



Statement for the Record

of

BAFT (Bankers Association for Finance and Trade)

before the

Committee on Banking, Housing, and Urban Affairs

of the

United States Senate

on

November 1, 2017

Chairman Crapo, Ranking Member Brown, and Members of the Committee:

BAFT (Bankers Association for Finance and Trade) is grateful for the opportunity to provide a statement for the record for the Committee hearing regarding the nominations of **Ms. Kimberly A. Reed**, of West Virginia, to be First Vice President of the Export-Import Bank; **The Honorable Spencer Bachus III**, of Alabama, to be a Member of the Board of Directors of the Export-Import Bank; **Ms. Judith Delzoppo Pryor**, of Ohio, to be a Member of the Board of Directors of the Export-Import Bank; and **Ms. Claudia Slacik**, of New York, to be a Member of the Board of Directors of the Export-Import Bank.

BAFT is an international financial services trade association whose membership includes a broad range of financial institutions throughout the global community. Our members represent the transaction banking segment of financial institutions globally, including the trade finance and cash management business lines which provide financing for the export and import of goods and services. 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 worldwide.

Our members are active in trade finance and many work with the Export-Import Bank (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 guarantees and insurance that help fill gaps in trade financing that cannot otherwise be met by private sector lenders. Indeed, Ex-Im 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 above the current \$10 million cap to U.S. businesses. **We strongly support returning Ex-Im Bank to fully operational status by confirming the above named nominees to serve on the Board of Directors.**

I. Trade and export finance drive economic growth

Trade finance programs offered and supported by Ex-Im are crucial to international commerce and the growth of the U.S. economy. Support for a competitive and efficient Ex-Im is also support for the vital financing of international trade. In order for the full scope of trade finance to be accessible through Ex-Im, BAFT believes that strong leaders committed to the Bank's mission must be confirmed to serve on its Board.

International trade is reliant upon both public and private sector funding for trade transactions. According to the World Trade Organization, up to 80 percent of global trade is supported by some sort of financing or credit insurance. 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, a transaction banking business, is a core banking service supporting the real economy.

Trade finance has historically maintained a low-risk profile in comparison to other financial products. Trade and export finance transactions are generally fixed, short term in nature, and are self-liquidating (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. 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 transactions.

Small and medium sized (SME) businesses typically rely on trade finance to a greater extent than larger corporates to get their product or service to market. Trade lending to SMEs is limited by their lack of collateral, credit history, and technical expertise. SMEs also typically do not have the capacity to directly assume credit risk on behalf of their foreign trading counterparty. Given that 98 percent of America's exporters are small businesses, the importance of having access to trade finance cannot be underestimated. Many domestic small businesses are also dependent on sales to large U.S. exporters that rely on financing from Ex-Im. Limitations on large U.S. exporters have had a negative impact on the small businesses that supply parts, services and intermediate products as part of their exports. The level of unmet demand for trade financing is significant and continues to grow. 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 scope of the demand for such financing on its own.

Ex-Im provides support to help make the sale of U.S. products more feasible in international markets by making guarantees and insurance available to complete the sale. Transactions supported by Ex-Im represent 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 to help facilitate liquidity acting 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 export credit agency (ECA) supported competition.

II. Ex-Im Bank needs a fully operational Board

Although a supermajority in Congress approved a long-term reauthorization for Ex-Im in 2015, the Bank's Board of Directors is still one member short of the quorum required to review and approve transactions over \$10 million, and to implement policy changes. Without a fully operational Board, U.S. exporters are at a significant disadvantage to competitors around the world that have government-backed ECAs supporting their sales.

Reinstating a fully functioning Ex-Im Board is a matter of U.S. competitiveness. While the Ex-Im Bank has been without a quorum for its Board, an estimated 40 deals worth more than \$30 billion are stuck in the pipeline. Without access to a U.S. ECA, U.S. companies have lost out on the opportunity to bid on at least \$67 billion in foreign infrastructure projects over the past year – with hundreds of billions of dollars in projects on the horizon. These sales do not just impact the manufacturers directly, but the countless supply chain companies of all sizes that provide inputs and services to them.

Meanwhile, there are about 96 ECAs around the world, many of which offer more support than Ex-Im to their domestic industries. Countries like China, Japan, Germany and the United Kingdom are devoting billions of dollars to official ECA support for their own domestic industries. For example, China – the world’s largest provider of official export credit – provided an estimated \$34 billion in medium- and long-term export credit and approximately \$50 billion in investment support last year. By comparison, Ex-Im provided \$5 billion in authorizations that supported \$8 billion in exports in 2016.

Ex-Im Bank is a necessary tool to support U.S. jobs and help American companies to compete globally. Confirming the four above mentioned individuals to the Ex-Im Bank Board will ensure that the U.S. can maintain its competitiveness in the global marketplace, and ensure that U.S. economic advancement through trade is 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 risk and returns. 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 even more limited in their appetite and capacity to take on foreign risk than are larger institutions. Ex-Im helps alleviate these internal and external limitations on commercial loan portfolios by filling gaps in bank credit capacity and capability. Without Ex-Im Bank programs, private-sector lenders cannot provide the required financing or acceptable financing terms, resulting in lost sales for their clients.

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 as lender collateral. In addition, Ex-Im support mitigates transaction tenor limitations. Foreign buyers often require 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 to enable them to extend the longer tenored 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 increasing 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 is having a significant impact on financial products with high amounts of RWA and leads to a

decrease in availability. However, Ex-Im Bank guaranteed loans attract lower amounts of capital, making these types of loans more attractive from a RWA 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 onshore lending 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.

IV. Conclusion

Ex-Im Bank is an indispensable partner for private sector companies and the jobs they support. A lapse in Board quorum has resulted in lost business and lost jobs for the U.S. economy. Confirming Ms. Reed, Mr. Bachus, Ms. Delzoppo Pryor, and Ms. Slacik to the Ex-Im Board of Directors will ensure that the Bank can operate unconstrained and continue to facilitate the delivery of affordable trade finance. We trust that the newly appointed Board will chart a path to a more modern and globally competitive Ex-Im Bank.

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