Insight

Update on the Export-Import Bank

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When the president signed the $305 billion "highway bill" (the Transportation Reauthorization and Reform Act of 2015) late last year, among many other actions, he revived the Export-Import Bank (Ex-Im). However, in order to garner support in Congress from both sides of the aisle, several reforms were made. Many of those revisions were relatively insignificant, like creating various committees within Ex-Im's board, tweaking complex rules, or requiring certain reports from the Inspector General. However, others were more noteworthy and substantive changes in the direction of better policy:

1. Ex-Im's total exposure (direct loans, guarantees, and insurance) was statutorily set at a maximum of $135 billion. To put that in perspective, in September of 2014, Ex-Im's total exposure was $112 billion.

2. If its default rate is 2 percent or more for a quarter, Ex-Im is frozen from issuing any further loans, guarantees, or insurance until the default rate is back below 2 percent. Again, for perspective, in September 2014, the default rate was .0175 percent.

3. No later than one year after the bill is enacted, Ex-Im must maintain loan loss reserves of 5 percent of its total exposure. In September 2014, Ex-Im held approximately $5 billion in loan loss reserves, or 4.5 percent.

4. A reinsurance pilot program is created wherein Ex-Im may enter into contracts and other arrangements to share risk. The program is limited to $1 billion per contract or other arrangement and $10 billion per year, and the Bank must provide annual reports with detailed analysis of the pilot program.

5. Effective in FY2016, the minimum amount of small business lending is increased from 20 percent to 25 percent of Ex-Im's portfolio in dollars. In September 2014, 24.878 percent of Ex-Im lending in dollars went to small businesses.

6. No later than two years after enactment, Ex-Im will be required to accept electronic transactions and payments.

7. "Small business specialists" within the Bank are authorized to approve loans to small business in amounts up to $25 million. Previously this was set at a maximum of $10 million.

By way of comparison, thirty other countries around the world have a similar export credit agency (ECA), many of them with policies and practices much like ours. At times, companies will rely on multiple ECAs to complete projects abroad.

The United Kingdom has its Exports Credits Guarantee Department which operates under the name UK Export Finance (UKEF). Like Ex-Im, UKEF guarantees loans from issuing banks to UK-based exporters who are looking to complete projects or export goods overseas. However, unlike Ex-Im, UKEF does not have a minimum or maximum contract or loan value, and it will guarantee up to 90 percent of the amount of the loan. UKEF also offers direct loans when a foreign customer can't get funding from a commercial bank either because of the relatively small size of the loan or because of the country they are in. Furthermore, UKEF's direct loans have no minimum or maximum amount, but, per OECD agreements, direct loans may only make up 85 percent of a contract's value.

Switzerland takes a slightly different approach with their export credit agency, called the Swiss Export Risk Insurance or SERV. Instead of supporting Swiss companies in their bids for international projects and exports, SERV insures exports against natural and political risks that private insurers do not sufficiently cover. This, in turn, allows banks to charge companies insured by SERV lower interest rates and/or give them higher credit limits. At the end of 2014, SERV had 6981 outstanding insurance policies totaling around $9.5 trillion in total exposure. Unlike some of the other export credit agencies around the world, SERV is self-sufficient, funding itself mostly through the revenues it collects from the premiums on its policies.

China, on the other hand, has multiple state-run financial institutions that handle its export credit activity. The most prominent, and most similar to Ex-Im, is the Export-Import Bank of China, or China Eximbank, which relies on a combination of buyers' credits, sellers' credits, and concessional loans offered to developing countries at subsidized interest rates and contingent on Chinese exports being brought to that country. With loose policies and few limitations on the amounts or types of loans it's willing to extend, China Eximbank is the third largest ECA in the world having disbursed over $4 billion in newly signed export buyer's credit in 2009. However, unlike the U.S. and the U.K., China is not a member of the OECD and therefore is not required to abide by the same rules and limitations as other countries which has led to substantial criticism of Chinese exporters having unfair advantages.

Mexico's ECA, Bancomext, divides its export financing into two categories: below $3 million and above $3 million with 80 percent of its credit extended via direct loans and the remaining 20 percent in the form of guarantees, discounted credit lines through financial intermediaries, etc. Loans under $3 million are serviced under a program Bancomext calls PyMEx, and, other than that $3 million threshold between programs, Bancomext only sets residency and time in operation requirements for its loans. This has allowed Bancomext to more than quadruple its portfolio over the past 8 years.

So what happens now that Ex-Im has been reauthorized in the United States? While it may be fully authorized and funded, its board does not yet have a quorum. And without a quorum on the board, Ex-Im may not approve any loans greater than $10 million. The board is only short one member of the quorum, and a member has been nominated but has yet to be confirmed by the Senate. However, considering that only six of nearly sixty long-term guarantees and loans that were authorized in FY2014 were under that $10 million threshold, the Bank is hardly performing near capacity. We saw that in the first 105 days that Ex-Im was shut down last year, almost $6 billion in funding towards projects abroad was forfeited and 1,077 loans went unauthorized, 917 of those to small businesses.

If Ex-Im is only able to authorize 6 out of every 60 loans that it would otherwise be able to with a full quorum on board, that's still around 900 loans going unauthorized every 100 days that the Bank isn't fully functional. The Senate Banking Committee has hinted that it won't be considering any nominations until March 2, at the earliest. While it was step in the right direction to reauthorize Ex-Im last year, a victory for American businesses still cannot be claimed until the Bank is able to operate with its full array of services.