

**TESTIMONY OF FRED P. HOCHBERG - PRESIDENT AND CHAIRMAN
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE SENATE BANKING COMMITTEE
May 17, 2010**

The Export-Import Bank of the United States (“Ex-Im Bank” or “Bank”) is the official export credit agency of the United States. The mission of Ex-Im Bank is to enable U.S. companies – large and small – to turn export opportunities into real sales that help maintain and create U.S. jobs which contribute to a stronger national economy. The Bank achieves this mission by providing export financing through its loan, guarantee, and insurance programs in cases where the private sector is unable or unwilling to provide financing. Ex-Im Bank also provides support when export financing is necessary to level the playing field due to financing provided by foreign governments to their exporters that are in competition for export sales with U.S. exporters.

All Ex-Im Bank products carry the full faith and credit of the U.S. government and are only provided if the Bank is convinced that there is reasonable assurance of repayment. As a result of our diligent review and management of credit, the Bank has a loan loss rate of roughly 1.5 percent – well below most commercial banks. Since FY 2008, Ex-Im Bank has operated in self-sustaining financial status at no cost to the taxpayer, while achieving its mission.

Over the past two years, Ex-Im Bank addressed the market contractions caused by the financial crisis by stepping in where private banks and other lending institutions were unwilling or unable to meet the trade finance needs. In recent years, the Bank has supported a level of authorizations that is far higher than historical averages.

In FY 2008, Ex-Im authorized \$14.4 billion to support transactions that resulted in roughly \$19.6 billion in U.S. exports. Just 2 years later, in FY 2010, Ex-Im authorized a record \$24.5 billion in export financing which supported roughly \$34.3 billion worth of U.S. exports and 227,000 U.S. jobs at more than 3,300 U.S. companies.

I am proud to say that we have accomplished all of this work at no cost to the U.S. taxpayer. Ex-Im Bank more than covers our administrative and program expenses through the fees that we charge to borrowers of the U.S. exports Ex-Im Bank helps to support. In the past five years, we have sent \$3.4 billion to the US Treasury.

Ex-Im Bank offers three financial programs to keep the U.S. competitive in the world markets: direct loans, guarantees, and insurance. There are various products within these programs, such as Working Capital Guarantees and Export Credit Insurance, which primarily benefit small businesses.

Direct loans provide financing directly to foreign buyers of U.S. goods and service and cover up to 85 percent of the U.S. contract value or 100% of the U.S. content, whichever is less.

Loan guarantees cover the repayment risks on the foreign buyer's debt obligations incurred to purchase U.S exports. Ex-Im Bank guarantees to a lender that, in the event of a payment default by the borrower, it will pay to the lender the outstanding principal and interest on the loan. We provide support up to 85 percent of the U.S. contract value or 100% of the U.S. content, whichever is less.

Working Capital Guarantees provide repayment guarantees to lenders on secured, short-term working capital loans made to qualified exporters. The working capital guarantee may be approved for a single loan or a revolving line of credit. Ex-Im Bank's working capital guarantee protects the lender from default by the exporter for 90 percent of the loan.

Export credit insurance helps U.S. exporters sell their goods overseas by protecting them against the risk of foreign buyer or other foreign debtor default for political or commercial reasons, allowing them to extend credit to their international customers. Insurance policies may apply to shipments to one buyer or many buyers, insure comprehensive (commercial and political) credit risks or only political risks, and support short-term or medium-term sales.

By utilizing these various products, Ex-Im Bank levels the playing field for U.S. exporters and workers so U.S. jobs are not lost to foreign competitors.

To ensure that the needs of small businesses are met, Congress mandates that 20 percent of our authorizations directly benefit small businesses. I am happy to report that we are meeting this mandate. Our totals for small business transactions have increased from \$ 3.2 billion in FY 2008, to \$5.1 billion in FY 2010, which reflects a 58 percent increase over the two-year period. We have been able to maintain the 20 percent small business mandate over the last two years, in a time that has seen our total business grow from \$14.4 billion in FY 2008 to \$24.5 billion in FY 2010, a 70 percent increase.

We recently submitted our 2011 Small Business Report to Congress on March 31st which details our small business activity for fiscal year 2010 and the plans that we have already initiated for 2011 to continue growing our small business portfolio.

While we have met our 20 percent Congressional mandate and we continue to implement new programs and strategies to grow that percentage, it is increasingly difficult to do given our

limited administrative budget and our inability to deliver the highest level of quality customer service as a result of our aging Information Technology (IT) infrastructure. The Bank utilizes its various products to respond to the needs of the market and as such, we provide financing based on what business is coming in at any given time. We continue to aggressively pursue small business transactions, but ultimately our percentage of the total portfolio is a function of the sectors that need Ex-Im financing at any given time. Small business transactions account for more than 85 percent of our total transactions at the Ex-Im Bank but are just over 20 percent of the authorization dollars. Meeting our 20 percent small business mandate is something that is highly labor intensive and requires significant resources. To maintain and grow our small business percentage, we will need an increase in our administrative budget.

In order to further expand the small business activity, Ex-Im has initiated the following initiatives:

- **Global Access for Small Business Initiative:** Earlier this year, I was joined by Tom Donohue from the Chamber of Commerce and Jay Timmons from the National Association of Manufacturers in announcing Ex-Im Bank's Global Access for Small Business Initiative. Ex-Im Bank is sponsoring a series of 20 forums across the country to assist small business exporters in understanding how the Bank's programs and programs at the Small Business Administration (SBA) and Department of Commerce can help them begin exporting or increase their international sales. In addition to presentations by successful small business exporters, the Global Access forums include panels of Ex-Im, SBA and Department of Commerce staff based in local United States Export Assistance Centers (USEACs) as well as one-one-one counseling by Ex-Im Bank Export Finance Managers and other federal agency representatives. These half-day events are free for attendees and held in collaboration with elected officials, representatives from federal and local government agencies, lenders and insurance brokers involved with supporting exporters. We also provide small business owners as panelists who highlight their success in using Ex-Im Bank products to start or grow their exporting and we provide one-on-one counseling for businessmen and women at the event.
- **Expanded Bank and Broker Training:** Ex-Im Bank has expanded its lender and broker training options to include monthly trainings around the country. Webinars have also been added to the training curriculum to help exporters, lenders and insurance brokers learn how to use Ex-Im products and services.
- **Supply Chain Finance Guarantee.** The Supply Chain Finance Guarantee provides competitively-priced working capital financings to businesses that supply products or services to larger U.S. exporters. These businesses are considered indirect exporters. The product works through approved lenders with an existing supply-chain finance program.

It enables the lender to purchase accounts receivable from small business suppliers whose goods will be part of an export. The suppliers are paid for their goods in approximately five days which improves their cash flow and liquidity. Ex-Im Bank provides the lenders with a 90 percent guarantee of repayment by the manufacturers. In turn, the Bank requires that at least 50 percent of the credit be to small-business suppliers.

- **Reinsurance.** Reinsurance assists private-sector insurers that provide short-term export-credit insurance covering foreign receivables to predominantly U.S. small business exporters. This new product will increase the capacity of insurance companies to offer insurance to small business exporters that have had difficulty obtaining short-term export credit since the financial crisis. The Bank's reinsurance product will mitigate risks for private insurers and enable them to expand their underwriting capacity for short-term small business credits. It will also help Ex-Im Bank achieve economies of scale in originating, underwriting and servicing these credits – accomplishing substantially more for small businesses with fewer resources by expanding the reach of private-sector insurers.
- **Express Insurance.** In response to the requests of exporters and Ex-Im Bank broker-partners, Ex-Im is adding a new program to its flagship Trade Credit Insurance product – Express Insurance. Express Insurance specifically targets small businesses. Ex-Im Bank has designed an express insurance product that streamlines the application process for the Bank's short-term export credit insurance. The target turnaround time for a quote is 5 days, down from the current average of 15. Cutting the processing time by 2/3 and cutting the length of the actual application from 4 pages down to 2 pages and using credit scoring in the processing of new applications and renewals reduces the time frame and the complexity of insurance that small businesses need to protect their export receivables from foreign buyer and country risk.

Authorizations – Small business authorizations in FY 2010 increased 15.9 percent to just over \$5 billion as compared with new small business authorizations for FY 2009 of roughly \$4.4 billion and FY 2008 of roughly \$3.2 billion. In FY 2010, small-business authorizations represented 20.7 percent of total authorizations. During FY 2010, the number of transactions that were made available for the direct benefit of small-business exporters increased by 21.7 percent to 3,091 transactions compared to 2,540 in 2009.

As referred to earlier, Ex-Im Bank offers two products that primarily benefit small businesses: Working Capital Guarantees and Export Credit Insurance. In fiscal year 2010, Ex-Im Bank authorized roughly \$1.5 billion in Working Capital Guarantees to small businesses compared to \$1.2 billion in 2009. In fiscal year 2010, Ex-Im Bank authorized more than \$2.6 billion in Export Credit Insurance to small businesses.

Increased Lender and Broker Participation - Ex-Im Bank leverages its resources on behalf of small businesses by working with private-sector lenders, insurance brokers and other financial and trade institutions. In fiscal year 2010, 18 new lenders received Delegated Authority to provide working capital guarantees. Delegated Authority provides lenders a pre-approved credit line which allows them to approve loans and receive Ex-Im Bank's guarantee without having to submit individual applications for approval. An additional 14 brokers serving small businesses trade insurance needs were added to the roster. At the fiscal year's end, Ex-Im Bank had a total of 100 delegated authority lenders and 194 registered brokers helping deliver the Bank's small-business products. While these numbers are significant, we continue to seek additional brokers and lenders to partner with Ex-Im Bank.

Export Initiative with State and Local Constituencies - One effective approach to developing strong partnerships is our initiatives with our City/State Partners. More than 60 Ex-Im City/State Partners in 40 states work with Ex-Im Bank and report their activity annually. Their mission is the promotion, creation and expansion of businesses in a given region by making available financing assistance and entrepreneurial services. Examples of eligible partners include: State, County, City Governments—either directly or indirectly funded; local non-profit economic development entities funded through universities and colleges; and Small Business Development Centers.

Many of the small business owners are veterans, women and minorities. Ex-Im Bank wants to do more to reach these key groups which historically are less likely to approach the Bank for financing. In an effort to increase our interaction with these groups, Ex-Im Bank has worked with the Department of Commerce and other sources to increase our outreach. I would also ask members of this committee and your colleagues to provide suggestions of organizations, constituencies, and events that you think we should be participating in so we can grow participation among veterans, women and minorities.

Ex-Im Bank recently created a new position of Director of Veterans' Relations to better reach out to all veterans groups and to connect export finance opportunities with their knowledge of foreign cultures, people and businesses. Ex-Im Bank hosted the Vet-Force meeting for Veteran Owned Business (VOB'S), Veteran Community Organizations (VCO'S) and various government agencies to introduce veterans to export financing. In coordination with SBA'S Georgia District Office Ex-Im's Director of Veterans' Relations was the keynote speaker at the first ever Veteran's Export Symposium.

In fiscal year 2010, Ex-Im Bank authorized \$481 million to support exports by U.S. small businesses known to be minority-owned and woman-owned (this information can be volunteered on applications, but we cannot require it). In fiscal 2009, Ex-Im Bank authorized \$492.7 million

to support exports by U.S. small businesses known to be minority-owned and woman-owned. Although support for minority and woman-owned small business declined slightly, the total support increased by \$65.2 million when taking into account medium and large exporters in this group.

(Millions)	2008	2009	2010
Minority and Woman Owned			
Medium/Large Business	\$80	70.3	\$147.2
Small Business	<u>\$386</u>	<u>\$492.7</u>	<u>\$481.0</u>
Total	\$466	\$563.0	\$628.2

Significant emphasis is placed on events attended by small business exporters, as well as minority, rural, and woman-owned entrepreneurs. During 2010, staff from within the Small Business Group at the Bank attended 85 outreach events reaching approximately 5,500 Minority and Woman-Owned Business exporters and intermediaries. Ex-Im Bank made presentations at 75 percent of the events attended in 2010.

Significant steps are being taken to boost this segment of the Ex-Im Bank business. First and foremost, during 2010, Ex-Im Bank hired as our new Senior Vice President of the Small Business Group a former banker with 20 years in community development and minority lending and investment experience. In addition, we hired a Vice President of Marketing and Sales, a Community Reinvestment Act professional from a major bank. In addition to their managerial responsibilities, these two officers will further expand Minority and Woman-Owned Business Outreach activities. We have also reallocated resources to achieve our 20 percent small business mandate.

In order to expand the reach and service to small businesses, Ex-Im is doing the following:

- **Global Access Events.** Developing at least 4 Global Access media and training events specifically for Minority and Woman-Owned Businesses.
- **Community Development Financial Institutions.** The Small Business Group attends the conferences for the National Federation of Community Development Credit Unions, Opportunity Finance Network, National Community Reinvestment Coalition and events sponsored by federal regulators concerning Community Reinvestment Act initiatives. The chief objective is to expand the number of local and community development banks and other intermediaries using the Ex-Im Bank trade credit and working capital products and services.

- **Direct Calling on Minority and Woman-Owned Exporters.** In order to expedite the communication with the exporter, Ex-Im has established a “smart data-base” program. The program, which includes exporter names from the Trade Promotion Coordinating Committee (TPCC), is designed to support direct outreach to minority and woman-owned exporters through systematic cold calling by experienced Ex-Im Bank export finance officers. While targeting the use of Ex-Im Bank’s trade credit insurance, the officers are also trained and encouraged to refer exporters to the appropriate Department of Commerce and SBA functions as reflected by the exporter’s needs.

The global marketplace is brutally competitive for businesses small and large. At Ex-Im we have seen a decrease in sovereign loans and an increase from the private sector in emerging markets. And commercial lenders routinely limit the amount of exposure a company can have in particular regions and consequently those businesses are coming to Ex-Im Bank for financing. Businesses in the United States are second to none when it comes to manufacturing. The U.S. is the number one manufacturer in the world. We make more goods than China, Germany, and Japan.

However, when it comes to selling overseas, we fall to number three behind China and Germany, which is unacceptable. There is nothing third-rate about American products and American business and there should be nothing stopping us from selling more of the products and services we make into the global marketplace.

By ensuring that more American companies—big and small—go after our share of this global business, Ex-Im Bank is helping build the type of export powerhouse that is at the heart of President Obama’s plan to win the future and double exports by 2015. At Ex-Im, our goal is to provide the financing to make this a reality.

We have targeted nine emerging markets in Brazil, Colombia, India, Indonesia, Mexico, Nigeria, South Africa, Turkey and Vietnam. Let me provide examples of the work Ex-Im Bank is doing to support exports to a couple of these countries.

India plans to spend \$1 trillion on infrastructure between 2012 and 2017, which is double what they spent in the previous five years.

As part of these investments, India needs to build one million square miles of new paved roads and roughly 4,600 miles of new metros and subways. That rail system and those roads mean billions of dollars worth of capital goods and services---from trains to rails to engineering services to paving equipment.

In addition to infrastructure demands, India also has growing power needs. Today, nearly 400 million people in India have never seen a light bulb. India is powering up and they are working to do it responsibly. India recently announced its National Solar Mission, a far-reaching plan to add 20,000 megawatts of solar power by 2020. That is enough to power nearly 10 million homes with renewable energy.

At Ex-Im, we are working with U.S. solar companies to make sure they have the competitive financing they need to be part of these projects. One of these companies is Infinia, which is based in Washington State. Ex-Im recently authorized a \$30 million direct loan to finance a solar project in Rajasthan, India. The project is using Infinia's PowerDish technology. This was Infinia's first major sale for foreign delivery and their largest sale to date.

Brazil is another market that we are targeting due to its forecasted growth in the coming years. With the World Cup in 2014 and the Olympics just two years later, boosting power production and building out infrastructure are two of the country's critical priorities. Brazil will invest more than \$200 billion on everything from roads and public transportation, to airports and sports stadiums.

Ex-Im will support American companies—and American workers—exporting to these projects. That's why just a few weeks ago, President Obama announced a \$1 billion credit facility in Ex-Im financing for the State of Rio de Janeiro. Its purpose is to finance the purchase of more American-made goods and services. All around the world we are seeing similar opportunities for American companies.

In many cases, Ex-Im Bank's financing levels the playing field when it comes to international competition. Let me give you an example. General Electric (GE) was recently bidding on a \$500 million rail project to supply 150 diesel-electric locomotives to Pakistan. These locomotives are critical to building the infrastructure of Pakistan's economy, so products and commodities can get to market.

GE was told by Pakistani officials that they preferred GE locomotives and they were willing to pay a premium for their high-quality and dependability. However, there was only one sticking point and it was financing. The Chinese government offered financing that did not conform to international standards and practices. The intended was to provide Chinese manufacturers an advantage that GE could not make up in quality, price or service. This put the entire sale and more than 700 jobs in Erie, Pennsylvania at risk.

To remedy this, the Administration put together a matching financing package. And for the first time, we went to the OECD, the organization that governs global export financing, to inform them of our decision to match China. While the final deal is not yet completed, this significant

policy change signals to foreign competitors that Ex-Im will compete on financing, allowing American companies to compete solely on the quality and value of its products--and the service it provides.

Let me share with you exciting results we have accomplished in financing renewable energy. The Ex-Im Bank has made significant strides when it comes to increasing financing of renewable energy products. In FY 2008 the Bank authorized \$30.4 million in renewable energy exports. That grew to \$101 million in FY 2009. We tripled our previous year's totals by authorizing \$332 million for renewable energy exports in FY 2010. To put this number in perspective, according to data gathered by the Department of Commerce, the U.S. exported a total of \$2.1 billion in renewable energy products in 2009. Ex-Im Bank is playing a major role in supporting U.S. renewable energy exports. In FY 2011 we are projecting to more than double our authorizations from FY 2010.

We are also breaking records with our work in sub-Saharan Africa. For FY 2009, Ex-Im Bank supported 109 transactions totaling \$412 million across 20 sub-Sahara African countries. In FY 2010 those totals grew to 132 transactions totaling \$812 million in 20 sub-Saharan African countries, which represents nearly 5 percent of all U.S. exports for the region. In FY 2011, Ex-Im Bank expects to top \$1 billion in sub-Saharan African authorizations.

We are supporting U.S. exports and transactions across various economic sectors including: power, aviation, transportation, construction, agriculture, and mining.

Ex-Im Bank is providing a key service to businesses large and small in the United States. In order for us to continue helping to grow and sustain jobs through exports, the Bank needs to be reauthorized.

Our legislation provides for a gradual increase in our exposure limit over four years from the existing \$100 billion to \$140 billion in FY 2015, removes outdated references from our Charter - such as removing references to the former Yugoslavia which disbanded in the 1990's, and provides for a four year reauthorization which allows the Ex-Im Bank to continue operations through September 30, 2015.

The President's FY 2012 Budget continues the Bank's self-sustaining status, which was achieved for the first time in FY 2008. I want to emphasize this point: self-sustaining status allows for funding of the Bank's operations, including program budget and administrative expenses, entirely from fees collected from the Bank's borrowers. As a result, the Bank does not rely on taxpayer resources to fund operations, which is critical in a tight budgetary environment. Congress will continue its oversight of Ex-Im Bank's budget, setting annual limits on its use of funds for program subsidy and administrative expense obligations.

Ex-Im Bank and our employees are making a significant contribution to the U.S. economy. Our employees at the Bank have helped increase business by 70 percent since 2008 while implementing new technologies and programs like Express Insurance and Supply Chain Finance which are detailed in my written testimony. At the same time, we have received only a 7.6 percent increase in our administrative expense appropriation since 2008 and have only increased staffing by 13 FTEs or full time equivalent staff. Simply put, we have become leaner and more productive. This is something that every business strives to achieve. While Ex-Im's staffing and budget have remained relatively flat, we have generated billions in funds for the U.S. Treasury. But, in order to meet our goal of doubling exports by 2015, we must be able to increase our administrative budget.

I ran a business for 20 years and I know that we need to continue to invest in capital and human resources in order to grow business. The President has proposed an increase in our budget for Fiscal Year 2012. This increase includes \$124.6 million for our administrative budget which would allow Ex-Im Bank to increase staffing for outreach to small businesses. Additionally, it will provide resources to improve our IT systems to help expedite applications and provide better customer service. While I realize this is our authorizing committee and not our appropriating committee, I would encourage you all strongly to consider the President's request for increased funding levels for the Bank. Let me be clear - this increase in our administrative budget is simply allowing Ex-Im Bank to use more of the money it generates for administrative expenses, which in turn will help sustain and create more jobs and generate more funds for the taxpayers of our country. The President's Budget still estimates – even with the increase in administrative budget – that the Export-Import Bank will generate excess funds in the amount of \$212.9 million in FY 2012.

Thank you very much and we look forward to working with you on the re-authorization process.