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Export-Import Bank (Ex-Im Bank) Reauthorization

Background

What is Ex-Im Bank? As the official U.S. export credit agency (ECA), Ex-Im Bank finances and insures U.S. exports of goods and services with the goal of supporting U.S. jobs. On a demand-driven basis, it seeks to support exports that the private sector is unwilling or unable to finance alone at commercially viable terms for exporting; and/or to counter government-backed financing offered by foreign countries through their ECAs. The rationales behind Ex-Im Bank's activities are subject to congressional debate.

Ex-Im Bank Products

Direct loan: Fixed-rate loan to foreign buyers of U.S. exports—usually capital-intensive exports (e.g., aircraft, mining equipment).

Loan guarantee: Guarantee to a lender that, if default by the buyer, payment of outstanding principal and interest on the loan.

Insurance: Protects U.S. exporters against risk of loss from non-payment should a foreign buyer or other foreign debtor default.

Working capital: Short-term, secured working capital loans and guarantees, usually to small businesses.

Special financing programs: Focus on a particular industry or financing technique, e.g., aircraft, project, and supply chain finance.

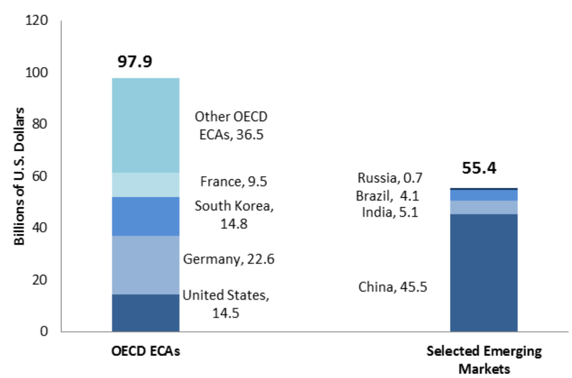
What is the congressional interest and state of play? Ex-Im Bank's general statutory charter (the Export-Import Bank Act of 1945, as amended) expires on September 30, 2014. Currently, Congress is considering whether to renew Ex-Im Bank's authority; if so, under what terms; and if not, the possibility of other policy options. Proposals in the 113th Congress include a largely "clean" reauthorization of the Bank; reauthorization with reforms; and termination of authority. The Obama Administration's April 2014 legislative proposal calls for a five-year renewal of Ex-Im Bank's authority and an increase in its exposure cap (limit on total outstanding credit and insurance) to $160 billion by FY2018—up from the $140 billion cap for FY2014.

What are statutory requirements for Ex-Im Bank's support? Under its charter, Ex-Im Bank's financing must offer a "reasonable assurance of repayment" and should "supplement and encourage, and not compete with, private capital." The Bank considers a proposed transaction's potential U.S. economic and environmental impact, among other policy issues. Based on its jobs mandate, Ex-Im Bank requires a certain amount of U.S. content (85% for medium- and long-term transactions) for an export contract to receive full financing from the Bank. In addition, products generally must be shipped on U.S. flag vessels.

Congress further requires Ex-Im Bank to support certain types of exports. For example, the Bank must make available not less than 20% of its total authority to finance small business exports, and not less than 10% to finance renewable energy-related exports. It also must promote financing to sub-Saharan Africa, but does not have a quantitative target. While the Bank seeks to support these export goals, it is demand-driven, and its activity depends on alignment with commercial interest and opportunities.

What is the international context? Ex-Im Bank has many foreign counterparts (see **Figure 1**). It abides by the Organization for Economic Cooperation and Development (OECD) Arrangement on Officially Supported Export Credits (the Arrangement), which establishes disciplines on the terms and conditions for government-backed export financing, such as minimum interest rates, risk fees, and maximum repayment terms. The Arrangement is intended to ensure that price and quality, not financing terms, guide purchasing decisions. Over time, unregulated ECA financing has grown, with emerging economies that are not a part of the OECD providing export financing through their ECAs and OECD members providing certain forms of export financing not regulated by the Arrangement.

Figure 1. New Medium- and Long-Term Official Export Credit Volumes for Selected ECAs, 2013



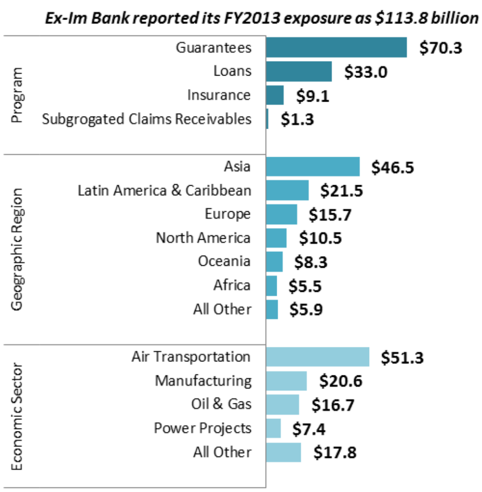
Source: Ex-Im Bank, *2013 Competitiveness Report*, June 2014.
Note: Data subject to analytic assumptions and limited by availability of information. OECD ECAs' unregulated financing may be omitted.

What does its activity look like? According to Ex-Im Bank, in FY2013, it authorized $27.3 billion in credit and insurance transactions worldwide (see **Figure 2**), supporting an estimated $37.4 billion of U.S. exports. U.S. small businesses account for the majority of Ex-Im Bank's transactions by *number* (89% in FY2013), while larger companies represent the majority by *dollar amount*. In FY2013, the Bank's worldwide exposure, subject to a statutory limit of $130 billion for that year, reached a reported $113.8 billion—a record high following increased demand after the 2008-2009 financial crisis.

How does Ex-Im Bank manage risk? Ex-Im Bank assesses credit and other risks of proposed transactions, monitors current commitments for risks, and maintains reserves against losses. It reported a default rate of 0.194% as of June 2014 (provided quarterly to Congress). It also has reported a recovery rate of 50 cents on the dollar on average for transactions in default since 1992.

What is Ex-Im Bank's appropriation? Ex-Im Bank's revenues include the interest, risk premia, and other fees it charges for services. Such revenues in excess of forecasted losses are recorded as offsetting collections. As part of the annual appropriations process, Congress and the President set an upper limit on the amount of these offsetting collections available to Ex-Im Bank to fund its operations; provide a direct appropriation for its Office of Inspector General (OIG); and allow it to retain carryover funds for a limited period of time. For FY2014, the Bank was provided a limit of $115.5 million for administrative expenses, funding of $5.1 million for the OIG, and up to $10 million in carryover authority until September 30, 2017. Ex-Im Bank reported providing $1.1 billion to the Treasury in FY2013 after covering operating expenses and loan loss reserves.

Figure 2. Ex-Im Bank Activity Composition, FY2013



Source: Ex-Im Bank, *FY2013 Annual Report*.

Reauthorization Debate

What is the general debate? While Congress has renewed Ex-Im Bank's authority many times, reauthorization is subject to increasing debate—coinciding with questions over the role of the U.S. government in supporting exports, the appropriate size and scope of the government, and other issues. Proponents contend that the Bank supports U.S. exports and jobs by filling in gaps in private sector financing and helping U.S. exporters compete against foreign companies backed by their ECAs. Critics contend that it crowds out private sector activity, picks winners and losers through its support, operates as a form of corporate welfare, and poses a risk to taxpayers.

What was the outcome of the 2012 reauthorization debate? In the 112th Congress, after active debate, legislation (P.L. 112-122) was passed on a bipartisan basis (House vote 330-93; Senate vote 78-20) to extend Ex-Im Bank's authority through FY2014 and incrementally increase its exposure cap from $100 billion to $140 billion in FY2014, subject to certain requirements. The legislation also required Ex-Im Bank to monitor its default rate and take specific action if it equals or exceeds 2%; develop guidelines for its economic impact analysis; and review its domestic content policy. Among other things, it also required the Secretary of the Treasury to negotiate internationally to reduce and eliminate government-backed export credits.

Reauthorization Issues for Congress

The issues facing Congress are twofold. The first issue is whether to renew Ex-Im Bank's authority. Scenarios include a "clean" reauthorization or reauthorization with reforms; a sunset in authority (raising questions about the "winding down" of its operations); and a reorganization of its functions (such as consolidation with other trade agencies). Second, should Congress choose to reauthorize Ex-Im Bank, possible issues include:

- **Length of reauthorization.** Shorter extensions of authority in the past arguably have given Congress the opportunity to weigh in more frequently on Ex-Im Bank operations through the lawmaking process, while longer extensions could enhance the Bank's long-term planning ability and provide more assurance to clients of its viability.

- **Policies.** Possible revisions to Ex-Im Bank's policies could be viewed in the context of the agency's effectiveness and efficiency in meeting its statutory mandate and other requirements; the competitiveness of its policies relative to those of foreign ECAs; and implications of any changes for balancing business, labor, environmental, taxpayer, and other stakeholder interests.

- **Financial soundness and risk management.** Ex-Im Bank's increased exposure levels have heightened congressional interest in Ex-Im Bank's financial soundness. Congress may consider the balance between ensuring that Ex-Im Bank's credit standards, due diligence, and other practices allow the Bank to prudentially manage risk and minimize potential taxpayer losses, while enabling it to take on appropriate risks to meet its U.S. exports and jobs mandate.

- **International disciplines.** For some stakeholders, the growth in unregulated financing has raised questions about the OECD Arrangement's effectiveness. It also has prompted consideration of efforts to bring China and other non-OECD countries into the Arrangement, as well as U.S. efforts to negotiate separate export credit disciplines with China. Others call for a focus on U.S. efforts to reduce and eliminate government-backed export financing through international negotiations in the OECD and other venues.

For more information, see CRS Report R43671, *Export-Import Bank Reauthorization: Frequently Asked Questions*, coordinated by Shayerah Ilias Akhtar; and CRS In Focus IF00039, *Export-Import Bank (Ex-Im) and the Federal Budget*, by Mindy R. Levit.

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