August 29, 2016

# Export-Import Bank (Ex-Im Bank) and the Federal Budget

## Background

**What is Ex-Im Bank, and what is the congressional interest?** As the official U.S. export credit agency, Export-Import (Ex-Im) Bank finances and insures U.S. exports of goods and services on a demand-driven basis. Ex-Im Bank operates as an independent agency under a renewable general statutory charter, the Export-Import Bank Act of 1945, as amended (12 U.S.C. §§635 et seq.). On December 4, 2015, Ex-Im Bank's charter was renewed through September 30, 2019, by the Fixing America's Surface Transportation Act of 2015 (FAST Act; P.L. 114-94, Division E).

**What is the current size of the Ex-Im Bank's portfolio?** In FY2015, Ex-Im Bank authorized $0.1 billion in new direct loans (export financing and the Tied Aid War Chest) and $12.3 billion in new loan guarantees (medium- and long-term guarantees, short- and medium-term insurance, and the working capital fund). Total authorizations are projected to be $15.1 billion for FY2016 and $20.4 billion for FY2017 (solely through new loan guarantees in each year). At the end of FY2015, the size of Ex-Im Bank's outstanding and undisbursed portfolio (exposure) totaled $102.2 billion ($28.8 billion for direct loans and $73.4 billion for loan guarantees).

## Budgetary Considerations

**How are federal credit programs such as Ex-Im Bank accounted for in the federal budget?** Beginning with FY1992, the Federal Credit Reform Act (FCRA) required that the reported budgetary cost of a credit program equal the estimated subsidy costs at the time the credit is provided. FCRA defines the subsidy cost as "the estimated long-term cost to the government of a direct loan or a loan guarantee, calculated on a net present value basis, excluding administrative costs." Before FY1992, the budgetary cost of a new loan or new loan guarantee was reported as its net cash flow for that fiscal year. The change intended to place the cost of federal credit programs on a budgetary basis equivalent to other federal outlays.

**What are the effects of the Ex-Im Bank programs on the budget deficit?** The FCRA methodology described above resulted in an estimated FY2015 budgetary impact of -$0.4 billion, or a reduction in the budget deficit of $0.4 billion. A negative subsidy indicates that the discounted present value of cash inflows exceeds the discounted value of cash outflows over the life of the loans, resulting in a reduction in the budget deficit for the fiscal year in which the subsidy estimate is made. This negative credit subsidy is calculated based on the negative credit subsidy rate multiplied by the total dollar value of loans and loan guarantees in that year.

The estimated FY2016 and FY2017 subsidies are -$0.6 billion and -$1.2 billion, respectively. (These subsidy estimates were taken from the President's budget documents prepared by the Office of Management and Budget [OMB]. The Congressional Budget Office [CBO] uses different models and assumptions when making credit estimates for purposes of the appropriations process and CBO's baseline estimates. There are proposals that would change the accounting method for federal credit programs, increasing their cost. These proposed changes are explained in a later section.) Subsidy rates from federal credit programs are subject to reestimates in future years, resulting in new subsidy estimates that may be higher or lower than the original estimate. For example, in FY2015, the original subsidy rate for Ex-Im Bank's direct loans was -9.26%. Currently, the rate has been reestimated as 9.56%. The original credit subsidy rate for loan guarantees in FY2015 was -3.46%. It is currently reestimated at -2.45%.

**What is the amount of the Ex-Im Bank's offsetting collections, and what does the bank do with any surplus revenues?** Offsetting collections are defined as funds collected by government agencies from other government agencies or from the public in businesslike or market-oriented transactions that are credited to an expenditure account. They are classified as negative budget authority. In the case of Ex-Im Bank, revenues are collected from customers, from fees or premiums and loan principal and interest payments. Offsetting collections in FY2015 were $0.5 billion after setting funds aside for credit loss reserves. Ex-Im Bank states that $0.4 billion of that amount was in excess of operating costs. That amount is calculated on a cash basis and based on the $0.5 billion in offsetting collections less the combined $0.1 billion in administrative expenses and deposits retained in Ex-Im Bank's accounts to be available for obligation as allowed under law.

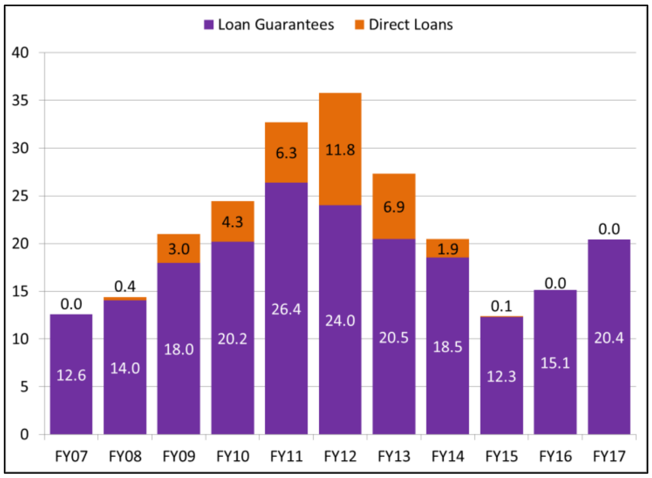
The amount of excess revenue calculated on a cash basis, discussed above, is different from the amount calculated on a budgetary basis. For budgetary purposes, the credit subsidy calculation incorporates the expected costs as well as profits. When a credit account generates a negative subsidy rate, as is the case with the Ex-Im Bank, a negative credit subsidy is recorded in the federal budget in the form of offsetting receipts and can be used to offset other costs incurred by the bank. The negative credit subsidy indicates that over the lifetime of the obligations made in this fiscal year, Ex-Im Bank is projected to generate more in offsetting collections than what was initially borrowed to provide the direct loan in present-value terms.

**How have recent events affected Ex-Im Bank activity?** The charter for Ex-Im Bank lapsed from July 1, 2015, through December 3, 2015, covering parts of both FY2015 and FY2016. Although Ex-Im Bank was allowed to manage existing business during the lapse, it was prohibited from approving new authorizations and engaging in business development. Ex-Im Bank direct loans have declined dramatically in recent years, which is likely attributable to the gradual recovery from the economic recession.

As of August 2016, the Ex-Im Bank had three vacancies on its Board of Directors, which is composed of five members through its charter. With fewer than three members, the board lacks the quorum that allows it to engage in certain business. On its website, Ex-Im Bank states that "without a quorum, the Board of Directors cannot conduct any business including considering applications for medium- and long-term transactions exceeding $10 million."

**Figure 1. Ex-Im Bank's New Authorizations by Fiscal Year, FY2007-FY2017**

(in billions of U.S. dollars)




**Sources:** OMB and Export-Import Bank. Figure created by CRS.

**Notes:** Totals may not sum due to rounding. FY = Fiscal Year. FY2016 and FY2017 figures are OMB estimates.

**Figure 1** shows annual new Ex-Im Bank authorizations for both loan guarantees and direct loans from FY2007 through FY2017. Total authorization activity declined from $35.8 billion in FY2012 to $12.4 billion in FY2015 and is projected to rise to $20.4 billion by FY2017. The negligible direct loan authorizations in FY2015, FY2016, and FY2017 are roughly consistent with direct loan authorization levels from prior to the economic downturn.

**What are some budget proposals regarding potential reforms to federal credit accounting, and how would they affect Ex-Im Bank's budgetary impact?** Some proposals to change the methodology for scoring federal credit programs from an FCRA approach, based on Treasury interest rates, to a fair-value approach, based on market rates (i.e., higher interest rates to account for market risk) have been introduced and considered in recent Congresses. In the 114th Congress, S. 399 and H.R. 119 would shift the scoring methodology to a fair-value approach. H.R. 1872, as introduced in the 113th Congress, would have made such a change. CBO projected in the cost estimate for H.R. 1872 that if the accounting change were applied to federal credit programs, the 10-year cost of Ex-Im Bank would increase from -$14 billion to $2 billion. That would mean that Ex-Im Bank's budgetary impact would shift from reducing the deficit to increasing it over the 10-year period.

**How would changes to federal credit accounting affect Ex-Im Bank appropriations?** The activities of the Ex-Im Bank are classified as discretionary. As a federal credit program, the bank's activities are subject to federal credit accounting rules and the calculation of a credit subsidy. The Ex-Im Bank's credit subsidy was negative in FY2015 and is estimated to be negative in FY2016 and FY2017. Therefore, no appropriation is required to cover the cost of the subsidy for budgetary purposes. However, if the credit subsidy calculation resulted in a positive subsidy rate or if the methodology for calculating subsidies for federal credit programs changed and led to a positive subsidy rate, then an appropriation from Congress would be required to cover the credit subsidy amount.

Separately, Congress provides an appropriation for the activities of the Ex-Im Bank's Inspector General and sets an upper limit on its administrative expenses as part of the Department of State, Foreign Operations, and Related Programs appropriations act. These expenses are not included in the credit subsidy calculation, unlike the majority of the bank's activities, but are recorded on a cash basis. Because Ex-Im Bank collects revenues from its customers, classified in the federal budget as offsetting collections, it is able to reimburse Treasury for the costs of those expenses, resulting in a net appropriation of zero.

**What are the effects of the Ex-Im Bank programs on the federal debt?** The budgetary impact (the credit subsidy) of the Ex-Im Bank's activities is different from the impact on the federal debt. Ex-Im Bank must borrow money from the U.S. Treasury when it issues a new direct loan or pays an obligation on a loan guarantee. Treasury issues securities to the extent that incoming revenues are insufficient to cover Ex-Im Bank's obligation. That borrowing from the Treasury increases the size of the U.S. federal debt in the amount borrowed on a dollar-for-dollar basis. Therefore, while the loan or loan guarantee remains outstanding, the activities of the bank increase the size of the U.S. debt. Obligation repayments then reduce the amount of debt outstanding to Treasury and the amount of federal debt.

The size of the credit subsidy calculated for budgetary purposes should reflect the size of the long-term cost (or debt burden) on the Treasury, though the estimates are inherently inexact. Outstanding funds borrowed from Treasury by Ex-Im Bank totaled $22.7 billion at the end of FY2015. (Repayments to Treasury for outstanding debt do not affect Ex-Im Bank's treatment in the budget.)

For more information on the policy issues surrounding the Ex-Im Bank, see CRS In Focus IF10017, *Export-Import Bank of the United States (Ex-Im Bank)*, by Shayerah Ilias Akhtar, and CRS Report R43671, *Export-Import Bank: Frequently Asked Questions*, coordinated by Shayerah Ilias Akhtar.

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