

*Statement for the Record*

*of*

**BAFT (Bankers Association for Finance and Trade) and the  
Financial Services Roundtable (FSR)**

*before the*

**Committee on Banking, Housing, and Urban Affairs**

*of the*

**United States Senate**



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**June 2, 2015**

Chairman Shelby, Ranking Member Brown, and Members of the Committee, BAFT (Bankers Association for Finance and Trade) and the Financial Services Roundtable (FSR) are grateful for the opportunity to provide a statement for the record on behalf of our members for the Committee hearing on June 2, 2015, regarding perspectives on the Export-Import Bank of the United States (“Ex-Im” or “the Bank”).

As background, BAFT is an international financial services trade association whose membership includes a broad range of financial institutions throughout the global community. As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT member banks provide leadership to build consensus in preserving the safe and efficient conduct of the financial system.

FSR represents the largest integrated financial services companies providing banking, insurance, payment and investment products and services to the American consumer. Member companies participate through the Chief Executive Officer and other senior executives nominated by the CEO. FSR member companies provide fuel for America's economic engine, accounting for \$92.7 trillion in managed assets, \$1.2 trillion in revenue, and 2.3 million jobs.



Jointly, our members are active in trade finance and many work with Ex-Im on a daily basis. Similar to other Export Credit Agencies (ECA) around the world, Ex-Im plays a crucial role in global finance by providing financing products that help fill gaps in trade financing otherwise provided by private sector lenders. Indeed, Ex-Im contributed to the recovery of trade finance markets during the economic crisis and is considered an essential partner by the commercial banking community. Our industry values a continued working relationship with Ex-Im to ensure the availability and affordability of trade finance to U.S. businesses. For these, and the reasons outlined below, we strongly support reauthorization of Ex-Im Bank.

We would like to focus on three major points for this hearing:

- Trade and export finance are crucial drivers for economic growth, however, private sector gaps exist in the availability of this financing.
- Ex-Im Bank should be swiftly reauthorized to ensure the continued availability of valuable financing for U.S. exports and to maintain U.S. competitiveness in the global marketplace.
- The private sector cannot fill the void in export financing for American companies if Ex-Im is not reauthorized.

### **I. Trade and Export Finance Drive Economic Growth**

Trade and export finance instruments, such as those offered and supported by Ex-Im, are crucial to international commerce and the growth of the U.S. economy. Throughout the reauthorization process, it is important to remember that support for a competitive and efficient Ex-Im is also support for the vital financing of international trade. If trade finance is not accessible through Ex-Im, BAFT and FSR believe sustained growth and jobs at U.S. companies would be lost.

In this vein, and as important background, international trade is reliant upon both public and private sector financing for trade transactions. Trade financing assists customers with their import and export requirements by providing import/export finance products as well as country and counterparty risk mitigation. Trade finance, as a transaction banking business, is a core banking service supporting the real economy.

Trade finance has historically maintained a low-risk profile in comparison with other financial instruments. Trade and export finance transactions are generally fixed, short term instruments that are not automatically renewed or extended upon maturity and are self-liquidating by nature (*i.e.*, exposures are liquidated by payment at maturity). In stress situations, countries and banks have traditionally continued to prioritize the repayment of trade finance obligations as they fall due. Furthermore, banks active in trade finance are generally able to react swiftly on deteriorations in bank and country risk as a result of the short-term, self-liquidating nature of the transaction.



According to an ongoing registry project conducted by the International Chamber of Commerce (ICC), banks have experienced relatively minimal losses on trade lending. The ICC has created this Trade Finance Register to track default and loss rates for trade and export finance, creating a living database of the trade finance market which has helped to demonstrate the resilience of this important business. Based on that data, accumulated over 8,133,031 transactions, only 1,746 defaults were recorded, which accounts for a default rate of 0.021 percent.<sup>1</sup> In particular for medium and long term transactions, the ICC found from 2007 to 2012 in a data set of 21,391 transactions, the overall default rate was 0.076 percent, representing just 162 transactions.<sup>2</sup>

However, according to a 2014 Asian Development Bank (ADB) survey, commercial banks reported that they rejected 29 percent of requests to finance imports and exports. This meant that roughly \$1.9 trillion of demand for global trade finance was unmet, causing potential harm to growth in trade in the U.S. and around the world.<sup>3</sup> Banks surveyed by the ADB cited the more stringent Basel III regulatory requirements and increased compliance costs as significant factors inhibiting banks' financial support for trade.

The ADB also found that respondent companies (*i.e.* the users of trade financing) indicated that additional trade finance would enable them to increase production. A 15 percent increase in access to trade finance would increase production by 22 percent. In addition, responses also suggest that greater access to trade finance would have a positive impact on employment levels. Respondents noted that a 15 percent increase in trade finance support would enable firms to hire 17 percent more staff.<sup>4</sup>

The gap in trade finance availability is particularly acute for small and medium sized enterprises (SME). SMEs make up 80-90 percent of businesses in most regions and trade lending to SMEs is limited by their lack of collateral, credit history, and technical expertise in trade finance. SMEs also typically do not have the expertise or capacity to directly assume credit risk on behalf of their foreign trading counterpart. As a result, in many areas the trade finance gap is very large for SMEs and according to the ICC, this shortage remains a major challenge for economic recovery and development. To finance exports and imports, traders continue to rely on public/private sector partnerships, like those offered by Ex-Im, to facilitate the sale of products abroad when the private sector cannot meet the demand for such financing on its own.

Countries around the world recognize this critical partnership to fill these gaps and are enhancing their own ECA support to domestic companies. For example, China's Policy Banks, (the three state-owned non-commercial lenders — China Development Bank, Export-Import Bank of

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<sup>1</sup>International Chamber of Commerce, *Global Risks Trade Finance Report*, 2013

<sup>2</sup>International Chamber of Commerce, *Trade Register Report*, 2014

<sup>3</sup>Asian Development Bank Trade Finance Survey: Major Findings, ADB Briefs No. 25, December 2014

<sup>4</sup>IBID

China, and Agricultural Development Bank of China) announced in April 2015 a \$62 billion capital injection to support projects that benefit Chinese companies, with a \$30 billion increase allocated for China Ex-Im alone. In addition, the G-20 has throughout the economic recovery emphasized the need for ECAs and Multilateral Development Banks (MDB) to work collaboratively with the private sector to support cross-border commerce. The difference with the support provided by ECAs and MDBs outside the U.S. is that, unlike Ex-Im, they do not have a mandate to support U.S. companies. Without a U.S. ECA, American exporters will be disadvantaged in a marketplace where material trade finance gaps exist and their overseas competitors are filling those gaps with the support of their own country's government export financing institutions.

## **II. Ex-Im Bank Reauthorization is Important to the U.S. Economy and U.S. Competitiveness**

Ex-Im provides credit support to help make the sale of U.S. products more feasible in international markets by making financing available to complete the sale. Transactions supported by Ex-Im represent incremental export sales by U.S. companies that support the jobs of American workers and help to reduce the national trade deficit. A core component of the work undertaken by Ex-Im is accomplished with the support of the private sector trade finance lending community. Ex-Im provides risk mitigation tools that help facilitate liquidity and the Bank acts as the "Lender of Last Resort" when commercial financing is unavailable or ECA support is needed to ensure the advantage of the U.S. exporter is not lost to foreign ECA supported competition.

In fiscal year 2014, Ex-Im supported the purchase of \$27.5 billion worth of exports that created or sustained approximately 164,000 U.S. jobs. Ex-Im is especially important to small American companies, which account for the bulk of its transactions. Out of over 3,700 authorizations in 2014, more than 3,300 (or nearly 90 percent) directly served U.S. small businesses, which accounted for one quarter of authorizations by dollar volume. These small business transaction figures do not include the tens of thousands of small and medium-sized businesses that supply goods and services to large exporters through the supply chain.<sup>5</sup>

In addition, through the fees and interest charged on transactions, Ex-Im also contributes money back to the American taxpayer. In fiscal year 2014, Ex-Im returned \$674.7 million to the U.S.

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<sup>5</sup> The relative role that Ex-Im support plays in expanding jobs through export sales is indeed more important than the absolute value of the financing. For instance, one can consider an example of a 200-employee aircraft company that produces agricultural planes selling for roughly \$1 million each that are sold to buyers in 80 countries, representing 75 percent of their sales. Ex-Im financing is critical to filling the capacity that company cannot obtain from their primary lenders, and Ex-Im expertise is critical to helping manage the foreign risk. By comparison, a large commercial aircraft manufacturer sells a plane for over \$300 million. The production uses over 3 million parts from over 500 suppliers; hence, each sale affects not only that company's employees, but their suppliers as well. As such, a comparison of the dollar value of the financing is irrelevant when considering the importance that Ex-Im financing provides to each of these companies.

Treasury after covering all its expenses. Since 1990, Ex-Im has returned to the Treasury \$7 billion more than it has received in appropriations for program and administrative costs.

Ex-Im does this by offering a variety of programs critical to U.S. companies - small, medium and large. For example, the Medium Term program supports transactions under \$10 million for tenors of up to five years for the sale of products to overseas buyers. The Medium Term Delegated Authority program is designed to reduce transaction turnaround time, leverage Ex-Im medium-term program resources and increase lender utilization of Ex-Im medium-term transactions, while maintaining the highest credit quality and program integrity.

The Working Capital Guarantee Program encourages commercial lenders to make working capital loans to domestic U.S. companies by providing them with loan backing assurance. Working capital financing enables small business exporters to facilitate the export of goods or services and provides much needed liquidity to conduct new overseas sales by supporting a company's export related inventory and providing an advance rate on foreign account receivables. Additionally, the Ex-Im Bank Supply Chain Finance Guarantee offered to lenders benefits U.S. exporters by injecting liquidity in the marketplace and providing suppliers - particularly small firms - with access to capital faster and at a lower cost in order to help them fulfill new orders and grow their business.

Throughout all the programs offered by the Bank, it is crucial to remember that Ex-Im support is an enhancement to a client relationship and not a primary reason for conducting a transaction. Commercial lenders will not book facilities or transactions solely due to the availability of Ex-Im support. In fact, since Ex-Im transactions typically result in more administration costs and less retained fees, commercial lenders would prefer to finance transactions on their own if possible. However, due to the tenor, balance sheet capacity constraints against the borrower or the country, or other constraints, they look to Ex-Im as a source of additional capacity to fulfill the client need.

An Ex-Im Guarantee also does not make a bad deal "bankable". The loans must be commercially viable and meet not only private lender risk criteria but also Ex-Im's high support requirements. As such, Ex-Im loans and guarantees present very low risks because they are backed by the underlying commercial trade transaction, with a historically low active-default rate of 0.174 percent as of December 2014. This default risk is currently more than 5 times lower than default risk on primary mortgage loans. As referenced earlier, the resiliency of trade finance during the recent financial crisis demonstrates that even in downturns, the default risk remains relatively low.<sup>6</sup>

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<sup>6</sup> In this regard, it is important to highlight that commercial banks share the risk on transactions with Ex-Im and so would not enter into arrangements where the risk trumps the viability of the deal. In the medium and long term transaction space, 85 percent of the deal is covered under an Ex-Im Guarantee. The remaining 15 percent is a down payment from the buyer or is in many cases financed by the commercial lender handling the transaction. As such, the commercial lender and/or exporter already fully share in at least 15 percent of the risk overall. Banks also often finance more than the 15 percent down payment by taking on an additional portion of local costs or ineligible foreign content (the portion of a deal that Ex-Im can't support due to their U.S. content policy requirements) in a

Lastly and as previously stated, Ex-Im Bank is also critical to the ability of many U.S. exporters to compete on a level playing field in a commercial market where current and future competitors abroad continue to benefit from the support of their countries' ECAs. According to the Organization for Economic Cooperation and Development (OECD), 60 official ECAs have extended more than \$1 trillion in trade finance support in recent years. Unilateral disarmament in ECA financing by the U.S. will severely inhibit U.S. job creation and presents a clear risk to the ability of the U.S. to support its public policy goals abroad and enhance multilateral rules based trading arrangements.

As outlined herein, Ex-Im Bank supports jobs, helps American companies to compete globally and represents a low risk proposition to the U.S. taxpayer, with high overall returns. A long-term reauthorization of the Bank that ensures the effective and efficient use of Ex-Im programs is critical to make certain U.S. job creation, U.S. competitiveness in the global marketplace, and U.S. economic advancement through trade are not inhibited.

### **III. The Private Sector Cannot Fill the Void in Export Financing without Ex-Im**

As noted, material gaps in trade and export finance by the private sector exist in today's economy for a variety of reasons including balance sheet capacity, foreign receivables risk management capability, and appetite for certain types of financing. Due to increased balance sheet constraints arising from enhanced prudential capital and liquidity requirements, alongside institutional credit, country and counterparty limitations, commercial lending teams at small, regional and global banks are faced with real challenges in financing their exporting clients. As evidenced by the efforts of several large global banks to reduce the assets on their books, banks are more sensitive than ever to lending capacity. Credit committees determine how to allocate limited balance sheet capacity across multiple lending products based on returns and appetite for the various types of business. Trade finance competes with a variety of other types of financing demands from clients.

Many of these U.S. based lenders turn to Ex-Im to add capacity, mitigate geopolitical and collateral risk in an effort to retain and grow client relationships and to provide viable trade financing solutions for their corporate customers. Smaller financial institutions are often even more limited in their appetite and capacity for foreign risk than are larger institutions. Without Ex-Im Bank programs, private-sector lenders often could not provide the required financing or acceptable financing terms, resulting in lost sales for their clients.

Ex-Im helps alleviate these internal and external limitations on commercial loan portfolios by filling gaps in bank credit capacity and capability. Private lender financing facilities may often be fully utilized, leaving no room for additional commercial financing. Additionally, internal

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parallel commercial loan facility. Under the working capital program, Ex-Im guarantees 90 percent of the loan principal and interest and the lenders are mandated to take 10 percent of the risk.



bank credit criteria does not always address certain types of export finance related intangibles which can reduce the ability of an institution to provide support for trade transactions relative to other types of bank loans. Without Ex-Im support to mitigate these constraints, financing of some export deals would not be possible.

For example, the Ex-Im Working Capital Guarantee Program helps commercial lenders overcome limitations in institutional credit policies which may not allow for the inclusion of export-related inventory, such as work-in-progress products, or export-related accounts receivable as collateral. In addition, Ex-Im support mitigates transaction tenor limitations. Foreign buyers often request repayment terms greater than lenders are able to underwrite. As contracts are often awarded to exporters offering the most favorable terms, Ex-Im provides lenders a guarantee or insurance support which enables them to extend the financing needed for the U.S. exporter to win against global competition, thus filling a gap the private markets are unable to fully support.

Lastly, Ex-Im guaranteed loans expand bank capacity for more export sales. Under the Basel framework for bank capital standards, financial institutions face higher capital ratios that act as a multiplier to the amount of Risk Weighted Assets (“RWA”) allocated for specific transactions. This increase will have a significant impact on financial products with high amounts of RWA and will lead to a decrease in availability. However, Ex-Im Bank guaranteed loans have historically attracted lower amounts of RWA, making these types of loans more attractive from a capital allocation perspective. Without an Ex-Im guarantee, increased capital allocation puts pressure on the ability of banks to conduct certain export financing transactions in favor of deals with a higher overall return on investment. This will ultimately result in lower lender capacity to work with clients and would contribute to lost business for U.S. companies.

For these reasons, if Ex-Im Bank were to close its doors, BAFT and FSR stress that the private sector will not be able to fill the void left in financing U.S. companies wishing to sell their goods abroad. This will result in lost business and lost jobs for the U.S. economy and will unnecessarily make the U.S. less competitive globally.

#### **IV. Conclusion**

BAFT and FSR members believe the U.S. Export-Import Bank has a crucial role in boosting U.S. exports and supporting the economy. The Bank’s reauthorization will ensure it continues to provide adequate, affordable trade finance and supporting programs through its private/public sector partnerships.

We stress that Ex-Im complements private-sector lenders by adding needed capacity and capability. As standalone private sector funding of trade transactions is not always available or affordable, Ex-Im financing helps commercial lenders, who in turn support their clients to create jobs and maintain growth.

We represent banks of all sizes and emphasize that there will be a significant unfilled void in export financing for U.S. companies if Ex-Im Bank were to cease operations. We strongly



encourage Congress to reauthorize Ex-Im Bank in advance of the June 30 deadline in order to ensure the continuation of American competitiveness globally, economic growth of U.S. businesses and the creation of U.S. jobs.

Thank you again for the privilege of providing the Committee with our views.

