, by improving transparency in the claims reconsideration process. In addition, the new procedure establishes formal consultation among the business units of the Bank and the Asset Management Division as part of the reconsideration process. The Claims Committee will comprise (i) the Senior Vice President for Small Business, (ii) the Senior Vice President for Export Finance, (iii) the General Counsel, (iv) the Chief Financial Officer, and (iv) the Senior Vice President for Credit and Risk Management.

To strengthen customer education about the reconsideration process, a small-business portal with information pages will be created on Ex-Im Bank's Web site. The Claims Committee will hold its first meeting in mid-March.

#### Technology Upgrades

I also want to discuss with you the progress we are making regarding our technology improvements. The Bank has responded to the Congressional mandate in our last reauthorization 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.” The Bank has substantially expanded its online capabilities for its customers, especially small businesses. The Bank has been implementing online capabilities in stages. In the past five years, we have done the following:

- **Forms automation.** Ex-Im Bank has updated its Web site to provide all customers, particularly small businesses, with improved access to information, applications and forms. All of Ex-Im Bank’s applications and forms are available through the Web site.
- **Electronic claim filing.** Ex-Im Bank has established an electronic claim filing system to expedite claim filing and enable customers to obtain a quicker claim payment.
- **Electronic compliance.** Ex-Im Bank has developed an online Medium-Term Electronic Compliance Program, which greatly improves the efficiency and turnaround time in approving disbursements.
- **Letter of Interest.** Ex-Im Bank has implemented an online application for its letter of interest. The online letter of interest system provides a paperless workflow and application process for small businesses. This capability streamlines the process for small businesses and saves them time in tracking the status of their submitted applications.
- **Registration and subscription services.** Customers can sign up online to receive Ex-Im Bank publications, e-mail updates and other information and to manage their subscriptions.

### Ex-Im Online

Ex-Im Online, our major business reengineering and automation project, is the next step. In June, small business customers will begin using Ex-Im Online for multibuyer products, including support for special buyer credit limits. These are the products most heavily used by small business: more than 80% of the customers are small businesses, and these products represent half of Ex-Im’s annual transaction volume. Customers will apply online, get quick decisions and receive online status information. Programming for the system is complete. The system has been fully tested and customers are being trained.

Ex-Im Online will reengineer, automate and modernize Ex-Im Bank’s primary business processes, particularly for the products used by small businesses (short-term export credit insurance) and the products that provide significant indirect support for small business exporters and suppliers (medium-term insurance and guarantees).

Ex-Im Online will provide exporters, in particular small businesses, the benefits of electronic application submission, processing and insurance policy management. Ex-Im Online will reduce customers’ paperwork, improve Ex-Im’s response time, increase productivity and improve risk management.

Ex-Im Online will allow customers to:

- **Apply online.** Applications and all supporting documentation can be submitted and processed electronically.
- **Get quick decisions.** Online retrieval of credit and demographic information and automated underwriting will reduce review and decision time for short-term transactions.
- **Receive online information on application status.** Applicants will receive email notification of the status of their application.
- **Reduce paperwork burden.** Automatic data entry and reuse of existing data will permit “enter once–use many times” management of customer information.
- **Manage export accounts receivable online.**
- **Strengthen product development.** Ex-Im will be able to consider a broader range of product enhancements and modifications, particularly in the short-term insurance area, as a consequence of better risk quantification and management capabilities using online systems.

There will also be benefits to Ex-Im Bank:

- **Increased productivity and better resource use.** Replacing manual processes will allow staff to focus on meeting growing small business needs and extending outreach to new customers. Ex-Im will redeploy staff from processing to customer service. As small business transactions and volume grow as expected from increased outreach, we will be able to manage the growth without adding staff. In addition, staff shifted from processing to customer service will provide more person-to-person service for small business customers, especially new exporters.
- **Increased customer satisfaction.** Streamlined application submission, automated case processing and quicker decisions will increase satisfaction with Ex-Im services, supporting our outreach and marketing.
- **Stronger risk management.** Business intelligence tools and better sharing of information will improve management of the portfolio.

This program is the result of approximately \$10.8 million in spending over five years, and while it has taken a long time to get it in place, I am confident it will bear fruit by easing small business customers’ interaction with the Bank.

Pursuant to direction in our 2002 reauthorization, the Bank has realigned its budget to support small business technology. Technology expenditures in Fiscal Years 2001 and 2002 increased from \$7.6 million to \$12.0 million, an increase of more than 50%, with smaller increases in FY 2003 and FY 2004. In the last three fiscal years, Ex-Im’s administrative expense budget has been generally flat, and Ex-Im has funded improvements to its portfolio of online applications and services from its general technology budget.



In the end, I would like to be able to guarantee that these efforts will result in 20% of our funds being utilized by small business exporters, and that our small business figures will continue to grow in absolute terms. Unfortunately, I cannot. At Congress' direction, we are a demand-driven enterprise. I cannot predict business cycles, or whether applications that come in tomorrow will be appropriate for the financing we have to offer. But what I can guarantee is that we will do everything within our power to increase demand through improved outreach programs. And I promise you that Ex-Im Bank is going to listen to small business input concerning our programs, that we will communicate with Congress and take your concerns seriously, and that our renewed efforts in small business are going to be sustained.

## **ECONOMIC IMPACT**

Through the economic impact process the Bank seeks to determine whether a transaction under consideration would adversely affect U.S. production or employment, or result in the manufacture of a good subject to specified trade measures. In analyzing these cases, Ex-Im Bank must balance the benefits associated with the U.S. export against the long range implications of increased foreign production. Given Ex-Im Bank's objective of maintaining and increasing employment of U.S. workers, Ex-Im Bank has long accepted the principle that it should not extend financing support when such support would adversely affect the U.S. economy.

While Ex-Im Bank's consideration of economic impact pre-dates the Bank's 2002 reauthorization, Congress made substantive changes to the economic impact section of our charter in 2002. After extensive vetting and coordination with our stakeholders – including the U.S. export community, industry, labor interests, and Congress – Ex-Im Bank issued revised economic impact procedures in March 2003.

The economic impact procedures are intended to lay out a reasonable and logical process to analyze the impact of Ex-Im Bank support for a particular transaction. The economic impact analysis considers issues such as whether the goods and services Ex-Im Bank is asked to support would establish or expand foreign production capacity of an exportable good, the relevance of trade measures, the global supply and demand for the good to be produced and the competitive impact on U.S. industry from increased production. The process includes review by other U.S. government agencies, as well as input solicited from interested parties through Federal Register notification.

In recent years, economic impact decisions have affected Ex-Im Bank financing support for many exports, including steel-making equipment, glass-making equipment, greenhouses, microchip manufacturing machinery, soda ash processing equipment, and others.

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

### Environmentally Beneficial Exports

Ex-Im Bank established the Environmental Exports program to increase support of environmentally beneficial goods and services. Since the program's inception in 1994, Ex-Im Bank's environmental transactions have grown significantly, with a total portfolio in excess of \$2 billion. That has allowed U.S. environmental companies to compete in promising emerging markets. From FY 2002 to FY 2005, Ex-Im Bank has supported more than \$1.3 billion in environmentally beneficial exports. The Ex-Im environmental portfolio includes transactions financing U.S. exports of renewable energy equipment, wastewater treatment projects, air pollution technologies, waste management services, and many other goods and services. Renewable energy and water project exports are eligible for repayment terms of up to fifteen years under an OECD agreement that became effective July 1, 2005, for a trial period of two years. It is our goal to use these new terms and our outreach programs to expand our exports in this sector, where we feel the United States has a real technological edge over its competition.

### Women and Minorities

As a nation, our institutions work best if they reflect the society in which we live. This holds true especially for business. It is easier to successfully market a product or services to a community if you know that community and are 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 2005, our authorizations in this area were \$353 million, compared to \$296 million in FY 2004. We have increased our outreach to achieve this goal, and plan to increase it even more this year. In FY 2005, Ex-Im Bank staff participated in 57 speaking engagements and attended thirteen conferences expressly aimed at these targeted audiences. We are committed to continuing and expanding these efforts.

## **FUTURE CHALLENGES**

Any testimony about Ex-Im Bank must include a discussion of the challenges Ex-Im Bank will be facing over the next five years, the length of our request for reauthorization. That is no easy task, because it is extremely difficult to predict even such major events as the Asian financial crisis of the late 1990's, or the rise and fall of some of our major markets in South America such as Venezuela and Argentina. But there are issues that bear watching and which may have to be dealt over the next five years.

Developing countries on the upper part of the industrialization scale (e.g. Brazil, Russia, India and China) are emerging as significant exporters of capital goods such as airplanes, trains and construction and telecommunications equipment. Those products are generally

priced very attractively, are steadily improving in their quality and are typically supported by official financing. This financing is often on better terms better than agreed to by members of the OECD. U.S. companies, and those in all G-7 countries for that matter, are noting that these emerging exporters are displacing them in a variety of markets around the world – and financing is sometimes a key element in that displacement. We have to decide what should Ex-Im Bank's response be.

Looking at this issue from the standpoint of our Congressional mandate, there is little doubt that the guidance would be for Ex-Im to offset the financing if requested to do so, keeping in mind that we also must find a reasonable assurance of repayment, comply with our environmental guidelines, live within a limited budget and meet our economic impact requirements. There is no clearer or more fundamental mandate than leveling the playing field for our exporters and keeping jobs here in the United States.

## **CONCLUSION**

I have every confidence that this institution that I have grown to admire and respect will continue to serve United States workers and taxpayers for years to come. A flexible charter allowing Ex-Im Bank – with the guidance of Congress and the exporting community, to develop answers to the pressing issues facing us now and in the future – is key. The beacons to help a steer a true course have been set so we can do our job for the U.S. economy. There is no more important economic issue than preserving our job base, and with the help of Congress in this year of our reauthorization, we will continue to fulfill that mandate.

I will be happy to answer your questions.