

**STATEMENT OF
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CHAIRMAN AND PRESIDENT (ACTING)
OF THE
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
OF THE
UNITED STATES SENATE**

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Mr. Chairman, Senator Sarbanes, Members of the Committee:

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 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. The specific role of the Bank is to help provide export financing in instances where creditworthy transactions would not otherwise go forward. That can occur when a market or a buyer is too risky to obtain 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 provide 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 driving between two guideposts. One guidepost represents the benefits we offer to U.S. workers and exporters when we assist in the financing of exports that otherwise would not occur. 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 guidepost – the one that represents assuming reasonable risk and responsible stewardship of the resources provided by taxpayers necessary to bear those risks. The guidepost of risk is “reasonable assurance of repayment,” a term Congress has explicitly put in our charter as our standard for making credit judgments.

The results have been tremendous. 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.

The conclusion is that the Ex-Im Bank is a great deal for the taxpayers. When we manage to drive between the guideposts 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. In 2002, Congress increased from 10 to 20% the amount of financing authority that must be available for small business transactions, and though the Bank has not yet authorized the full 20% of authorizations for the direct support of small business, we have never turned down a small business transaction due to lack of resources. We are still seeking the best course to drive 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 continue our efforts to increase financing commitments for exports to sub-Saharan Africa. In FY 2005, Ex-Im Bank supported 115 transactions in 20 countries in the region, totaling \$461.8 million, a \$78.6 million increase over FY 2004. 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 drive the Bank between those guideposts, 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.

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. 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 almost a year ago, I have devoted more attention to small business than any other issue. We have been working with Congress on its concerns. We have conferred with small business representatives on changes we have been implementing which I am about to discuss. And we are institutionalizing 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 Bank 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 authority 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 that one of the primary ways to increase support for small business is to improve our outreach programs in order to increase demand. I have created the new position of Senior Vice President for Small Business to manage an independent business development unit with a dedicated staff focused solely on small business outreach. He reports directly to the President and Chairman of the Bank. The Senior Vice President for Small Business serves as the primary small business advocate on the staff level, and of course works 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.

Although the Senior Vice President for Small Business is responsible directly to the President and Chairman and he and his staff comprise an independent business development unit, they still work closely with the Bank personnel who are responsible for actually processing the transactions – that is, those in what we call the “business units.” This is consistent with what we do for all business development, large and small, within the Bank. It is part of our credit culture, and reflective of best practices in the private sector, that those who must objectively evaluate credit not be the same people as those responsible for business outreach.

Furthermore, small business transactions are now processed only by specified 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 small businesses come into the Bank to discuss their transactions, they will interact with personnel who are familiar to them and knowledgeable about their needs.

Ex-Im Bank’s Small Business Committee

To facilitate seamless interaction between the dedicated small business outreach division and the small business specialists in the business units, we have established an Ex-Im Bank Small Business Committee (SBC) to coordinate, evaluate and make recommendations regarding the many Bank functions necessary to successfully execute our small business plan. The SBC is co-chaired by the Senior Vice President for Small Business and Senior Vice President for Export Finance, and reports directly to the President and Chairman of the Bank. And we have institutionalized this structure by having the Board formally approve it. The SBC is composed of representatives from a number of Bank divisions. Other divisions within the Bank, including Congressional Affairs, also participate at meetings.

The goals of 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.

The SBC has already had impact. For example, as a result of SBC-initiated action, Ex-Im Bank is encouraging brokers to more proactively market our short term insurance policies to small businesses through increased broker commissions. The SBC approved a 25% premium discount for Ex-Im Bank short-term multibuyer insurance policies offered to small business exporters that are using the Small Business Administration’s international loan programs. Furthermore, in order to make short-term insurance policies more user-friendly for small businesses, the SBC approved several endorsements to short-term insurance policies relative to shipments and delegated authority.

Claims Committee

In addition, we have established a new claims reconsideration procedure and “Claims Committee” consisting of five senior Bank officials. The Claims Committee is responsible for evaluating and reconsidering claims originally denied by the Asset Management Division. I believe these changes are helping all of our customers, but are particularly useful to small businesses, by improving transparency in the claims 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. To strengthen customer education about the reconsideration process, a small-business portal with information pages has been created on Ex-Im Bank's Web site.

Technology Upgrades

We are making significant progress 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." Since the Bank's last reauthorization, the Bank has been implementing its online capabilities in stages.

Ex-Im Online

Ex-Im Online, our major business reengineering and automation project, is the latest step. On June 1, small business customers began 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 apply online, get quick decisions and receive online status information.

Ex-Im Online is reengineering, automating and modernizing 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 provides exporters, particularly small businesses, the benefits of electronic application submission, processing and insurance policy management. Ex-Im Online reduces customers' paperwork, improves the Bank's response time, increases productivity and improves risk management.

Ex-Im Online allows 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 reduces review and decision time for short-term transactions.
- **Receive online information on application status.** Applicants receive email notification of the status of their application.

- **Reduce paperwork burden.** Automatic data entry and reuse of existing data permits “enter once—use many times” management of customer information.
- **Manage export accounts receivable online.**
- **Utilize enhanced products.** Ex-Im Bank 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 are also benefits to Ex-Im Bank:

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

When considering Ex-Im Bank support for small business, it is important to note that we are a demand-driven enterprise. We 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. Moreover, I am going to continue to inculcate a culture that strives to meet all of our small business customers’ needs through improved processing of small business applications by our small business specialists, the development and implementation of forward-leaning initiatives by the Small Business Committee, the careful consideration of the Claims Committee and further expansion of Ex-Im Online. Ex-Im Bank is going to continue to seek out and listen to small business input concerning our programs, we will communicate with Congress and take your concerns seriously, and our renewed efforts in small business are going to be sustained and further institutionalized.

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. This is the foundation of our economic impact procedures. Decisions on transactions that raise economic impact considerations, however, are the most difficult the Bank must make because it must weigh the interests of one set of American workers against those of another.

The Bank's economic impact procedures are intended to lay out a reasonable and logical process for analyzing the impact of Ex-Im Bank support for a particular export transaction. Ex-Im Bank endeavors to implement the Congressional mandate in a thoughtful, considered, and transparent manner, with full participation of interested stakeholders.

In 2001, Ex-Im Bank recognized the shortcomings in the then-existing economic impact procedures, and initiated a process to improve them. The process of vetting changes was extensive and included representation of all stakeholders. In March 2003, Ex-Im Bank released the new economic impact procedures reflecting changes developed through public consultation, as well as changes mandated by Congress in the Bank's 2002 reauthorization. Many of the shortcomings of the prior economic impact analysis were addressed, including clearer criteria and definitions, broad consideration of trade measures, enhanced interagency consultation, and provision of notice to interested parties.

Since the new procedures took effect, economic impact issues have arisen in a number of transactions, including those relating to the production of textiles, chemicals, steel, semiconductors, soda ash, and solar panels.

Ex-Im Bank must balance the need for inclusiveness with commercial practices that require efficiency and timeliness on transactions. While Ex-Im Bank makes every effort to complete the economic impact analysis expeditiously, it requires a substantial dedication of staff resources, usually takes 8 to 10 weeks and has even taken up to one year, depending on the extent to which the feedback and information obtained through the notice and comment period comport with the Bank's analytical findings. For example, a lack of consensus among industry observers about the outlook on supply and demand balances can lead to an inconclusive finding on oversupply and may complicate the Bank's analysis.

Exporters have indicated that the delay and uncertainty associated with the Bank's economic impact policy have in some instances frustrated their commercial relationships

and caused them to lose export sales to foreign competitors. At the same time, the Bank must ensure that potential transactions are properly vetted and all interested parties have an opportunity to be heard.

The revisions to the economic impact procedures implemented in 2003 have been successful from a number of perspectives. They clarified the criteria for Ex-Im Bank's analysis and expanded participation by other U.S. government agencies and stakeholders in the process. Yet, economic impact analysis continues to present challenging issues for Ex-Im Bank. Despite these challenges, Ex-Im Bank strives to implement the economic impact procedures so that they are transparent, predictable, effective, and fair to exporters, affected industry, and other interested parties.

KEEPING THE COMPETITIVE EDGE IN NEW PRODUCTS AND SPECIAL MARKETS

Women- and Minority-Owned Exporters

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 \$363 million, compared to \$296 million in FY 2004. In FY 2005, transactions involving women- and minority-owned businesses accounted for over 13% of our total small business authorizations and over 20% of our working capital guarantee authorizations in dollar terms. Ex-Im Bank staff participated in 57 speaking engagements and attended thirteen conferences expressly aimed at these targeted audiences in FY 2005. We have increased our outreach with the goal of doing even more this year. We are committed to continuing and expanding these efforts.

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. 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 \$1.1 billion in environmentally beneficial exports. The Bank's 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.

FUTURE CHALLENGES

Any testimony about Ex-Im Bank must include a discussion of the challenges the 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 with 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 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 are working with both our interagency and G-7 counterparts to better define this rising challenge and determine the best array of measures to successfully address it. 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. 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.