August 12, 2020

Ms. Joyce B. Stone  
Assistant Corporate Secretary  
Export-Import Bank of the United States  
811 Vermont Avenue, NW  
Washington, DC 20571

Via Electronic Submission

Re: Export-Import Bank of the United States [Public Notice: EIB-2020-003]: Request To Renew Partnership With Private Export Funding Corporation (PEFCO)

Dear Ms. Stone:

BAFT (the Bankers Association for Finance and Trade) respectfully submits this letter in response to the July 27, 2020 request for comments by the U.S. Export-Import Bank (EXIM) on the Federal Register notice entitled “Request To Renew Partnership With Private Export Funding Corporation (PEFCO).”

BAFT is an international financial services industry association whose membership includes nearly 300 financial institutions and solution providers throughout the global community. Our members are active in trade finance and many of them work with EXIM and PEFCO daily. Trade finance programs offered and supported by EXIM are crucial to international commerce and the growth of the U.S. economy.

BAFT has long supported EXIM’s operations and recognizes the longstanding and strategic importance of its partnership with PEFCO. BAFT is aware that PEFCO’s arrangement with EXIM expires at the end of the calendar year. As the Board reviews the PEFCO agreement we respectfully provide our perspective on the importance of the PEFCO offerings and support EXIM’s renewal of its partnership with PEFCO.
Global Competitiveness

At a time of increasing global competition, EXIM’s partnership with PEFCO takes on greater significance. As foreign Export Credit Agencies (ECAs) have continued to grow and expand the scope of their work both within and outside of the OECD arrangement, EXIM has heightened its focus on increasing the competitiveness of its programs to help U.S. exporters compete in the global markets while remaining within the OECD arrangement. China remains the world’s largest provider of official export credit, with more medium- to long-term export credit, than the rest of the world combined. Over the past year EXIM has made strides to increase the agency’s capacity to support U.S. exporters in partnership with commercial banks and other critical partners such as PEFCO.

PEFCO was created in 1970 to assist in the financing of U.S. exports by supplementing the financing available from commercial banks and other lenders. In other jurisdictions many of PEFCO’s functions are filled by government entities. In fact, a number of ECAs have funding mechanisms provided by government-owned funding conduits that are widely used and price-efficient, such as:

- Swedish Export Credit Corporation
- Finnish Export Credit Ltd
- Société de financement local (France)
- Cassa Depositi e Prestiti SpA (CDP) (Italy)
- KfW (Germany)

In addition to the ECA funding schemes listed above, other ECAs (e.g., Export Development Canada, Japan Bank for International Cooperation, Export-Import Bank of Korea) have access to similar capital markets funding schemes. High volumes of funding are also made available to support Chinese exports globally via the Chinese policy banks such as China Development Bank and China Ex-Im.

The availability of PEFCO support helps U.S. exporters counter the competitive advantages to foreign competitors supported by the above funding schemes. The absence of PEFCO would have a particularly detrimental effect on the ability of small-and medium-sized (SME) exporters to access EXIM financing. Many of these SMEs rely on smaller, regional relationship banks that also have term funding constraints.

In addition to bringing competitive financing to the table (often under the medium-term guarantee program) PEFCO also assists in the structuring of these transactions, having a significant level of institutional knowledge and expertise in-house that can benefit smaller exporters with fewer internal resources.
**Important Source of Liquidity**

PEFCO provides attractive and competitive fixed and floating USD funding alternatives that complement banks’ suite of funding solutions and is a valuable component of the broader industry supporting U.S. exporters.

Commercial banks rely on PEFCO for its ability to act as a source of liquidity for the commercial market – especially since the emergence of the Basel III regulatory environment. The Basel framework induces banks to match the terms of loans to those of the banks’ funding sources. This reduces the availability of medium and long-term bank funding for trade finance while increasing the importance of PEFCO to provide term funding for bank clients at competitive rates. PEFCO is also critical for global banks that, while servicing a wide array of U.S. exporters, do not have access to term USD liquidity through retail deposits.

While EXIM loans are desirable assets from regulatory capital and RWA (Risk Weighted Assets) perspectives, from a return on asset (ROA) perspective, they are less desirable long-term assets to book and hold on balance sheet due to their lower margins. Banks have maximum lending limits, even for EXIM supported transactions, which may constrain the amount of financing offered to clients. Thus, PEFCO is an important and reliable partner for distribution of EXIM loan assets, enabling greater market capacity.

Private sector support is enhanced with PEFCO involvement. Through its secured notes program, PEFCO effectively mobilizes institutional capital to indirectly invest in EXIM guaranteed financings, lowering the interest rate expense for foreign buyers of U.S. exports using fixed or floating rates. Relatively few PEFCO secured note investors would otherwise directly fund EXIM guaranteed assets.

The additional liquidity and supply made available by PEFCO makes U.S. exporters more competitive when financing options are essential to win contracts.

**Strategic Partnership**

PEFCO is a successful public private partnership that decreases EXIM’s reliance on taxpayer-provided funding (direct loans). PEFCO does not compete with commercial banks as it has no origination capability. Rather, PEFCO plays an important role to “crowd-in” transactions or syndications that might constrain lenders’ balance sheets, helping exporters compete for important sales. BAFT’s member banks work closely with the PEFCO team and deem them to be integral and important partners.

We believe that PEFCO’s funding capacity may be increasingly helpful in light of bank balance sheet limitations that may arise in an evolving regulatory environment, with growing counterparty and country constraints. Considering the liquidity- and credit-challenged COVID-19
environment, the EXIM-PEFCO partnership becomes even more important to navigate the credit cycle ahead.

We ask that EXIM renew its PEFCO arrangements so it may continue to contribute to the broader U.S. export initiative and also provide valuable funding alternatives for U.S. exporters and the U.S. jobs they support.

Thank you for the opportunity to provide comments. If you have any questions, please contact Stacey Facter, Senior Vice President, Trade Products at sfacter@baft.org or Diana Rodriguez, Vice President, International Policy at drodriguez@baft.org.

Very truly yours,

Tod R. Burwell
President and Chief Executive Officer