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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.

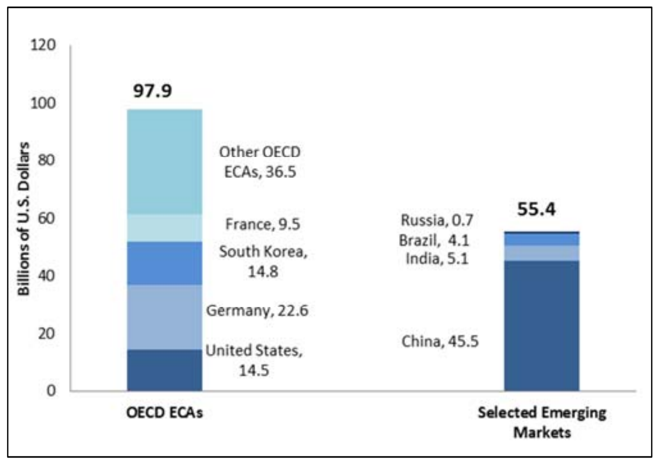
Special financing programs: Focus on a particular industry or financing technique, e.g., aircraft, project, and supply chain finance.

What is the congressional interest? The FY2015 continuing resolution (CR; Sec. 147 of P.L. 113-164) extends Ex-Im Bank's general statutory charter (Export-Import Bank Act of 1945, as amended) through June 30, 2015. Previously, the charter was to sunset on September 30, 2014. As the new sunset date approaches, Congress is likely to debate whether to reauthorize Ex-Im Bank; if so, under what terms; and if not, other policy alternatives.

What are statutory requirements for Ex-Im Bank' 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, it 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, as non-OECD countries provide financing through their ECAs and OECD members provide certain forms of financing outside the Arrangement's scope.

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



Source: Ex-Im Bank, *2013 Competitiveness Report*, June 2014.

Notes: Data subject to analytic assumptions and other limitations. OECD ECAs unregulated financing may be omitted.

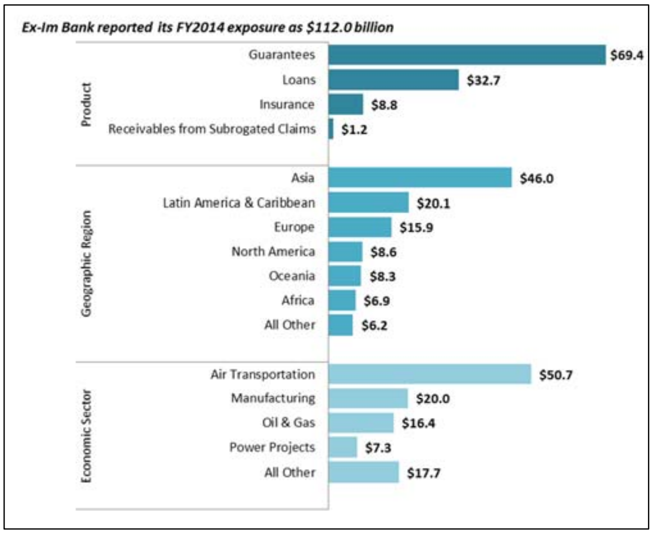
What does its activity look like? According to Ex-Im Bank, in FY2014, it authorized $20.5 billion in credit and insurance transactions worldwide, to support an estimated $27.5 billion of U.S. exports. U.S. small businesses account for the majority of Ex-Im Bank's transactions by *number* (89%), while larger companies represent the majority by *dollar amount*. In FY2014, the Bank's worldwide exposure reached a reported $112.0 billion, under the statutory limit of $140 billion for that year (see **Figure 2**).

How does it manage risk? The 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 0.175% as of September 2014 (provided quarterly to Congress), and, since 1992, an average recovery rate of 50% for transactions in default.

What is its appropriation? The Bank's revenues include 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 funds for a period of time. For FY2015, the Bank has an upper limit of $106.3 million for administrative expenses, funding of $5.8 million for the OIG, and up to $10 million in carryover authority until September 30, 2018 (P.L. 113-235). Ex-Im Bank reported providing $674.7 million to the Treasury in FY2014 after covering operating expenses.

Figure 2. Ex-Im Bank FY2014 Exposure Composition



Source: Ex-Im Bank, *FY2014 Annual Report*.

Reauthorization Debate and Outcome

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 has been the outcome of recent debates? In the 112th Congress, 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 conditions. It required the 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.

In the 113th Congress, the FY2015 CR includes an extension of Ex-Im Bank's authority through June 30, 2015. This followed active debate about Ex-Im Bank's authorization status. Proposals in Congress included a largely "clean" reauthorization of the Bank; reauthorization with reforms; and termination of authority. The Obama Administration's April 2014 legislative proposal called for a five-year renewal of the Bank's authority and an increase in its exposure cap to $160 billion by FY2018.

Reauthorization Issues for Congress

The primary issue is whether to reauthorize Ex-Im Bank. Scenarios include renewing its authority, in a "clean" manner or with reforms; allowing its authority to sunset; and reorganizing its functions, such as merging with other agencies. Renewal presents other issues, including:

- **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 and assure clients of the Bank's 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; implications for business, labor, environmental, taxpayer, and other stakeholder interests; and adequacy of reforms undertaken since the 2012 reauthorization.
- **Financial soundness and risk management.** Ex-Im Bank's financial soundness is of increasing interest as its exposure levels have grown. Congress may consider the Bank's credit standards, due diligence, and other practices in terms of goals such as allowing 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.** The growth in unregulated financing raises questions about the effectiveness of the OECD Arrangement. Some stakeholders support a focus on bringing China and other non-OECD countries into the Arrangement. Some also support U.S. and Chinese efforts since 2012 to negotiate separate export credit disciplines as part of an International Working Group. Others call for a focus on U.S. efforts in the OECD and other venues to negotiate to reduce and eliminate government-backed export financing internationally.

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

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