AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

REAUTHORIZATION OF THE EXPORT–IMPORT BANK OF THE UNITED STATES

HEARING

BEFORE THE

SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE, AND TECHNOLOGY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

APRIL 5, 2006

Printed for the use of the Committee on Financial Services

Serial No. 109–83

U.S. GOVERNMENT PRINTING OFFICE

30–533 PDF WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

HOUSE COMMITTEE ON FINANCIAL SERVICES

MICHAEL G. OXLEY, Ohio, *Chairman*

JAMES A. LEACH, Iowa
RICHARD H. BAKER, Louisiana
DEBORAH PRYCE, Ohio
SPENCER BACHUS, Alabama
MICHAEL N. CASTLE, Delaware
EDWARD R. ROYCE, California
FRANK D. LUCAS, Oklahoma
ROBERT W. NEY, Ohio
SUE W. KELLY, New York, *Vice Chair*
RON PAUL, Texas
PAUL E. GILLMOR, Ohio
JIM RYUN, Kansas
STEVEN C. LATOURETTE, Ohio
DONALD A. MANZULLO, Illinois
WALTER B. JONES, JR., North Carolina
JUDY BIGGERT, Illinois
CHRISTOPHER SHAYS, Connecticut
VITO FOSSELLA, New York
GARY G. MILLER, California
PATRICK J. TIBERI, Ohio
MARK R. KENNEDY, Minnesota
TOM FEENEY, Florida
JEB HENSARLING, Texas
SCOTT GARRETT, New Jersey
GINNY BROWN-WAITE, Florida
J. GRESHAM BARRETT, South Carolina
KATHERINE HARRIS, Florida
RICK RENZI, Arizona
JIM GERLACH, Pennsylvania
STEVAN PEARCE, New Mexico
RANDY NEUGEBAUER, Texas
TOM PRICE, Georgia
MICHAEL G. FITZPATRICK, Pennsylvania
GEOFF DAVIS, Kentucky
PATRICK T. MCHENRY, North Carolina
CAMPBELL, JOHN, California

BARNEY FRANK, Massachusetts
PAUL E. KANJORSKI, Pennsylvania
MAXINE WATERS, California
CAROLYN B. MALONEY, New York
LUIS V. GUTIERREZ, Illinois
NYDIA M. VELÁZQUEZ, New York
MELVIN L. WATT, North Carolina
GARY L. ACKERMAN, New York
DARLENE HOOLEY, Oregon
JULIA CARSON, Indiana
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
BARBARA LEE, California
DENNIS MOORE, Kansas
MICHAEL E. CAPUANO, Massachusetts
HAROLD E. FORD, JR., Tennessee
RUBÉN HINOJOSA, Texas
JOSEPH CROWLEY, New York
WM. LACY CLAY, Missouri
STEVE ISRAEL, New York
CAROLYN MCCARTHY, New York
JOE BACA, California
JIM MATHESON, Utah
STEPHEN F. LYNCH, Massachusetts
BRAD MILLER, North Carolina
DAVID SCOTT, Georgia
ARTUR DAVIS, Alabama
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
MELISSA L. BEAN, Illinois
DEBBIE WASSERMAN SCHULTZ, Florida
GWEN MOORE, Wisconsin,

BERNARD SANDERS, Vermont

Robert U. Foster, III, *Staff Director*

SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE, AND TECHNOLOGY

DEBORAH PRYCE, Ohio, *Chair*

JUDY BIGGERT, Illinois, *Vice Chair*
JAMES A. LEACH, Iowa
MICHAEL N. CASTLE, Delaware
FRANK D. LUCAS, Oklahoma
RON PAUL, Texas
STEVEN C. LATOURETTE, Ohio
DONALD A. MANZULLO, Illinois
MARK R. KENNEDY, Minnesota
KATHERINE HARRIS, Florida
JIM GERLACH, Pennsylvania
RANDY NEUGEBAUER, Texas
TOM PRICE, Georgia
PATRICK T. MCHENRY, North Carolina
MICHAEL G. OXLEY, Ohio

CAROLYN B. MALONEY, New York
BERNARD SANDERS, Vermont
MELVIN L. WATT, North Carolina
MAXINE WATERS, California
BARBARA LEE, California
PAUL E. KANJORSKI, Pennsylvania
BRAD SHERMAN, California
LUIS V. GUTIERREZ, Illinois
MELISSA L. BEAN, Illinois
DEBBIE WASSERMAN SCHULTZ, Florida
GWEN MOORE, Wisconsin
JOSEPH CROWLEY, New York
BARNEY FRANK, Massachusetts

CONTENTS

	Page
Hearing held on:	
April 5, 2006	1
Appendix:	
April 5, 2006	33

WITNESSES

WEDNESDAY, APRIL 5, 2006

Harmon, James, Chairman, World Resources Institute	25
Lambright, Hon. James H., Chairman and President (acting), Export-Import Bank of the United States	9
Morrison, James, President, Small Business Exporters Association of the United States	23
Rice, Edmund B., President, Coalition for Employment Through Exports	21

APPENDIX

Prepared statements:	
Oxley, Hon. Michael G.	34
Velazquez, Hon. Nydia	35
Harmon, James	40
Lambright, Hon. James H.	44
Morrison, James	55
Rice, Edmund B.	67

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Pryce, Hon. Deborah:	
Statement of Brett N. Silvers	78

REAUTHORIZATION OF THE EXPORT–IMPORT BANK OF THE UNITED STATES

Wednesday, April 5, 2006

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DOMESTIC AND
INTERNATIONAL MONETARY POLICY,
TRADE, AND TECHNOLOGY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:05 p.m., in the Rayburn House Office Building, Hon. Deborah Pryce [chairwoman of the subcommittee] presiding.

Present: Representatives Pryce, Kelly, Manzullo, Biggert, Neugebauer, Maloney, Velazquez, Watt, and Sherman.

Ex officio: Representative Oxley.

Chairwoman PRYCE. Good afternoon. This hearing will come to order. I am pleased to welcome you all here today, to this legislative hearing on H.R. 5068, which reauthorizes the Export-Import Bank.

I would like to thank our witnesses for being here with us today, and also my colleagues, who have been very supportive of this legislation—Mrs. Maloney and Mrs. Biggert, thank you very much.

We have drafted a good bill that brings to the Bank greater transparency, increased oversight, and improvements in outreach, especially to small businesses.

I would like to thank Chairman Manzullo for his leadership on this issue, specifically. His assistance was vital in drafting language to formally establish a small business division within the Bank, which will make it easier for small business exporters to access the medium-term credit programs.

In the new charter, we have required numerous reforms and structural changes to the Bank. These will take time to implement. And as such, we have extended the charter date to 2011.

To address any oversight concerns that the Bank may fall into—an all-too-familiar trap of being required to make changes by Congress and then not acting on those requirements—we have included reports to Congress on implementation progress.

Going further, we have also required that in those reports we have the board sign off before it comes to Congress and include any dissenting views. Additionally, we ask for the name of the person responsible for that section of reform within the Bank, so that Congress is aware of whom to address its focus.

One of the most frequent criticisms of the Bank that my subcommittee has heard is that there is no staff designated exclusively

for small business. When a small business calls to begin an application, they may get someone who has just finished a large contract and doesn't understand what small business exporters need. This can lead to frustration and failed service to the exporter.

To address this concern, this legislation establishes a small business division that will provide outreach and advocacy of small businesses and advise them on Bank programs. Additionally, this division would specifically give advice to women and minority-owned small businesses that, as statistics show, are increasingly becoming the most successful of all small businesses in America.

According to the U.S. Census, in 1992, there were 6.2 million women-owned small businesses. In 1997, there were 5.4 million, and today, there are over 10 million. All women and minority-owned businesses contribute over $4 trillion to the U.S. economy.

So, to cut through any administrative red tape, we have instituted a direct line for the senior vice president of the small business division to report directly to the president of the Bank.

And to further guarantee that the Bank must have small business staff who work solely on, and truly understand, the needs of small business exporters, we have required staff budgetary resources and staff be dedicated to the small business division. The division shall include staff dedicated exclusively to outreach, training, and advice concerning various programs.

Though the Bank is not an aid agency, it can do much to support developing nations through the Sub-Saharan Africa Advisory Committee. We have added this division into the Bank's charter, and extended the charter until 2011. This section would see that a master guarantee agreement would be in place with appropriate banks in Africa, and require a report on the working relationship with the African Development Bank, and the Africa Ex-Im Bank.

This provision would also encourage the Bank to work for closer cooperation with U.S. agencies in Africa, especially foreign service, which would encourage African buyers towards transactions supported by the Bank.

As many of my colleagues can recall, we have heard, over the last few years, of instances where the board refused to take up a vote on an application. Non-actions like these by the board only result in hurting our economy. When the board refuses to act, our American exporters lose. As such, we have required the board to vote in all cases when an economic impact study has taken place.

We've placed in the charter that the Bank will notify applicants of application status within 45 days after receipt, and send notices for additional information, if needed.

Now, some of my colleagues here today believe that even 45 days is too long, and I hope to hear more on this from the witnesses.

It has been almost 5 years now, since my predecessor required Ex-Im to put in place an interactive Internet site where applicants can go to check the status of their loan request, and to track its progress, and Ex-Im still does not have this Web site functioning. We require in this new charter that the Bank have this online site up and properly functioning by September 1st of this year.

This section of the legislation will also require: reports by the Bank related to technology to assist small businesses; analysis of money appropriated for this area; and a report by the inspector

general which examines the total amount expended on technology, and what efforts are being made in assisting small business concerns.

In working on this legislation, my subcommittee has heard from exporters that the Bank may not be as competitive as other banks, such as Canada and Japan. To gather further information on this, we have asked the Bank to provide a report to Congress that focuses on the competitiveness initiatives, as compared to the size of program accounts at the Bank, and other ECA's, and how the Bank's rates, terms, and other conditions compare with those offered by other governments, directly or indirectly.

I believe this legislation is a solid foundation by which the Bank can become more competitive, transparent, and rise to address the needs of our American exporters.

We welcome our witnesses here today, and I look forward to hearing their testimony. I would now like to recognize my friend and colleague, Mrs. Maloney, for her opening statement.

Mrs. MALONEY. Thank you, and I thank the Chair for holding this hearing, and all of our witnesses for being here today. I particularly would like to welcome Mr. James Harmon, who happens to be a constituent of mine. He is now the chairman of the World Resources Institute, and a former chair of the Ex-Im Bank.

The future of the Export-Import Bank is of great concern to all of us on this subcommittee, and, I would say, to all Members of Congress. We are faced today with the need to pass the reauthorizing legislation for our Nation's export credit agency at a time when the demands of the global marketplace seem increasingly pressing and increasingly difficult, and the agenda of Ex-Im appears more critical to our economy than ever before.

As the independent U.S. governmental agency that assists in financing the exports of U.S. goods and services to markets around the world, through export credit insurance, loan guarantees, and direct loans, the Ex-Im Bank has long played a vital role in the economy of many of the districts we represent, including the one that I represent.

But in a year when the single best-selling non-fiction book, "The World is Flat," argues that the most important event of the new millennium is not 9/11, but the explosive growth of the global market, the Bank's mission of creating and maintaining U.S. jobs through financing exports takes on a new urgency and importance. And I would say, as our gap in trade grows, the importance of this Bank grows.

Whether we like it or not, the coming together of events that have brought India, China, and many other countries into the global supply chain for service and manufacturing has created an explosion of wealth in the middle classes of the world's two biggest nations, giving them a huge new stake in globalization.

As former Chairman Greenspan was fond of telling the subcommittee, "All of a sudden a huge number of highly educated people from formerly non-competitive countries have entered the global workforce." We cannot afford to be uncompetitive in the rapidly changing global market, or complacent about our status. Our current account deficit is increasing, and each year sets new records.

Indeed, the new alarming news is that in the last quarter of 2005, we lost ground on the two factors that have traditionally been in our favor: the balance on income shifted to a deficit from a surplus; and the surplus on services decreased.

As leadership on both sides of this subcommittee recognize, we must empower and support Ex-Im now, more than ever. I am very happy to report that the Ex-Im reauthorization bill introduced last week is truly a bipartisan piece of legislation, as evidenced by the fact that the original co-sponsors include not only the majority and minority leadership of this committee and subcommittee, but also of the small business committee. And we are pleased to be joined by Mrs. Velazquez, who is here with us today.

We have worked together in this bill to fairly address the concerns of many viewpoints, and I look forward to the comments from the witnesses.

I would like to commend, particularly, the staff of the committee—Jackie Moran, Paul Kangas, Eleni Constantine, and Scott Morris—for their long hours and hard work, and a bipartisan effort to listen to many points of view, and to produce a bill that we all agree on.

The bill responds to some concerns that we have had for a long time, and that we heard repeatedly as we began to work on this bill. First, the bill reaffirms Congress's intent that the Bank support small business to a greater extent than at present, consistent with sound lending policies. To this end, the bill creates a small business division within the Bank, run by a senior VP who reports directly to the chairman.

The staff of this new division are dedicated exclusively to small business transactions, reflecting the fact that these deals and these clients need and require unique skills. Within this division, the bill creates an office charged with expanding outreach to women and minority-owned businesses, also underrepresented in the Bank's effort in a very important new addition.

Based on numerous comments, I might add, particularly from my own constituency that are interested in exporting, we should—we worked on making it more transparent. And many of my constituents say they were very frustrated by the lack of transparency and unfriendliness in the bank process; it was not user friendly. Several said that their applications, and I'm using their words, "simply disappeared."

And at my initiative, the bill contains several transparency reforms that respond to this concern, and I expect that these relatively low-cost changes will provide significant benefits to Ex-Im's clients. They include notification requirements so that applicants know what is happening to their application and a requirement for board action on applications that have been subject to economic impact analysis, among others.

Some of my constituents said that an economic impact analysis may have been called by some of their competitors, and that it was a way of just killing a project before the Bank.

And I just want to add on what my colleague, the chairwoman, mentioned. My daughter is now going through the process of applying to colleges. She can go through any college application, find out what papers are missing, what needs to be done, and where it

stands in the process. Why can't we do this, as was required 5 years ago?

The bill also has a new activity to increase activity in Sub-Sahara Africa, and it has many other additions that I think are important, particularly in the competition area. In particular, the bill gives the Bank authority to use the Tied Aid Fund, a fund established several years ago by Congress to combat unfair export practices by other countries.

It has many new additions. I just ask to revise and extend my remarks, and add the rest of it to the official record. We look forward to your testimony, and I look forward to a swift passage of this important legislation.

Chairwoman PRYCE. Without objection, your full statement will certainly be put in the record.

We are very pleased to welcome our chairman. Chairman Oxley, you are recognized.

The CHAIRMAN. Thank you, Chairwoman Pryce. And I am going to submit my statement for the record, and only say welcome to Mr. Lambright, and to say that this is the second go-around on the Export-Import Bank reauthorization since I have been chairman. And I am reasonably optimistic, given the tenor of the opening statements, and the bipartisan support we have for this legislation, of going forward.

I recall some fits and starts when we went through this process in 2002. Well, we finally got it done, got to a conference committee, and worked out our differences. And I think some of the recommendations, particularly in the small business area, make a lot of sense, and certainly, I think, will add some support here on the Hill for the reauthorization this time around.

So I want to thank Chairwoman Pryce for her support on this, and Carolyn Maloney, and others, who have really put together, I think, a bill that we can be proud of, and that gets us to our goal of increasing exports by American producers.

And with all of the rhetoric we hear about trade and outsourcing, and the like, this is something very positive that this Congress can do to send a strong signal that we are reauthorizing the Export-Import Bank, and we understand the goals that they have, that the witnesses will be talking about. And at the end of the day, we will have a solid package that we can pass over to the Senate, and hope to have the President's signature by the end of this calendar year.

So, with that, Madam Chairwoman, I yield back the balance of my time, and ask unanimous consent that my full statement be a part of the record.

Chairwoman PRYCE. Without objection. Thank you very much, Mr. Chairman.

I now recognize Mr. Sherman.

Mr. SHERMAN. Thank you. I think that the trade deficit of the United States, which is the largest any country has ever had in history, by far, is the greatest threat to world economic order, and to American prosperity. And so, I welcome the efforts of the Export-Import Bank—which I hope would someday change its name to Export Bank—to try to deal with that problem, although your efforts are, at most, a few drops in the bucket.

A second concern I have is the Export Bank's dealing with small business. I have dealt with the chairman on that directly, and I think that we can deal effectively with particular small businesses in my area.

And then, finally, I have been concerned—and I realize this is more a foreign policy issue, and this is not the Foreign Policy Committee of the Congress, but you have an effect on foreign policy—about the financing that the Export Bank has done with regard to projects in the Caucuses. You have financed a pipeline that can only be called "The War Pipeline". It is a pipeline to go from Ajarbaijan, around Armenia, into Georgia, and then into Turkey.

The effect of this pipeline will be disastrous. The route of this pipeline is the exact opposite of what it would be if it was a "peace pipeline." If it was a peace pipeline, it would take the shortest distance, and it would link Ajarbaijan and Armenia. By going around Armenia, you have given some voice to the extremists in Ajarbaijan, who say, "Look, once we pump out the oil and the Armenians can't stop us, we will somehow get enough money to reverse our defeats on the battlefield, and we will start a new war."

Now, that's not only a problem for our policy in the Caucuses, but it's also a problem for the Export Bank, because we established firmly during World War II that oil pipelines are legitimate strategic targets of war. And so, when we get to the questions, I will ask the chairman whether you have reserved in full for what may very well happen, the total destruction of that pipeline in a war that may very well occur precisely because the pipeline was built with U.S. funds.

My current concern now is that you may match the war pipeline with a war railroad designed, again, not to go from Ajarbaijan through Armenia and to Turkey, but rather, to go around.

And, I will point out again, that during World War II, we clearly established that railroads are legitimate strategic targets in war. And I would hate to see you or one of your successors try to reverse what has been established U.S. policy and somehow say, "Oh, we lost money. It's Armenia's fault. They shouldn't hit pipelines, they shouldn't hit railroads." Well, we have in every war that we have had in the last 60 years, and I suggest that we make sure that this railroad be a peace railroad and not a war railroad. And I yield back.

Chairwoman PRYCE. The gentlewoman from Illinois, who has worked very hard on this issue, Mrs. Biggert.

Mrs. BIGGERT. Thank you very much, and thank you, Chairwoman Pryce, for holding this legislative hearing today. I am going to try and just take a few minutes and submit my testimony, or my statement, for the record.

But I would like to express my thanks for Mr. Lambright and his team for coming out to my district in Illinois for a roundtable recently. In an effort to ensure that we had the best bill possible, we met with Chicago area manufacturers, large and small, and financial services industry representatives, to discuss what the Bank is doing well, and how it could improve. I think we had a very productive discussion, and I would like to thank the Ex-Im Bank team for listening to my constituents and taking into consideration some of their suggestions for the Bank.

And I would also like to encourage my colleagues to hold similar sessions, for they're a great way to hear directly from those who are on the front lines. And thanks to the advice of those who participated in the roundtable, there were just a couple of suggestions that I would just like to touch on briefly.

First, we should encourage the Bank and other financial institutions to increase their outreach efforts with businesses, and spread the word about export financing opportunities.

Second, several of my constituents expressed concern that the approval criteria for the Bank financing is too strict.

Third, the Bank should explore opportunities to streamline applications.

Fourth, the Bank should work with other Federal agencies in the private sector to develop greater expertise in the financing of exports to developing countries. And then, on a related note, I would hope that the Bank could expand expertise in specific sectors, and facilitate increasing exports in those sectors. I would particularly like to see this in the energy sector that I think we talked about, giving increased—increasing the global demand for clean, efficient, and cheap energy.

And lastly, I hope that the Bank will find ways to more accurately assess the economic impact that its larger transactions have on smaller businesses. So it was a great meeting, and such an important issue, that in our increasingly competitive global environment, we must ensure that we can provide every advantage, and remove every disadvantage, for U.S. businesses to win this sale.

So, I look forward to working with the Bank. I look forward to working with the chairman and my colleagues on both sides of the aisle to reauthorize the Bank, and to ensure that it has targeted directives, adequate financing and staff, and the capabilities to facilitate increased U.S. exports, and most importantly, U.S. jobs. With that, I yield back.

Chairwoman PRYCE. Thank you. Mrs. Kelly?

Mrs. KELLY. Thank you, Madam Chairwoman. I would like to ask Mr. Lambright, you expressed support for a 5-year reauthorization—

Chairwoman PRYCE. We are in the period of opening statements.

Mrs. KELLY. Oh, I am sorry. I don't have an opening statement. I thought you were in questions.

Chairwoman PRYCE. All right. That's all right. Mr. Manzullo, do you have an opening statement?

Mr. MANZULLO. I just want to thank you for the hearing. I look forward to Mr. Lambright's testimony. He has brought a lot of fresh air and a new culture to Ex-Im, and I look forward to his being accepted by the honorables over on the other side. And he has already worked with us very closely in implementing some very strategic small business issues. So I thank you for having the hearing.

Chairwoman PRYCE. And I thank Mrs. Kelly and Mr. Manzullo for your input and assistance in this bill. Thank you very much for your interest.

And now, without objection, the Chair would recognize Ms. Velazquez for an opening statement.

Ms. VELAZQUEZ. Thank you, Chairwoman Pryce, and Ranking Member Maloney, and I would like to really thank you for the work that you have done on this reauthorization. And as the ranking Democrat on the Small Business Committee, of course this is an important issue for me, and we have worked with the committee staff to have input into this language, reauthorization language.

As you know, small exporters are key components of a successful export strategy. They are the Nation's leading exports, dominating many export sectors, and growing 2 times faster than large exports. However, these firms face obstacles trading internationally. They, therefore, require assistance from the Export-Import Bank to obtain adequate and timely financing, as well as business development and outreach resources.

In the Export-Import Bank's Reauthorization Act of 2002, Congress required small and medium-sized exporters to receive at least 20 percent of the Bank's authorizations. However, the Bank has not fulfilled its mandate since this was enacted. The unfulfilled mandate demonstrates inadequate institutional focus on, and commitment to, small exporters to promote a sustainable export sector. The Export-Import Bank must take steps to support the growth of the country's lead exporters, small businesses.

To support small exporters, the Bank's financing procedures and resources must be geared, in part, to the particular needs of these businesses. The reauthorization proceeding provides a new opportunity to ensure that the Bank's small business financing is commensurate with overall need.

To implement changes, the reauthorization legislation proposes to establish reforms to the Bank's institutional structure, and decisionmaking procedures. The Bank structure will better serve small businesses through the creation of a small business division. The division will represent small exporters and advocate for their interests within the Bank, and to private lending institutions.

However, if it is to be relied upon as the representative of small business needs, the division must have real resources, real responsibilities, and real decisionmaking authority. A weak small business division will not be able to enforce its mandates.

A newly established small business division staff should possess both knowledge of these exporters' particular needs, and be authorized to review and approve small business financing applications. Knowledge and advocacy are meaningless if they do not impact the bottom line, which is to provide these firms with financing assistance.

I am also concerned with the Bank's level of assistance to minority and women-owned export businesses. These firms are growing at double the rate of all firms in the country, and possess immense potential to become top exporters. Yet, the Bank currently provides them with just over 2 percent of the total financing. To support the growth, these businesses require additional resources for business development and a higher mandatory setaside from the Bank's total authorizations.

Chairwoman, I just want to say, look, in 2002, I was a member of this subcommittee. I was sitting here when we were dealing with the reauthorization language. And here we are again, pointing and raising the same concerns that small business exporters were fac-

ing back then. So, I hope you do a better job, and I hope that we can accomplish that with this legislation. Thank you.

Chairwoman PRYCE. The gentlelady's time has expired.

Well, as we begin, I would like to thank chairman and acting president of the Bank, Jim Lambright, for being here today with us. Mr. Lambright has made—has been in this role since July of 2005, and has been doing a very good job working with the Members of Congress in addressing their concerns in many areas, and also making the Bank more competitive and responsive.

We welcome you here today. We will recognize you for a 5-minute summary of your testimony, without objection. Your entire written statement will be part of the record, and then we will get to the meat of other concerns as we ask questions. Go right ahead, Mr. Lambright.

STATEMENT OF JAMES H. LAMBRIGHT, CHAIRMAN AND PRESIDENT (ACTING), EXPORT–IMPORT BANK OF THE UNITED STATES

Mr. LAMBRIGHT. Thank you so much. Chairwoman Pryce, Congresswoman Maloney, and members of the subcommittee, I am pleased to be here today to testify on the 2006 reauthorization for the Export-Import Bank of the United States.

Since my testimony before this subcommittee on November 10th of last year, I have had the pleasure of meeting with a number of the distinguished members of the subcommittee, and I look forward to continuing this dialogue.

The mandate of the Bank, as expressed in our charter, is to create and sustain U.S. jobs by supporting exports that otherwise would not go forward, either because of government-supported competition, or because the private sector is unwilling or unable to assume the risk. We do this through loans, guarantees, and insurance.

That mandate remains the core of why the Bank exists, and why it should be reauthorized. We are requesting the extension of the charter for 5 years, to September 2011. We are also requesting that our existing authority to approve dual-use transactions, as well as the life of the Sub-Saharan Advisory Committee be extended to the same date.

And except for these changes, we at Ex-Im Bank believe the current charter language provides the institution with sufficient powers and flexibility to meet the challenges of the next 5 years.

Our charter provides guidance as to how to meet our mandate. We then must set our course by those beacons, one representing the aggressive support we provide U.S. workers and exporters, and the other representing responsible stewardship of taxpayer dollars.

Since our 2002 reauthorization, we have authorized roughly $48 billion in financing support of an estimated $63 billion in U.S. exports. Some of those have been big ticket items, such as aircraft or power generation equipment. But over 80 percent of those transactions have been made available to directly support small business exports.

For fiscal year 2005, every taxpayer dollar invested in the Bank's program and administrative budgets yielded financing in support of over $50 in U.S. exports.

Since I was appointed acting president about 8 months ago, no topic has received more attention at Ex-Im Bank than small business. There have been numerous meetings between Ex-Im staff and the staff of the House Committee on Small Business since my last testimony before this subcommittee.

We have also worked closely with small business representatives. And as a result of this collaborative process, we have made a number of creative and innovative changes to our business operations. These include: improving the claims process; establishing a new division for small business outreach; assigning small business specialists in each division; and expanding our online capabilities.

We are forward-leaning in reaching out to the small business community, and we will continue to adapt our policies and practices to be as flexible and responsive as possible to meet the needs of small businesses.

And we have already laid a strong foundation for growing the small business program. In the last fiscal year, Ex-Im Bank authorized 47 percent more in dollar volume than in fiscal year 2002, at the time of our last rechartering, and 21 percent more, in terms of transactions.

We also remain mindful of the policy considerations that exist in our mandate, and we try to achieve the objectives set by Congress. And to this end, it's worth highlighting, first, that the Sub-Saharan Africa Advisory Committee has proved to be a valuable source of knowledge for the Bank, as we attempt to increase our exports to this important part of the world that offers great potential for our exporters.

Second, since the establishment of the Bank's Environmental Export Program in 1994, our environmental transactions have grown significantly, with a total portfolio in excess of $2 billion. This has allowed U.S. environmental companies to compete in promising emerging markets.

And, third, we at Ex-Im Bank are striving to help the American export community be more competitive by working to increase our transactions involving women and minority-owned businesses. In the last fiscal year, Ex-Im Bank staff participated in 70 events aimed at this targeted audience.

And in looking to the future, industrialized countries which are not OECD members, are emerging as significant exporters of capital goods. And we have to decide what Ex-Im Bank's response should be to these growing challenges.

I have every confidence that Ex-Im Bank will continue to serve American workers, and preserve American jobs for years to come. I look forward to working with you in this reauthorization process, and I would be happy to take your questions. Thank you.

[The prepared statement of Mr. Lambright can be found on page 44 of the appendix.]

Chairwoman PRYCE. Thank you very much. We all appreciate your time-sensitive testimony.

And I would like to talk a little bit about the proposals for limiting time limits on processing the applications. Do you believe this would approve or hinder the process, in determining whether or not to approve a loan?

And I would also like your honest assessment of the 45-day period, and whether that, from your perspective, and from the applicants', is too long, too short, or just right. Would you give us your thoughts on that, please?

Mr. LAMBRIGHT. Yes. I don't want to take a day longer than is necessary to satisfy our customers' needs. Customer service is an important part of what we do. And we are assessing ways to meet our customers' needs in a more time-sensitive manner.

One thing that we're doing is introducing the Ex-Im Online program, which some members have mentioned in their opening statements, as a way we can provide faster response and more transparency for our customers, particularly our small business customers.

And to your particular point about the 45 days, it strikes me as reasonable that any customer should be contacted by Bank staff in that timeframe to acknowledge receipt of an application, and to start the discussion about what further information may be needed to proceed.

Chairwoman PRYCE. Start the discussion? That means you don't think you could complete the evaluation within 45 days?

Mr. LAMBRIGHT. As I read the bill, it was 45 days to reach out to customers to ask questions or to express concerns about an incomplete application. And that struck me as something that would be reasonable to expect staff to do.

Chairwoman PRYCE. And how long does the typical application process take?

Mr. LAMBRIGHT. It would be a different answer for different programs. If you look at our primary small business program, the typical case is evaluated and approved within 20 business days. And so, the 45 days would, of course, be well within that timeframe.

When you start to look at our more complicated transactions in the medium term, the typical turnaround time is 40 to 45 business days. And when you go into the longer-term credits for asset-backed financing, or structured projects, those are measured in months, or perhaps even years. But when I hear complaints about our cycle time—and I'm sure that the complaints that you hear about Ex-Im Bank's responsiveness—they generally relate to the medium term or the shorter-term products.

Chairwoman PRYCE. And so, would it be valuable for us to require a time limit? Would it be valuable, in terms of your internal processes, and would it be valuable for the applicants themselves?

Mr. LAMBRIGHT. I agree with the premise that customers having some clarity as to when they can reasonably expect feedback from the Bank is appropriate. Whether that requires legislation or whether it's something that we should be evaluating currently, I would leave to the committee. But it seems like a reasonable direction to be going.

Chairwoman PRYCE. And the online review process that this will require you to put into place by the first of September, is there anything that you know of that would limit your ability to do that?

Mr. LAMBRIGHT. Well, our plan is to reveal or activate the online program on June 1st. And that would be for our primary small business programs. And the medium-term program would follow,

and I would need to investigate whether that could reasonably be expected to be online by September.

It may be that the medium-term program is more likely to be ready for activation at the end of the calendar year than at the end of the fiscal year. But we would be onstream with the major component of the online program by June.

Chairwoman PRYCE. And is there any reason that you can give us for this not having been put in place over the last 5 years?

Mr. LAMBRIGHT. Well, the major reason is that the Bank underwent a major reorganization in 2002. At the time of that reorganization, the decision was made to table the online effort so that when we did take up programming the online functions, they would be more cleanly tied to the new business flows that would be developed in this reorganization. And so, some significant time was lost in meeting this goal.

Chairwoman PRYCE. I agree. All right. Thank you very much. Mrs. Maloney?

Mrs. MALONEY. Okay. On making the Bank's operations more user-friendly, will people be able to apply online? We have the online applications. I think probably the barrier is bigger for women and minority businesses, so being able to apply online would be very helpful. Are you moving—

Mr. LAMBRIGHT. That is the part of our online functions that we anticipate rolling out on June the 1st.

Mrs. MALONEY. So you expect that?

Mr. LAMBRIGHT. Yes.

Mrs. MALONEY. Okay, great. Well, listen. I tell you, basically, I'm just concerned about our account deficit. It's just getting bigger and bigger. We have the largest trade deficit in history, the largest of any country in the world, and we need to do something about it. And I certainly support any efforts that you have.

I do want to raise one of the criticisms that you hear of the Bank, and listen to your response. And one of the criticisms is that by supporting large corporations doing business abroad, the Bank is effectively moving American jobs overseas, as many of these corporations move their offices offshore.

And what response do you have to this? This is an issue that is constantly, or usually, raised by Congressman Sanders, that we are giving the support to corporations that are moving entire divisions, and therefore, American jobs, overseas. And part of your mandate from your creation in 1934 was not only exports, but the creation and saving of American jobs.

Mr. LAMBRIGHT. That's exactly right, Congresswoman. When we make our program and policy decisions, we do so with U.S. jobs in mind, as opposed to the corporate structure involved in those jobs.

So, yes, U.S. companies—some U.S. companies—are moving jobs overseas. But when U.S. Ex-Im Bank participates in a transaction, our financing is only connected with the goods and services produced by U.S. workers. And so, we feel like the function we serve is in helping keep more of those jobs here in the United States.

Mrs. MALONEY. And does the economic impact analysis required by law capture this problem of a major corporation maybe moving tens of thousands of jobs overseas, but then wanting to have a little help over here, with another export? Is it—

Mr. LAMBRIGHT. Well, when we evaluate an application, we are looking at the U.S. production and the jobs associated with those overseas sales. Our economic impact procedures really address something slightly different, which is weighing the benefit of the immediate export against the longer-range implications of increased commodity production overseas that may cause some threat to U.S. producers.

Mrs. MALONEY. Could you give us some comments—I'm sure you've put a lot of thought into it—on the fact that in this global economy, we are losing so many jobs. I literally had a case where they were trying to outsource the flight attendant jobs—it was before bankruptcy court, and they lost—but they were trying to literally fly people in from other countries to fly all around the United States.

And it used to be you would think it's just going to be a certain type of job. It seems to be growing into practically every job. If you're not chained to your seat, there are attempts to outsource those jobs. And do you think we need to look at different policies at home to try to combat this?

I mean, this is a phenomenon that is huge, the number of jobs that are being outsourced, and really, the trade gap. Even though we work hard at the Ex-Im Bank, and we work in all these other places to do things, the trade gap seems to be just growing bigger and bigger and bigger. And what is your overall thoughts on how we should confront this as a Nation? It's a growing challenge, to say the least.

Mr. LAMBRIGHT. I share your views, that we are all grappling with some pretty big questions right now, on this front.

At Ex-Im Bank, we are looking at how we can keep up with the pace of change in the economy, and the structure of U.S. exports. As services become a bigger part of exports, for example, we at Ex-Im have to ask ourselves how can we keep up with that, and help support those exporters with financing for their exports, without losing sight of our historical focus on manufactured goods?

And so, those are the sorts of things that we are looking at. It's also becoming a harder question to answer what is an American good, as components come from all over the world, and assembly may take place here or elsewhere. We need to figure out the right approach for the new kind of products that are getting exported.

Mrs. MALONEY. Okay. Thank you very much. My time is up.

Chairwoman PRYCE. Mrs. Biggert.

Mrs. BIGGERT. Thank you. Mr. Chairman, how does the Bank's approval of large business transactions also help small businesses?

Mr. LAMBRIGHT. Well, many of the larger exports that we support are big capital goods, like a piece of agricultural equipment, or construction equipment, or a commercial aircraft. And any piece of large equipment is going to have many components to it. And a lot of those components are supplied by America's small businesses.

Mrs. BIGGERT. Well, how does the Bank—do you track the benefits that those large business deals—

Mr. LAMBRIGHT. It can be very difficult, because a large exporter may not be able to invoice for us all of the exact suppliers for any particular good that we help finance.

But we have exporters who have offered us information on their supplier data, and we look at that and can try to look at how much indirect benefit we are providing to America's small businesses.

In fact, the last time such a study was done of our top dozen exporters, which was a few years ago, indicated over 35,000 SME's contributing to their larger exports.

Mrs. BIGGERT. But you don't include that when you're determining how much—the percentage of small business versus the large—

Mr. LAMBRIGHT. No, we do not.

Mrs. BIGGERT. Okay. Then we have, in the bill that's been talked about, something called Tied Aid. And that's—can that be used to level the playing field, with respect to the government subsidies on foreign exports?

Mr. LAMBRIGHT. Tied Aid is a U.S. Government tool to combat trade distorting aid from other governments. And this is something with a long history at the OECD in Europe, and is something that Ex-Im Bank and other U.S. Government agencies have been monitoring for a long time now.

Mrs. BIGGERT. But you don't really use Tied Aid very often.

Mr. LAMBRIGHT. It's not a tool that we use frequently, no.

Mrs. BIGGERT. Are the Bank's main competitors, other export credit agencies in Asia and Europe, using the Tied Aid?

Mr. LAMBRIGHT. Many of them do. If you look back, though, over 15 years, the global level of Tied Aid has come down dramatically through international negotiations and through our use of Tied Aid.

So now we are dealing with a far lower level of Tied Aid, but it does continue to exist. And some exporters would like to access Tied Aid funds to help level the playing field.

Mrs. BIGGERT. Thank you. I yield back.

Chairwoman PRYCE. Mr. Manzullo.

Mr. MANZULLO. I have a comment. We have, in our district, the northern part of the State of Illinois, probably close to 2,000 factories. And Boeing Aircraft has close to a $200 million presence, even though there is no Boeing plant there. Caterpillar, about $100 million. John Deere, close to $100 million.

And these are all—without the exception of Hamilton Sun—very small machine shops, and hundreds and hundreds of machine shops that do specialty machine work.

My understanding is that if an item is worth, say, $100 that you're going to export, that at least $50 of that has to represent U.S. content. Is that correct?

Mr. LAMBRIGHT. That's correct for our short-term programs, yes.

Mr. MANZULLO. Okay. The other question I have is, first of all, I want to thank you and your staff for working with my staff on the small business issues.

One of the questions I have is on the 5-year reauthorization. I might have problems with that. I think if you go a couple of years, it gives everybody an opportunity to review periodically, from time to time. What is your—I know you're in favor, but there may be some room for compromise in between.

Mr. LAMBRIGHT. My reaction to that is to welcome Congressional guidance throughout the life of the reauthorization. So, however

long we would be reauthorized, I would expect an open line of communication to continue between the Bank and the committee.

I guess I would have two reactions to a shorter reauthorization. One would simply be that there are many changes contemplated in this bill, and I would appreciate the time to implement them and administer them before we took a measure of their success or failure.

And secondly, I would think that exporters, our customers, would benefit from a longer-term certainty of Congressional support of the Bank's availability.

Mr. MANZULLO. I appreciate that. The second question is on the turnaround in the application process. You have been the acting president now for how long?

Mr. LAMBRIGHT. A little over 8 months.

Mr. MANZULLO. Okay. Could you tell us, anecdotally, what you have seen under your direct watch, in terms of the turnaround process?

Mr. LAMBRIGHT. Well, this—the cycle time turnaround is something that we have been trying to improve for some time now. I think that our—one thing that we have taken some staff off the front line and devoted them to is the online project, so that when we can get that fully implemented and up and running, that cycle time for the short-term program should come down, to reflect the ease of administration with the online program.

But right now, we have a number of people focused on that. And so I don't have—

Mr. MANZULLO. You don't have any figures on it at this point?

Mr. LAMBRIGHT. Right, I don't have something to show you—

Mr. MANZULLO. Okay. I understand. The third thing is compliments to your webmaster. That is a very interesting Web site.

And when you were in the office last time, or a couple of times, when you talked about doing some corny caricatures and walking people through, what's the progress of that, Jim?

Mr. LAMBRIGHT. Well, we have come up with a flowchart that explains our insurance product and the claims process, so that it's very simple for exporters who may be new to Ex-Im Bank, to understand what steps are required and what is expected of them.

And actually, as of today, we have a special small business portal on the Web site that presents an even simpler format to introduce small businesses to the Bank's services.

Mr. MANZULLO. Great. Thank you very much.

Chairwoman PRYCE. Mr. Watt? Welcome, and you're recognized.

Mr. WATT. Thank you, Madam Chairwoman. I am sorry, first of all, that I missed your testimony, but I did have an opportunity, several weeks ago, to meet with representatives of the Ex-Im Bank through a task force of the Congressional Black Caucus, and I want to thank you for that opportunity.

I thought it might be helpful, just if you haven't already done so, to give you the opportunity to put on the record the fact that the name of this Bank doesn't necessarily reflect the—what the Bank actually does. So I will throw you a nice little softball here.

What, if any, import assistance are you providing, as opposed to export assistance?

Mr. LAMBRIGHT. One hundred percent of our activity is devoted to export support, Congressman. You correctly note that the name is something of a misnomer. And every time we visit the question of changing the name, we discover through conversations what a valuable brand name it is globally, in markets around the world.

And so, it is a name that we have lived with for 72 years now.

Mr. WATT. Thank you. I just—I thought it was important to, if you have not already put that in the record—because, to the extent that there is controversy about the Ex-Im Bank, my experience has been that most of it relates to the perception that the Ex-Im Bank is supporting the import of product from other countries, as opposed to supporting our own businesses in exporting things to other countries, which I think all of us agree is a wonderful, wonderful thing.

We are planning to take more aggressive steps to be engaged with the Ex-Im Bank to increase support for minority businesses who may be exporting abroad, and facilitating those efforts. And I wanted to put that in the record, that undertaking has been—is in process through our small business—small minority business task force of the Congressional Black Caucus.

And I thank you for being here. And if there are any other softballs you want me to throw you, I will do that. But, otherwise, I will just yield back the balance of my time.

Chairwoman PRYCE. Thank you. Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Madam Chairwoman. I appreciate Mr. Lambright coming back. I see you're still acting. So I guess we need to talk to your friends in the Senate; we would like to make that a more permanent position.

You know, I have a number of companies in my district that use the Bank, and particularly the small businesses. And you know, I think it is so important that we, who are moving in a global economy that is—that train has left the station—it's important that we help those small businesses be able to learn how, and be able to facilitate that.

I got kind of a quick glimpse of how that can happen. A few years ago I was in Italy in a small, remote community where the FedEx guy, and the UPS guy, have to drive their truck up the hill part of the way, and then push a cart up into the village.

But here is this little company that's been making pottery—it's a family—for probably 200 or 300 years, and they are literally selling their commodity around the world. And so, you know, the technology is in place, the transportation is in place for a lot of small businesses to do that.

I think it's intimidating to a lot of our small business people, you know, "How do I get started in that?" So one of the things I want to commend you is the fact that I think you are making an effort to reach out to small businesses.

And you know, the last time you were here, we talked a little bit about getting that participation rate up to the 20 percent, and you have said that I think you were going to actually have people designated not only to be processing that, but to do some outreach. Can you kind of roll out kind of your strategy in that area a little bit?

Mr. LAMBRIGHT. Of course. Since I was here in November, I have spent a great deal of time meeting with representatives of the small business community, including members of the Small Business Committee of the House, and a number of interests emerged from those—from that dialogue.

One was having advocacy at a senior level, having direct access to the chairman and the rest of the board, representing the interests of small business. Another interest was having some kind of formal structure to indicate the Bank's institutional commitment to small business. And a third interest was having staff interact with small exporters who were expert in small business, who were sensitive to the special needs of small businesses.

And I appreciate that some may envision different ways of addressing those interests, but I have made a number of changes since our last testimony, that I feel most effectively and efficiently meets those interests. And the first is that we now do have a senior vice president for small business, focused on outreach and advocacy. He is a direct report of the chairman of the Bank, and has unfiltered access to the board of directors.

We have also instituted a small business committee that was formalized by the board of directors. And this will be a committee designed to monitor our progress on the small business initiatives and develop new initiatives to better serve small businesses. And we have also designated small business specialists in each of the business units, so that small businesses are dealing with familiar faces when they deal with the Bank.

Mr. NEUGEBAUER. One of the things that—I don't know if you have done this before, but I think it would be helpful if you had the personnel to be able to do that, but I would certainly like to, you know, invite some of your people, or one of your folks, to my district to put together, you know, kind of a seminar on what the Bank can do, and what are some of the programs that you have available.

Because I think one of the jobs that we have, as Members of Congress, is that—is to help get the word out on some of those programs. And again, I think some of them find that they think, "You know, that's the Export-Import Bank, that's for the big boys."

And so, I would be anxious for maybe some of your folks to contact mine, and see what the possibilities of that would be.

Mr. LAMBRIGHT. I will make sure we follow up with that. It's also helpful for Ex-Im Bank to get out and hear the concerns of U.S. business people, and so it's a two-way street, and we would love the chance to do that.

Mr. NEUGEBAUER. Yes, I think we could actually have a panel and have some of your folks on it, and then have some of your customers that are in my district also talk about their experiences with the Bank, as well as give an opportunity to give an orientation to those folks that might be thinking about it.

I yield back the balance of my time. Thank you for your comments.

Chairwoman PRYCE. Thank you. Mrs. Kelly?

Mrs. KELLY. Thank you, Madam Chairwoman. I would like to ask you, Mr. Lambright, I want to go back to the question I started to ask during the beginning of this hearing.

You are supportive of a 5-year reauthorization period in your testimony. But we are starting something brand new with you in the small business area. We in Congress can—yes, we can get reports and so forth, but officially, it would be a good thing, I believe, that we have a chance to have some kind of control over the report.

In the past, there have been instances where the Ex-Im Bank has had very good intentions to start various things that, in fact, never have occurred. One of the problems is that Administrations change. You are here, we are hoping that you will step in and do—you have been doing a good job—we hope you will step in and get that assurance from the Senate, that you will be the chairman.

But this Administration has two-and-a-half more years to go. There will then be 3 years, or two-and-a-half more years, of a new Administration, and possibly new people. And if we have a 5-year—5 years going without a look-back, I am afraid—have very serious concerns that there is no guarantee that any of this small business work that we have all been working on and wanting to have happen will continue, if we have a new Administration.

And so, what I am asking is if you are at all open to having a 2-year look-back, just to come and report on how you're doing. That gives us a chance to give you more flexibility quickly, give you whatever you need to get this implemented and in place, so it can't get changed with a new Administration.

Mr. LAMBRIGHT. I am certainly open to working with the Congress, however Congress deems necessary. If a 2-year reauthorization is the way Congress would like to go, we will cooperate with that. But I would reiterate my concerns about making sure we give this program enough time so that our measurement of its success is measuring something that has had enough time to grow to fruition.

And also, I would want to make sure that exporters wouldn't have any reason to be concerned about Congress's support of the Bank.

Mrs. KELLY. I—you can clearly hear on this committee that everybody here seems to be very supportive of what you're doing. And my concern is not that we are given a final measure of success of what you're doing, but how you're doing on implementing it.

There are instances—I well remember when a business in my district came in and begged me to talk to Ex-Im Bank, because there was a certain time that they had to get a bid in. They lost that bid. They lost that bid to a foreign country in a—a foreign company in a foreign country, because the Ex-Im Bank couldn't get the processing done fast enough.

They lost the bid, in part, because they didn't get what they needed back from the Bank that they had to go to to get the loan. That time period when a bank is doing a short, or a small or medium-sized loan up to the $500 million—and other people are shaking their heads; you know what I'm talking about—these are problems that need to be addressed, and I am hopeful they are going to be addressed in this new small business piece that you're putting in.

However, that was in—in 1999, we were assured that the Ex-Im Bank was going to process these things in 30 days. That didn't happen. Why? Because there was an election. I am very concerned

that this not happen again. Our small businesses in the United States need that competitive edge, and they need it now. And it's important that we move this along.

That's why I feel so strongly that you be able to come back here and tell us, "Yes, this is working. We are able to make this move," and we get some kind of process in place, and not wait 5 years to find out whether it's working or not. By then, we've got a lot of small businesses out there that are going to be not in business.

And I mean, I—if you want to—I'm not answering—asking you a direct question, so I will. What do you think about that?

Mr. LAMBRIGHT. I appreciate your concerns, and I understand the concerns about timing of Administrations. To that end, it may be—I have not been here during the change of Administration to understand how difficult it might be to focus the Bank on a rechartering and a change of Administration at the same time. I can imagine that may cause some difficulties.

But I do appreciate your concerns about continually monitoring and refining our small business efforts, and I would be willing to continue the dialogue throughout the life of the authorization, assuming I am given the opportunity to be staying at the Bank.

Mrs. KELLY. Thank you.

Chairwoman PRYCE. Ms. Velazquez.

Ms. VELAZQUEZ. Yes. Mr. Lambright, I just would like to continue the point raised by Mrs. Kelly. I don't think that the problem is, or the issue here is, about changing Administrations. It is the institutional commitment from Ex-Im Bank to follow the law.

And here we are, 5 years later, still discussing the fact that you have not been able to fulfill the statutory goal of 20 percent financing for small businesses.

So, let me ask you my first question. We have seen the total financing grow of Ex-Im Bank by 18 percent since 1995. At the same time, the total amount of small business financing has increased by just over 9 percent. Can you explain why the Bank's financing growth trend isn't carrying over to small businesses?

Mr. LAMBRIGHT. Congresswoman, I am not aware of the data you are citing. When I came to the Bank in 2001, right before the last reauthorization exercise was getting going, at that time the amount of small business the Bank was—was $1.6 billion. In fiscal year 2005 it was $2.6 billion, directly to small businesses. That's a $1 billion increase, an increase of 47 percent.

The overall volume of the Bank's business is roughly 35 percent in that time. So the pace of growth for our small business exceeds the pace of growth for our overall volume of business.

Ms. VELAZQUEZ. But you are not telling me that it is evidence that you have a problem by the Bank's inability to meet its 20 percent small financing mandate.

Mr. LAMBRIGHT. Congresswoman, I fully agree with you that the Bank is not doing enough for small business, that there is certainly more that the Bank can and should be doing.

Ms. VELAZQUEZ. Does the Bank have a limit on financing small exporter transactions?

Mr. LAMBRIGHT. A limit?

Ms. VELAZQUEZ. Yes.

Mr. LAMBRIGHT. There is no limit to what we can do for small businesses.

Ms. VELAZQUEZ. Okay. What steps are you taking to develop and implement specific lending assistance targeted to small exporters?

Mr. LAMBRIGHT. Very recently, we have established an office of small business for outreach and advocacy, headed by a senior vice president, and this division has a large staff focused exclusively on outreach to small businesses, including minority and women-owned small businesses.

And they are working with outside entities, pursuing a strategy that we call multiplier effects, where we are looking to work with other government agencies, partners at the local level, brokers, lenders, and trade groups, so that we can magnify our voice when we're trying to communicate with small businesses, because in my time at the Bank, and my travels and my conversations with small businesses, what I have discovered is that the key to bringing in more business is simply one of awareness, and that a lot of small businesses just simply don't know that this Federal Government resource exists.

And so, we're putting a lot of energy into making sure that more small businesses are aware of the financial support that Ex-Im Bank can provide.

Ms. VELAZQUEZ. Okay, so let's talk about the personnel at the Bank. For personnel in the Bank processing and approving loans, do they take into account the unique circumstances of small businesses, or do they process these applications with the same criteria used for large businesses?

Mr. LAMBRIGHT. Well, one of the components of the changes that have been made recently has been to identify small business specialists in each of the business units, so as they process transactions, the people who are handling the small business applications are people who have an expertise and a sensitivity to the particular characteristics of small businesses.

Ms. VELAZQUEZ. And regarding the 10 percent aside for minority and women-owned export businesses, according to current bank reports, it already provides 12 percent of the 20 percent small business financing set aside to these firms. Do you see this provision in the legislation as a step backwards for these firms? And would you agree to increase it to 15 percent?

Mr. LAMBRIGHT. Well, I am reluctant to embrace any particular target, because the Ex-Im Bank is demand-driven, and it's always troubling when the Bank is held to a particular quantified target when we don't control the characteristics of the economy, or the market at any given time.

But you correctly note that we have already done, in fiscal year 2005, 12 percent of our small business activity went to minority and women-owned businesses. And I would note, Congresswoman, that that is probably underreported, because we cannot mandate that our customers disclose their status. And so that 12 percent only reflects those who are willing to report their status.

And so, I think the number is probably really larger, and I would like to see it get even larger and larger, as we focus more on that outreach side.

Ms. VELAZQUEZ. Thank you.

Chairwoman PRYCE. Well, thank you very much, Mr. Chairman. Your testimony has been invaluable, and working with you is a pleasure. We appreciate your cooperation, and we will be back with you again.

Mr. LAMBRIGHT. Thank you very much.

Chairwoman PRYCE. At this time, as Chairman Lambright exits, we can seat our next panel.

We expect a series of votes at about 3:45 or 4:00, and so we will try to get through this testimony and as many questions as we get in. Hopefully, we will wrap this up before our vote.

So, before I introduce our second panel, I would like to ask unanimous consent to include in the record a written statement by Brett Silvers. Mr. Silvers is the president and CEO of World Business Capital. Mr. Silvers has worked extensively with the Bank, and we believe his written statement adds much to this discussion. Without objection, I will add his statement to the record.

And for our second panel, we are pleased to welcome here today Mr. Ed Rice, president of the Coalition for Employment Through Exports. The company specializes in issues of export financing and export promotion, and is comprised of 35 major U.S. exporters.

And Jim Morrison, president of the Small Business Exporters Association. The Small Business Exporters Association is the largest non-profit organization of small and medium-sized exporting companies in the United States. Mr. Morrison is a member of the President's advisory committee on trade policy and negotiation.

And finally, Mr. James Harmon, whom I will allow Mrs. Maloney to introduce, since he happens to be a constituent of hers.

Mrs. MALONEY. I am delighted to welcome James Harmon from the great City of New York. And Mr. Harmon was the president and CEO of the Ex-Im Bank from 1997 to 2001, and is now the head of Harmon and Company, a financial advisory firm.

Both in his capacity at Ex-Im and in his present capacity with the World Resources Institute, he has made substantial contributions to a number of the concepts reflected in this bill. He is also a former chairperson and CEO of the investment banking firm of Wertheim Schroder.

He has been deeply involved in education, serving on the boards of Barnard and Brown, and currently Columbia, and is acutely aware of the problems that our young people face in the economy by the global marketplace, and the need for a strong role for Ex-Im in promoting U.S. companies and making them competitive. Thank you for your many years of service. We are delighted to have you here today, Mr. Harmon. Thank you.

Chairwoman PRYCE. And now we will begin testimony. We will first hear from Mr. Rice, then Mr. Morrison, and, finally, Mr. Harmon. Mr. Rice, you may proceed, thank you. And your full remarks can be included in the record, if you would like to summarize.

Mr. RICE. Yes.

Chairwoman PRYCE. Thank you.

STATEMENT OF EDMUND B. RICE, PRESIDENT, COALITION FOR EMPLOYMENT THROUGH EXPORTS

Mr. RICE. Thank you, Madam Chairwoman, Representative Maloney, and members of the subcommittee. First, let me commend

the sponsors of H.R. 5068. This is a thoughtful and careful proposal. It is an excellent basis, from our viewpoint, for the legislative process moving forward. And we commend your staff in supporting your leadership on this. It is a very good proposal. Doubtless, refinements and amendments will be considered and made as the process goes forward, and we certainly want to contribute to that, as you consider this legislation.

Let me make three points very briefly. First, the need for Ex-Im Bank for our exporters is increasing, as the data from Chairman Lambright indicated. Financing is an increasing point of competitiveness, internationally. Ex-Im Bank fosters commercial export loans through its guaranteeing and insurance business, and that's virtually all that Ex-Im is doing now, is guarantees and insurance of private financing.

It has the authority to make direct loans, but last year, of their 3,100 transactions, none were direct loans. And the year before, there were only five. So, Ex-Im really is supporting the private sector.

As you look at other government activity, export credit agencies around the world are expanding and becoming more aggressive. In 2004, which is the most recent year for data, the total ECA activity was approaching $800 billion a year, globally. And that's getting close to about 10 percent of world trade flows. So export credit agencies are playing a growing role.

There are new entrants that are coming onstream, including in China, and there are new services from the existing export credit agencies, as well.

The second point is that H.R. 5068 will strengthen Ex-Im Bank's programs. You have included provisions, as you have discussed, in small business to encourage co-financing, to reauthorize the so-called dual use program, to sharpen the board's role in the economic impact cases, and to expand transparency and outreach to exporters. And, in my view, the most important provisions are increasing the reporting, and therefore, your oversight of the Bank.

The third point is that Ex-Im Bank is both fiscally and financially sound. And in the era of steadily worsening deficit situations—this is an extremely important point, I think, for the Congress to take into account—Ex-Im Bank generates revenues. This is a fee-based operation. It charges fees and interest. These are risk-based, and they are market-level. There is no subsidy of interest rates at all in Ex-Im Bank's programs, and that's according to the annual OMB report to Congress on all lending programs.

Last year, Ex-Im Bank generated a net income, positive income to the United States Government, of $2.6 billion, up roughly $500 million from the year before. Further, Ex-Im Bank maintains reserves against its exposure. It currently has—or at least at the beginning of the fiscal year, it had—approximately 7.6 billion in reserves against its $63 billion in exposure. This committee, more than all others, will understand that that's a very healthy reserve rate for a bank.

I raise these points because it's often not clear to the Congress that Ex-Im Bank is really operating as a net positive benefit to the government, and it certainly is no drain on the budget or on the taxpayer.

Madam Chairwoman, let me conclude there, so we can move on to your questions.

[The prepared statement of Mr. Rice can be found on page 67 of the appendix.]

Chairwoman PRYCE. Thank you very much.

Mr. Morrison?

JAMES MORRISON, PRESIDENT, SMALL BUSINESS EXPORTERS ASSOCIATION OF THE UNITED STATES

Mr. MORRISON. Representatives Pryce and Maloney, and members of the subcommittee, good afternoon. I thank you for inviting me to appear here today.

I am Jim Morrison, the president of the Small Business Exporters Association of the United States. We are, as you noted, the oldest and largest association dedicated exclusively to small and mid-sized exporting companies. We also serve as the international trade council of the National Small Business Association, and we represent their 22,000 exporters on all international trade issues.

SBEA and NSBA strongly support the reauthorization of Export-Import Bank. In our written testimony, we explain why in greater detail. But suffice it to say without Ex-Im, smaller exporters in this country would have virtually no way of offering terms to most of their foreign buyers.

The larger the export sale that a small business is attempting, the more indispensable that Ex-Im is. So we want to thank the subcommittee, its staffers, as well as many people from the full Financial Services Committee, for helping craft H.R. 5068. It's an excellent bill. You have listened carefully to the Bank and to the private sector, and you have done a remarkable job of addressing the challenges that the Bank faces going forward.

My colleagues on the panel have, and will, speak to other aspects of the bill. But I want to mention some items relating to small business.

First, the bill wisely leaves intact the key mandate from the last reauthorization, that Ex-Im provide at least 20 percent of the dollar value of its financing directly to small businesses. The Bank has met this threshold in the past, and it can do so again. What it needs now are product and process upgrades, as well as additional outreach.

Second, the bill gives the Bank a well-deserved pat on the back for its innovative small business committee concept. This committee would tap into small business expertise all across the Bank to suggest improvements in helping smaller companies.

Third, the bill gets the Bank to delegate more authority for medium-term financing to banks and brokers, as Ex-Im has done for other products. Medium-term financing is what propels some of our country's most valuable capital equipment exports by both small companies and large, and the financing process needs to be as efficient as possible.

We would also encourage the subcommittee to consider additional medium-term measures, suggested to you in the letter you just entered into the record by Mr. Brett Silvers, an SBEA member whose financial institutions have extraordinary records of supporting small business exporters.

All in all, H.R. 5068 makes some very positive changes for small business. We would suggest some further refinement in one area of the bill, however. The bill creates a small and medium-sized enterprise division at the Bank, answering directly to the Bank president, which is a step that SBEA has strongly backed, and we thank you for doing that.

But we have always believed that the SME division must have authority commensurate with its responsibility. The subcommittee clearly intends for the SME division and the person heading it to be responsible for improved SME performance at the Bank.

Yet the division and the person heading it, under this legislation as it stands now, would not have the authority to do underwriting. It would not have the authority to set credit standards, it would not have the authority to change any products or processes, to approve transactions, or to require anyone in the transaction cycle to do anything.

The SME division would be focused on giving advice to other elements of the Bank, on training, on outreach to the public, and on business development. These are useful and fine activities for this division, and certainly input is necessary to get output.

But what matters now is how companies are treated once they get in the door. What matters is how the transactions are handled, and the Bank's output. If we have to choose between having business outreach people in the SME division and having underwriters in it, as some have suggested, then Congress ought to take the underwriters. The business outreach people can be assigned elsewhere.

It is a core small business team, with underwriters, that has spelled success for OPEC, for Canada's export credit agency, and for private sector lenders like GE Capital. We, frankly, do not see how the SME division can succeed in its responsibilities without the authority to handle products, processes, and transactions, and without creating a stable and meaningful institutional environment for Bank employees that want to focus on SME's.

We suggest that the subcommittee clarify this by calling the SME division the "SME Finance Division," and by assuring that it has the authority to manage the responsibilities that Congress is giving it.

SBEA, like you, as the oversight committee, is pinning many hopes on this division, and on the individual who leads it. You, as the oversight committee, will want to be able to bring this person up here, and to get answers about what is working and what is not working in the way the Bank handles its SME transactions. Answers and action.

But right now, the way the bill is written, the only honest answer such a person could give you is, "I don't know, and I can't do it, because I'm not in charge of it." You need better accountability than this, and so do smaller exporters.

We again thank the subcommittee for its excellent work thus far, and we urge that Ex-Im be speedily reauthorized.

[The prepared statement of Mr. Morrison can be found on page 55 of the appendix.]

Chairwoman PRYCE. You were right on the money. 5 minutes, exactly. Thank you.

All right, Mr. Harmon?

STATEMENT OF JAMES HARMON, CHAIRMAN, WORLD RESOURCES INSTITUTE

Mr. HARMON. Thank you, Madam Chairwoman. And thank you, Congresswoman Maloney, for the nice comments that you made about me. It's always good to come to Washington, because the introductions are always better than they are in New York.

I am going to zip through what I have written, because you all have seen it, and so that I can cover the time period. You should know that most of the first page is devoted to the good work that Congress has done.

And I didn't appreciate it when I was chairman at Ex-Im Bank, which clearly, I was honored to be, but I often saw Congress not being as productive as it could have been. I now look back on it and I think that without the small business exports target, we would not have done what we did do, even though it's not as much as you would wish.

Clearly, without the environmental procedures, we would not have been in the game where we should have been. Thank goodness we did that. And clearly, without AGOA, we would never have done what we did in Africa. I might add that, in 1945, establishing the Ex-Im Bank as a sunset agency of the United States Government was a very wise decision.

I look back on the excellence of the staff at the Ex-Im Bank, and the wisdom of Congress as critical to the success of the Agency. Having said that, I would like to think that you would apply that experience and wisdom to continue to improve Ex-Im Bank.

So, I'm going to jump ahead to what I see as some of the critical areas, very briefly. First, economic impact needs a more precise definition and a designated referee. For example, the issues like oversupply. I struggled a lot with this at the Bank. I think they probably still struggle with these issues.

Secondly, Tied Aid needs clarification, purpose, and control in today's world. If not, give the money back to the Treasury. It takes too much time and too much grief for everybody—Ex-Im Bank, from my experience, not to deal more clearly with this issue of Tied Aid. I have said this already to the Treasury.

Third, you are already extending the Sub-Saharan African Advisory Committee, and the work there, which I think is so essential right now for, well, small business needs, enhanced resources, and a greater focus by the Bank's leadership. I am going to make one other comment on that in a moment.

Fourth, the environment. I have three comments on the environment that I would like to make. I would create a 15 percent target for renewable energy products and services. I would apply the target against long and medium-term energy transactions, excluding hydro. That would make the Bank reach to do more, and the Bank can do more in all the things you want. When the Congress sets targets, people at the Bank respond, and do what they can to reach those targets.

A second area that I would create is a renewable energy advisory committee, which I know you've done before. I would either recreate it or create it to meet at least semi-annually, each year for 5

years, with five members, at least two of which should come from the relevant NGO world. Each year the committee must issue a report to Congress on progress in and constraints to increasing renewable energy activity in the Ex-Im Bank.

Third, I think the report language is critical. Congress should send a clear signal to the Ex-Im Bank and the Executive Branch to keep pushing for highest environmental standards and the OECD common approach process this year. The U.S. Government should continue its long-standing bipartisan effort to raise the bar on environmental standards for exports, while creating a level playing field in the ECA community.

Now, since I have left the public sector, I have worked closely with a lot of U.S. companies expanding into the developing world, and I have been channeling institutional money into investing in the emerging markets. These are critical markets for the future. That is, the entire developing world.

I support what the committee wants to do regarding small business, although I am somewhat concerned about the lack of funds available from Ex-Im Bank to execute this program. I always believed then, and I believe now, that delegated authority, concurrent with some risk sharing, was the key to dramatically increasing marketing to small business exporters.

The concept of a public/private form of joint venture could achieve what all of us want for small business exporters. We don't have a marketing capacity. No one in the United States Government markets well. Ex-Im is the closest thing to being in the private sector within the government, but it doesn't have a marketing arm. It's not expected to. But the banks could play such a role, if we wanted them to.

Then, Tied Aid and economic impact, in my mind, are yesterday's issues. Today, business and labor face a much different kind of challenge. China's export credit agency is bigger than the U.S. Ex-Im Bank. In my opinion, it's the largest in the world. Moreover, it is growing faster than all the other export credit agencies in the G7. And no one is focusing on it.

Within the—without OECD restrictions, without environmental standards, China is playing on a different field. The world may be flat, but because of China's industrial policy, it is tilted in its favor. If you add India, Brazil, and other large developing countries, I am concerned that the United States and, in fact, the G7—are no longer competitive.

This is today's and tomorrow's challenge. And this committee, or this subcommittee, should be studying the impact of this development. In fact, I would suggest that Congress commission a study on this matter.

The current Ex-Im Bank reauthorization is focused a bit too much on old business, some of which must be done, but Congress has a responsibility to look ahead and think long-term. If the level playing field continues to be tilted, what will happen to our industries and to our jobs? I believe these questions can have positive answers with real leadership today.

I believe we can restore U.S. export competitiveness, and I believe, with the appropriate guidance and support of this body, the Ex-Im Bank can play a defining role in achieving this goal.

I appreciate the opportunity to appear before you. I tried to zip through so I could get it done. It's good to see everybody, and I will take whatever questions you have.

[The prepared statement of Mr. Harmon can be found on page 40 of the appendix.]

Chairwoman PRYCE. Well, thank you very much, Mr. Harmon. Let me start.

You say this legislation deals a bit too much with yesterday's issues, and you put Tied Aid in that category. And you say the world is flat. Well, what—let's get into that a little bit more. How do you see this legislation, Ex-Im making the world a little less tilted toward China, if we don't make use of the Tied Aid, and how would you propose we proceed there?

Mr. HARMON. The first comment is it's a little embarrassing for all of us who worked at Ex-Im for the 4 years, and for, in my opinion, a lot of people in Congress, that we haven't done a Tied Aid case at the Ex-Im Bank—I think it's 5 years, or something like that.

Chairwoman PRYCE. And why not?

Mr. HARMON. And it's because, you know, in coming back I have nothing to lose from being candid with you all. And that's not always done, maybe.

But Treasury has a different attitude than Ex-Im Bank. Treasury, in all good intentions, has a different position on Tied Aid than most other parts of the United States Government. Treasury frustrated every effort that I tried to do to move forward on Tied Aid cases in the last year or two while I was at the Ex-Im Bank, and I am certain—without evidence—that they have not done much more since then.

So, unless Treasury changes its attitude, or unless you get an official referee in this matter, nothing will get done on Tied Aid cases.

Secondly, what is happening now in the world is that the customers of Ex-Im Bank have become, or are becoming, the competitors. So while China was a principal large source—or you might say customer—for our products, now China has an export credit agency. In fact, China itself is what I call the mother of all export credit agencies, because they are financing so much of our purchases of their goods and services.

Therefore, most people haven't focused on their export credit agency. Their export credit agency is growing at a terrific rate. It doesn't have to live within the standards that we have, so it's very tough to compete with them.

To use Tied Aid funds to match China would eat up our Tied Aid funds in a month. It's not an answer. We don't have enough resources, in my opinion. I think—I'm guessing—at the Tied Aid capital fund, maybe 250 million, or something like that. That would not be adequate to do what we need to do in meeting the challenge of China. Not to mention other developing world countries.

So, that's a big problem for the future. I'm not, by the way, being critical of this bill. I think you make a lot of steps in the right direction. Unfortunately, as I listen to the questions and answers, I thought to myself the deja vu of this is—I could have played this

script out for the years that I was there, and I was there from 1997 to 2001. What—

Chairwoman PRYCE. Well, we don't want to have a deja vu. We want to progress into the global economy. And do you have solutions that we should be considering when it comes to China?

Mr. HARMON. I think that's the hardest question to answer. We have to get the facts. I mean, either this subcommittee or Congress should get the facts together. No one I have asked has exact information on the export credit agency of China. I believe I have some information, only by anecdotal basis. I know it's very large. I think you should be able to find this out.

But knowing that Treasury does not know the answer because I have asked there—and I think one of the things you could do is commission some kind of study. I don't know if the study is done by—who would do that study, but there are a lot of people who are qualified to look into this, come back to you, and give you a report.

If it's as big and growing as fast and is doing what I think they're doing, then this subcommittee has to take some kind of appropriate action. And I don't think people know enough about it. So, the first thing I would do is gather the information.

Chairwoman PRYCE. All right. Well, thank you. We will keep that on the front burner and see where we go with it. In the short time I have left, Mr. Rice, did you have any recommendations for the committee on—or Ex-Im itself—on products and services that would be more attractive and useful to your customers?

Mr. RICE. Yes, I do. And I have gone into some of that in my statement, but let me try to highlight. And some of this is reflected in your bill. As a matter of fact, a good deal of it, which is why we support that.

In the small business area, I think Mr. Harmon and Mr. Morrison have both indicated that delegating the authority to private banks under some sort of contract arrangement, I think, is the only way to go. It's important to straighten out the structure within Ex-Im Bank. But that, in and of itself, is not going to take Ex-Im to the next level on small business. The private banks are where the lending expertise and underwriting expertise are. And that could be expanded greatly.

Co-financing is going to become a very important product and service for Ex-Im, and that's where you have one or more export credit agencies combining when you have a multi-national bid consortium. This isn't becoming extremely important on the largest worldwide bids.

Europe is way ahead of us on this. As my testimony indicates, there are four European governments that have taken the lead in basically coordinating many of the EU export credit agencies together, so they can better finance their companies against ours. We are way behind on this. It's not really Ex-Im Bank's fault, if you will. It's much more that U.S. Government policies have made it hard to work out these agreements. That's the second.

The third is more of a culture issue at Ex-Im. The U.S. Government is going to have to, I think, completely relook at its willingness to take risk in international markets. This is the single biggest difference that our members say between Ex-Im Bank and other export credit agencies. It's the willingness to take risk, the

aggressiveness of providing financing, and at this point, there is no benefit for any Ex-Im loan officer to say yes to a case. It's all downside risk for that person working there; it didn't used to be that way.

One specific suggestion would be to have the management and loan officers rated each year on the amount of business that they write, just like a commercial institution would.

Let me stop there.

Chairwoman PRYCE. Yes. Well, I'm sorry, my time is way expired, and—but we will talk more. Thank you very much. Mrs. Maloney?

Mrs. MALONEY. Well, I want to thank all the panelists for their testimony, and their really good ideas. And I certainly would like to work in a bipartisan way on the idea you just put out there, Mr. Rice, on rating their productivity.

And I think the point that you made earlier, that we had a net income of $2.6 billion that we made, literally, off of the Ex-Im Bank, and with a deficit and a debt of over $8 trillion, to have an agency that's literally making money and helping with American exports, should definitely be supported.

Mr. Harmon, I really liked your idea of having a percentage target for renewable energy products. That is a bipartisan goal of our country for renewable energy. I think that is an excellent idea. Again, I am in the minority, but I would love to join with a majority person to work on that amendment.

And your idea, also, of just getting a hand on what's happening with China with their export credit agency, I certainly would support a commission to study this. But I think it would be more productive if the current head of Ex-Im Bank was a member of that study, as well as former presidents, that have a real feel for what's going on.

When you read the world is flat, it's a tremendous wake-up call to the competitive world environment that we're all in. And I think those three ideas, I think, are tremendously important. I agree that it's difficult, but we have to make it work.

We have to be more competitive. We have to export more, and we have to really get a handle on what's happening with our competitors in the world economy. We don't want to lose our—where we are. We don't want to fall backwards. We certainly want to go forward, and we want to be competitive in this new world economy.

I want to ask Mr. Harmon a question that I always asked Chairman Greenspan. What do we do about the outsourcing of our jobs in the world global economy where we seem to be losing with the account deficit, with the trade deficit? And his answer is always, "Education." And I notice you have a big commitment to education, serving on three educational boards.

And to me, I think it is structurally more in our—structure of the world economy that we're moving into, not just education. I represent some of the brightest people, very highly educated, and they're out of work, or their jobs have gone out of business. And we continually ask Chairman Greenspan, "What do we do about the global economy to stay competitive," and his answer is always, "We need to invest more in education."

To me, that's not—we're investing in education. We have educated people who can't find jobs. And I just would wonder what your response to that is, how we as a Nation confront the global challenges, not just for the Export-Import Bank, but in a broader sense.

Mr. HARMON. Thank you. This is a subject which, actually, Chairman Greenspan and I used to toss around a lot during those years. It's not an easy thing to have a simple, silver bullet answer.

I do believe that we have to all recognize, first, that the rest of the world has caught up to us. The United States, with 4-1/2 percent of the world's population, and 26 percent of the global wealth, that will not continue. It cannot continue. So, we are in a period of time where we are not going to represent that share of the wealth of the world. It couldn't continue.

Now, it is accelerated somewhat, because of the deficit that we have had. So, what does it mean? First, I think we have to follow what China and the other developing countries are doing on supporting their own exports, which I have said already. We have to know more of what they are doing. Because if they're doing as much as I think, then we have to be competitive. And if we're not competitive, we're going to lose even more than what we're losing.

I do—you cannot minimize—I mean, you can't say enough about education. Of course he's right about that. That's a long-term answer. But the other countries are doing just the same. I travel the world now all the time, representing investment in those countries, and frankly, you see how far they are coming. This is a particularly serious problem.

I think that the deficit is related to it. In other words, if we continue to have the size of the deficit we have now, we are going to eventually have a serious decline in the dollar. That's going to be—that's going to put us into even a more difficult position.

So, we have some serious fiscal problems which we don't want to get into in this committee right now. So there are some macro issues that are going to impact this that do concern me.

The one that directly impacts Ex-Im Bank, Ex-Im Bank is a valuable tool. The other trade finance agencies are, too. Sadly, in the last 5 years, this Administration hasn't done everything it could to utilize these tools, as you have heard already from us today. They could do a lot more on small business, they could do a lot more, in my judgement, about the issues that we have discussed.

I would look seriously, if I were the—in the government, to a way to relate the work of the three trade finance agencies, so that they're more effective, so that they communicate to each other, so that they can create a more competitive position for us. But we could increase our exports there—

Mrs. MALONEY. Okay. Can you itemize the three trade financing agencies that you would like to see working together better?

Mr. HARMON. I always—the people behind me are likely to smile a little bit, because they knew that was a favorite subject. I would have put OPIC and Ex-Im and TDA in the same building, so that we talk to each other.

I was tired of going to countries, and going out one door and seeing the president of OPIC coming in that door, because we didn't know they were going there. It was unnecessary. There could have

been better communication. Maybe there is now. I suspect there isn't.

But, clearly, if you had at least some coordinating effort—someone at the White House could do this—to coordinate the trade finance agencies to be more effective.

Secondly, they should really look closely into how they—what more they should do in the three trade finance agencies. And all you have to do is look at what other countries are doing. Other countries have made more restructuring efforts, have made more progress—when I left the Ex-Im Bank, we were the seventh largest export credit agency.

As a measurement of our support for exports, as a percentage of our gross domestic product, if I remember correctly, we were way down the list. So we were nowhere near competitive in making our effort. This is a significant question we have to think about, but at least we can be more effective if we coordinated more, and if there was more overwatch.

One other thing I did want to say. It doesn't matter too much, 5 years or 4 years on reauthorization. What mattered to this committee always concerned me. In other words, every time you asked—you called for a hearing, and I had to testify, I ran around and talked to everybody at the Bank, and we tried to figure what were we doing wrong, what did we have to do more. The power of this committee is very significant. It's not just reauthorization. It's that we thought a lot about what we had to do more, so in reporting to you, we could say we achieved that. So, monitoring the Ex-Im Bank is going to be critical.

Lastly, when I arrived at the Ex-Im Bank in 1997, I was the fifth chairman in 5 years. This chairman who comes in is the fourth chairman in 5 years. The other countries have one chairman. They run it as a business. Ex-Im is the closest thing to the business sector.

There is not much you could do about that, in my opinion, but it's a huge handicap that we operate to, because you arrive, and even if you spent a lifetime in the financial world, as I have, it took me a year just to understand what Ex-Im was doing, and to be able to make a significant impact.

Fortunately, this chairman has been at the Bank for some years, so he has a bit of a head start. So, the turnover in leadership—I mean, you don't want me to go on, because you have—

Chairwoman PRYCE. We have to stop there. Our time is expired, except for Mrs. Biggert.

Mrs. BIGGERT. Thank you. Mr. Morrison, some people think that the Bank would have to disapprove large business transactions in order to meet their mandated 20 percent of all transactions to go to small businesses.

What would you suggest that the Bank do to meet both the 20 percent mandate, and at the same time, not hurt other business clients at the Bank?

Mr. MORRISON. Well, the simplest thing is for the Bank to manage for a goal of 21 percent or 22 percent. That would give the Bank a cushion against any unforeseen large transactions occurring toward the end of the fiscal year. If you aim for 20 percent

and give yourself no margin of error, then you are, of course, vulnerable to those kinds of difficulties.

But having said that, I think that it's not the goal of my association, or I think Congress, to stop any export sale. We are all here because we believe in trade and we believe in exports. I think, in those situations where Ex-Im is going along toward a 20 percent goal, and fails to meet it, it's an oversight responsibility of this committee, and it's a reporting responsibility of Ex-Im to explain why it happened in very specific terms, and to talk about remedial efforts that will be undertaken to meet the goal going forward.

And I also think that the committee might wish to ask for quarterly reports, rather than annual, in that situation to monitor more carefully Ex-Im's movement back toward the 20 percent goal.

Mrs. BIGGERT. Okay. Then what are some examples of exporter performance standards that the Bank should implement to meet the special circumstances of small business concerns?

Mr. MORRISON. The standards that would be helpful to rate the Bank on are things like customer acquisition, customer retention, customer satisfaction, and the rise in the dollar value of exports by small companies.

Each of those is an indication the Bank is doing its job, I would think.

Mrs. BIGGERT. Are there other U.S. institutions that the Bank works with to streamline the processing of applications for bank assistance for small business concerns?

Mr. MORRISON. Well, as you may know, most of the short-term activities of the Bank are done in a delegated way, through banks and brokers, and they, of course, have a competitive reason to try to move the transactions through more rapidly, or otherwise the customers will go somewhere else.

The problem with medium term all being done by the Bank itself is that those competitive pressures don't exist. That is one of the problems. But there are probably lots of other opportunities for the Bank to reach out.

I know it does some transactions in tandem with the Small Business Administration, certain kinds of transactions that are above SBA's limit. But in general, I think the simplest way to speed up the transactions is to work with the brokers and the banks.

Mrs. BIGGERT. Okay. Thank you very much. I yield back.

Chairwoman PRYCE. All right, I want to ask unanimous consent for Mr. Manzullo's statement to be made a part of the record. Without objection.

I thank our panel very much. You have provided terrific insights, and we value them. And thank you very much.

I also want to thank the staff who worked so hard to put all this together so far, and thank you for your continued efforts.

All right, without anything further, we are adjourned.

[Whereupon, at 3:53 p.m., the subcommittee was adjourned.]

A P P E N D I X

April 5, 2006

Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

H.R. 5068, the Export-Import Bank Reauthorization Act of 2006

April 5, 2006

Today we meet to discuss the reauthorization of the Export-Import Bank of the United States. The Bank was last reauthorized in 2002 for a four-year term that expires on September 30, 2006. This hearing will be focusing on H.R. 5068, the Export-Import Bank Reauthorization Act of 2006; a bill sponsored by the Subcommittee Chairman Ms. Pryce, and co-sponsored by the Ranking member Mr. Frank, and Representatives Maloney, Biggert, Velazquez, Manzullo and myself.

The Bank is an independent U.S. government agency. It provides guarantees to loans to buyers of U.S. products, loans to buyers of U.S. exports, and insurance products which greatly benefit small business sales. Illustrating the importance of the Export-Import Bank, the Bank in FY 2005 conducted more than 3100 transactions which supported over $17.9 billion in export value and returned over $1.7 billion to the U.S. Treasury in the form of fees.

In November of 2005, a joint hearing with the Subcommittee on International Monetary Policy and Trade and the Oversight and Investigations Subcommittee met to discuss operations and the progress of the Bank to help U.S. exporters. Testimony was given by the Acting President Mr. James Lambright, who will again be testifying before us today, as well as testimony from both large and small businesses and banks who work with the Bank. Through suggestions made at that hearing and the bipartisan collective effort of the Financial Services Committee together with the Small Business Committee, H.R. 5068 encompasses the ideas from several different perspectives for needed changes in the upcoming reauthorization.

The greatest of these changes will be the creation of a permanent Small Business Division at the Bank whose function will be conducting outreach programs and tailoring Bank products to small businesses. This division will help the Bank to be better suited in meeting its mandate of making 20 percent of total loans and guarantees available to small businesses, with particular emphasis towards helping small businesses owned by women, minorities, and the socially and economically disadvantaged.

H.R. 5068 also intends to streamline the processing of applications, requires the Bank to make certain products and services available on the Internet by September 1, 2006, and increases the accountability of Board actions through various additions in their annual report.

I am looking forward today to hearing testimony from the Bank, small and large businesses and a former President of the ExIm Bank as this Committee moves forward in approving the Export-Import Bank Reauthorization Act of 2006.

STATEMENT
of the
Honorable Nydia M. Velázquez
House Financial Committee
Subcommittee on Domestic and International Monetary Policy, Trade, and Technology
Hearing on the Reauthorization of the Export-Import Bank of the United States
April 5, 2006

Thank you, Chairwoman Pryce.

Small exporters are key components of a successful export strategy as they have achieved major success trading internationally. They are the nation's leading exporters, dominating many export sectors and growing two times faster than large exports. However, these firms face obstacles trading internationally. They therefore require assistance from the Export-Import Bank to obtain adequate and timely financing as well as business development and outreach resources.

In the Export-Import Bank's Reauthorization Act of 2002, Congress required small and medium sized exporters to receive at least 20% of the bank's authorizations. However, the Bank has not fulfilled its mandate since the statutory set aside was enacted. The unfulfilled mandate demonstrates inadequate institutional focus on and commitment to small exporters.

The bank has an auspicious opportunity to fulfill its mandate to promote exports, job growth, and industry competitiveness **IF** it commits to assisting all U.S. businesses realize their potential to trade internationally.

To promote a sustainable export sector, the Export-Import Bank must take steps to support the growth of the country's lead exporters, small businesses. To support small exporters, the bank's financing procedures and resources must be geared in part to the particular needs of these businesses.

The current reauthorization proceedings provides a new opportunity to ensure that the Bank's small business financing is commensurate with overall need. To implement changes, the reauthorization legislation proposes to establish reforms to the bank's institutional structure and decision making procedures. The bank's structure will better serve small businesses through the creation of a Small Business Division. The division will represent small exporters and advocate for their interests within the bank and to private lending institutions.

However, if it is to be relied upon as the representative of small business needs, the division must have real resources, real responsibilities, and real decision-making authority. A weak Small Business Division will not be able to enforce its mandate.

A newly established small business division staff should possess both knowledge of these exporter's particular needs and be authorized to review and approve small business financing applications. Knowledge and advocacy are meaningless if they do not impact the bottom line – which is to provide these firms with financing assistance.

I am also concerned with the bank's level of assistance to minority and women-owned export businesses. These firms are growing at double the rate of all firms in the country and possess immense potential to become top exporters. Yet the bank currently provides them with just over 2% of their total financing. To support their growth, these businesses require additional resources for business development and a higher mandatory set aside from the bank's total authorizations.

The country's competitiveness is highly dependent upon taking advantage of opportunities to increase all of our exporters' capacities and resources. With many signs of our declining global competitiveness, export promotion is needed more than ever. The most striking of these signs is the country's unprecedented and continually escalating trade deficit, which at last count has reached almost $70 billion. Even our most competitive industries are experiencing trade deficits, including those producing advanced technology products and information technology services.

The time has come to implement a successful export promotion strategy that sustains our country's businesses and overall economic competitiveness.

Thank you.

James Harmon, Chairman, World Resources Institute

Mr. Chairman and Members of the Subcommittee, I was honored to serve as Chairman and President of the Export-Import Bank of the United States (Ex-Im Bank) from 1997 to 2001, and I appreciate this opportunity to be here today to testify on the Bank's reauthorization.

In the five years since I left the public sector, I have spoken to many groups in and outside the United States about the important role that Ex-Im Bank plays in promoting U.S. exports and fostering global stability by creating sustainable economic opportunities in the developing world. In carrying out its vital mission in these challenging times, I give credit to the excellence of the Bank's career staff. However, you may be surprised to learn that I also credit the wisdom and the vigilance of Congress and the Charter it established.

Congress has a strong track record of helping keep the Ex-Im Bank relevant and valuable in a changing world.

It was the United State Congress in 1983 that established the first Ex-Im Bank target for small business exports. During my tenure, we worked hard to expand support for small business exporters. This subcommittee is wise, again, to focus on this area for the Bank.

It was the United States Congress in 1992 that mandated Ex-Im Bank have environmental procedures. If it were not for this decision, and the subsequent leadership that Ex-Im Bank and the U.S. government took within the G7, the health of this planet would be significantly poorer.

The AGOA legislation in 1998 obligated Ex-Im Bank to have a sub-Saharan Africa Advisory Committee and sub-Saharan Africa Task Force and to report to Congress each year on its progress. This encouraged greater focus on sub-Saharan Africa as a market for U.S. products and services. In four years, we increased support for exports to sub-Saharan Africa from less than $50 million to more than $800 million to sub-Saharan Africa and increased the number of countries in sub-Saharan Africa that were open from 13 to 34. These were often health care, transportation and other meaningful exports that not only created opportunities for U.S.

companies, but did so by advancing the infrastructure and other vital development needs of sub-Saharan Africa.

Maybe most of all, Congress deserves credit for making Ex-Im Bank an independent government and sunset agency in 1945.

I submit that this reauthorization should be equally significant. It is no secret that we live in a different world today. New opportunities are emerging…as are new competitors and new challenges. Virtually every institution in our government is challenged to evolve and to adapt. Ex Im Bank is no exception.

If Ex-Im Bank is to be a more effective tool for facilitating exports to the developing world, it is incumbent upon Congress to bring precise and clear guidance to many parts of the Ex-Im Bank charter. I draw your attention now to, specifically, the following:

- Economic Impact needs more precise definitions and a designated referee. For example, the ITC on issues like oversupply.

- Tied Aid needs a clarified purpose (and control) in today's world; if not, give the money to the controlling authority (Treasury) and save exporters and Ex-Im Bank hundreds of hours of wasted time. I wish I had time today to share with you my own frustration working on tied aid cases during my last year at Ex-Im Bank.

- Sub-Saharan Africa Advisory Committee needs to be extended for an additional period.

- Small business needs deserve enhanced resources and greater focus by Bank leadership.

- Environment - I have three specific recommendations for your consideration.

  1. Create a 15% target for renewable energy products and services. [In this calculation, I exclude hydro and apply the 15% against all long- and medium-term energy

authorizations.]

2. Create a Renewable Energy Advisory Committee to meet at least semi-annually each year for the next five years, with five members, at least two of which should come from relevant NGOs. Each year, the committee must issue a report to Congress on progress in and constraints to, increasing renewable energy activity by Ex-Im Bank.

3. Report language from Congress on the Common Approaches. Congress should send a clear signal to Ex-Im Bank and the Executive Branch to keep pushing for the highest environmental standards in the OECD Common Approaches process this year. The US government should continue its longstanding bipartisan effort to raise the bar on environmental standards for exports, while creating a level playing field in the ECA community.

- Lastly, and a key question, is how Congress expects Ex-Im Bank to navigate on Competitiveness between the newly emerging/frequently highly subsidized (and likely soon to be dominant) ECAs such as China and Brazil and break even mandates of WTO/highly constrained US budget situation.

Since I left the public sector, I have assisted many U.S. companies to expand into the developing world and to channel institutional and individual savings into the emerging markets. These are critical markets to the future of U.S. businesses, and we must focus on reforms to the Ex-Im Bank charter that allow the Agency to meet the changing nature of the competition of the world.

I support what the subcommittee wants to do regarding small business, although I am somewhat concerned about the lack of funds available for Ex-Im Bank to execute this program. I always believed that delegated authority concurrent with some risk sharing was the key to dramatically increasing/marketing to small business exporters. This public/private form of joint effort could achieve what all of us want for small business exporters.

Tied Aid and Economic Impact are important but are yesterday's issues. Today, business and labor face a new and much greater challenge. China's ECA is much bigger than the U.S. Ex-Im Bank, and is, in my opinion, the largest ECA in the world. Moreover, it is growing faster than all other G7 ECAs. Without OECD restrictions and without environmental standards, China is playing on a different field.

The world may be flat but because of China's industrial policy, it is tilted in its favor. If you add India, Brazil and other large developing countries, I am concerned that the US and in fact, the G7 are no longer competitive. This is today's and tomorrow's challenge and this subcommittee should be studying the impact of this development. Congress should commission a study on this matter.

The current Ex-Im Bank reauthorization is focused more on old business – some of which you must do - but Congress has the responsibility to look ahead and to think long term. If the level playing field continues to be tilted, what will happen to our industries and to our jobs? I believe these questions can have positive answers with real leadership today. I believe we can restore U.S. export competitiveness. And, I believe—with the appropriate guidance and support of this body—that Ex-Im Bank can play a defining role in achieving this goal. I appreciate the opportunity to share my perspective today, and I would be happy to answer any questions you may have.

STATEMENT OF
JAMES H. LAMBRIGHT
CHAIRMAN AND PRESIDENT (ACTING)
OF THE
EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY
COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

April 5, 2006

Chairwoman Pryce, Congresswoman Maloney, Members of the Subcommittee:

I am pleased to be here today to testify on the 2006 reauthorization of the Export-Import Bank of the United States (hereinafter "Ex-Im Bank", or "Bank"). Ex-Im Bank was originally chartered in 1934 and has played an active role in assisting in the financing of U.S. exports ever since. The mandate of the Bank as expressed in our charter is to create and sustain U.S. jobs by supporting U.S. exports that otherwise would not go forward. And while there are many issues pertaining to Ex-Im Bank policies that I will discuss in this testimony, that mandate remains at the core of why the Bank exists and why it should be reauthorized.

There is little argument that we are living in a very competitive global economic environment, and there are many instances when our exporters cannot be left to go it alone if we are to sustain the well-paying jobs behind those exports. In this kind of environment, the United States cannot afford to unilaterally disarm. The specific role of the Bank is to help provide export financing in instances where otherwise creditworthy transactions would not go forward. That can occur when private sector banks find a market or a buyer too risky for commercial financing, or when the export credit agencies of other countries offer support to their exporters in order to secure a sale for their workers and industries.

Make no mistake about it – I believe that U.S. workers make goods and services that can more than match the price and quality of any of our major competitors. But when other export credit agencies such as COFACE of France, Hermes of Germany, or ECGD of Great Britain offer financial support to their exporters, Ex-Im Bank steps in to "level the playing field" for our exporters and our workers. We want to make it possible to keep those jobs here in the United States.

We do this by offering direct loans to foreign buyers of U.S. goods and services, guaranteeing commercial bank loans to those same buyers, guaranteeing working capital loans to U.S. exporters to make it possible for them to make the exports and offering insurance policies so exporters, especially small business exporters, can offer extended

payment terms to their foreign buyers. It is through working capital guarantees and our insurance policies that we do the great bulk of our small business transactions, a topic I will discuss in depth below.

The Congress, through our charter, has offered us clear guidance on how to meet our mandate. I liken it to steering a ship between two beacons. One beacon represents the benefits we offer to U.S. workers and exporters when we assist in the financing of exports that otherwise would not occur, while the other represents the risks associated with credit. Over the years, those exports have helped to sustain U.S. jobs, jobs that on the average offer higher wages than non-export jobs. Since our 2002 reauthorization, we have authorized $47.9 billion in financing support of an estimated $63 billion in U.S. exports. Some of those have been big ticket items such as aircraft or power generation equipment. But over 80% of those transactions have been made available to directly support small business exports.

But we adhere just as strictly to the other beacon – the one that represents assuming reasonable risk and responsible stewardship of the resources provided by taxpayers necessary to bear those risks. The beacon of risk is "reasonable assurance of repayment," a term Congress has explicitly put in our charter as our standard for making credit judgments. Once we decide to finance a transaction, we set aside a "loss reserve" to cover expected future losses. This reserve is provided for by the appropriations for our "program budget," which represents the taxpayers' contribution necessary to, when added to fees paid by our customers, serve as an estimated loan loss reserve against expected losses on transactions underwritten in a given year. So the taxpayers assume the risk represented by the program budget and also provide for our administrative budget. The results have been a bargain. Currently, every taxpayer dollar invested in the Bank's program and administrative budgets makes financing available for over $50 in U.S. exports. The overall loss rate for Ex-Im Bank over the course of its history has been less than 2%. That compares favorably to rates for commercial banks. Loss rates vary between markets and products, and we keep a close eye on what is occurring with every type of transaction. We believe Ex-Im Bank's financial success is attributable to (i) productive international negotiations to create a level playing field with other Organisation for Economic Co-operation and Development (OECD) countries, (ii) responsible credit underwriting standards that seek reasonable assurance of repayment and (iii) rigorous management of our portfolio.

The conclusion is that we are conscientious fiduciaries of taxpayers' dollars. When we manage to steer a course between the beacons of supporting exporters and workers on the one hand, and assuming reasonable risk on the other, we are of real benefit to the U.S. economy.

Congress also guides us on some course refinements along the way. It has instructed us to make 20% of our financing authority available for small business transactions, and though the 20% has never been fully realized, we have never turned down a small business transaction due to lack of resources. We are still seeking the best course to steer in order to maximize support for small businesses, within the context that Congress has

instructed us to be a demand-driven institution and not to compete with the private sector. We are happy to follow Congress' guidance on that issue. Congress has also told us to include efforts to promote exports to sub-Saharan Africa. As a result, Ex-Im Bank supported 115 transactions in 20 countries in the region, totaling $461.8 million, a 36.4% increase over the FY'04 volume. In addition, Congress told us to support exports from businesses owned by women and minorities, which I will discuss later.

I was privileged to become Acting President and Chairman in July, 2005, and I am happy to continue in that role until the Senate acts on my nomination to be President and Chairman. If I am confirmed, I will continue to steer the Bank between those beacons, to keep an even and predictable course. But I won't be able to do it by myself. I will need the help of our very capable Bank staff, upon whom all Board members depend for the vital information that makes it possible for the Bank to function. Moreover, I want to emphasize that the Chairman and President of the Bank cannot act in isolation from the other Board members and expect to have an effective, smooth-running institution. I depend upon my fellow Board members for advice and counsel right now, and I can promise that I will continue in that practice if I am confirmed. That includes assuring that members of the Board have access to all of the information available on transactions and Bank policies, and have access to Bank staff to supply that information. That is the way I work now, and that is the way I will work in the future, if confirmed.

In the eight months I have held the position of Acting President and Chairman, and the four years I served on the staff level at the Bank, I have participated in Bank decision-making and become familiar with Bank policies. The Administration's decision not to request any substantive changes in the policies laid out in our charter is appropriate to our needs. Although the role and need for official export credit are constantly evolving in the face of the changing nature of export credit competitors (from France and Japan to China and Brazil) and the massive flows of private capital into the emerging markets since 2000, we at Ex-Im Bank believe the current charter language provides the institution with sufficient powers and flexibility to adjust our programs and policies to meet those challenges.

We are requesting an extension of the charter for five years, to September 30, 2011. We are also requesting that our existing authority to approve dual-use transactions, as well as the life of the Sub-Saharan Africa Advisory Committee, be extended to that same date.

Ex-Im Bank currently has the authority to approve transactions supporting the financing of dual-use exports as long as the items are of a non-lethal nature and are used primarily for civilian activities. While not widely used, that authority is important to some of our exporters. And the Sub-Saharan Africa Advisory Committee has proved to be a valuable source of knowledge to the Bank as we attempt to increase our exports to this important part of the world that offers great potential for our exporters.

APPROPRIATIONS

For FY 2007, Ex-Im Bank is requesting $26.4 million for its program budget. When added to other available budget authority, that will give us a total estimated program budget of $176.5 million. We further estimate that it will allow us to authorize financing of approximately $17.5 billion in support of $22.5 billion in U.S. exports. From FY 2002 through FY 2005, the Bank has authorized financing of $48 billion in support of U.S. exports using $1.6 billion in program budget. That is a bargain for the U.S. taxpayer.

The Administration is also requesting $75.2 million for our administrative budget, compared to $72.5 million enacted for FY 2006. This pays for every aspect of our operations, from salaries to rent. I would like to emphasize that it is the administrative budget that is most important for our small business initiatives. It covers our outreach efforts and technological upgrades.

SMALL BUSINESS

In declaring next week Small Business Week 2006, President Bush said, "my Administration remains committed to fostering an environment where innovation succeeds and small business can flourish." It is appropriate, then, to discuss our initiatives in this area.

Since I was appointed Acting President and Chairman about seven months ago, no topic has received more attention at Ex-Im Bank than small business. Since my testimony before this subcommittee on November 10, I have met with Small Business Committee Chairman Manzullo and there have been numerous meetings between Ex-Im staff and the staff of the House Committee on Small Business. In addition, we have been working with Congress on its concerns as well as with the U.S. Government Accountability Office (GAO) as they prepared a report on how we interpret our small business legislation and account for our small business transactions. We have conferred with small business representatives on changes I am about to discuss. And while I cannot say we have reached total agreement on all issues with all of the parties involved, we are embarking on major changes in our administrative structure with the purpose of continuing to increase our support for small businesses.

I say *continuing* to increase because we have already laid a strong foundation for growing our small business program. In FY 2005, Ex-Im authorized 2,617 transactions that were made available for the direct benefit of small business, compared to 2,154 in FY 2002, which represents a 21% increase. In terms of dollar volume, the Bank supported $2.66 billion in small business transactions in FY 2005 compared to $1.8 billion in FY 2002, a 47% increase. And the Bank's Working Capital Guarantee Program, which benefits primarily small business exporters, had a record year in FY 2005. Of the Bank's total Working Capital authorizations of $1.096 billion, 78%, or $850 million, directly benefited small business exporters.

While I recognize that we have been making progress, I am also aware that there is room for improvement. As I stated above, Congress has placed in our charter the mandate to make available 20% of our resources for direct support for small business. We have consistently made these resources available but they have never been utilized at the 20% level. We feel the way to move to the 20% level and beyond is to improve our outreach programs in order to increase demand. I have appointed John Emens to the new position of Senior Vice President for Small Business to manage his own unit, a staff focused solely on small business outreach. He will report directly to the President and Chairman of the Bank. The person holding the position of Senior Vice President will serve as the primary small business advocate on the staff level, and will of course work closely with the Board member given responsibility for small business matters. In addition, the Bank's regional offices in New York, Florida, Illinois, Texas and California are now dedicated exclusively to small business outreach and support. Since his appointment in August as Vice President for Small Business, Mr. Emens has had a total of 129 meetings with, and sales calls to, small businesses.

Because the new Senior Vice President for Small Business is responsible to the President and Chairman for outreach to small business, and therefore has the lead responsibility for increasing the number of our small business transactions and the overall dollar amount of those transactions, we are separating those responsibilities from Bank personnel who are responsible for actually processing the transactions – that is, those in what we call the "business units." That reflects what we do for all businesses, large and small, within the Bank. It is part of our credit culture, and reflective of the culture in the private sector, that those who must objectively evaluate credit not be the same as those responsible for business outreach.

However, I want to assure you that small business transactions are processed only by personnel experienced in small business and who are sensitive to the special needs of the small business exporter. To further enhance our services to small business, I have designated all such employees throughout our business units as "small business specialists," so that when representatives of small business come into the Bank to discuss their transactions, they will interact with personnel who are familiar to them and knowledgeable about what their needs are.

The GAO report mentioned earlier finds that Ex-Im Bank "generally classifies small business status correctly." Ex-Im Bank employs a transparent and reliable methodology for determining our customers' small business status and reporting our direct support for small business. We have appreciated GAO's cooperative approach to the small business review. It has been a positive experience for Ex-Im Bank, both in terms of reaffirming our methodology and from the perspective of identifying areas in which Ex-Im can improve the efficiency with which we determine and report our direct small business support. For example, in conjunction with the introduction of our Ex-Im Online program, we are this fiscal year updating electronic participant records, strengthening internal controls around small business reporting and arranging for an independent external audit of the Bank's direct small business reporting starting with FY 2006.

Ex-Im Bank's Small Business Committee

We also realize that outreach to small businesses and processing small business transactions involve almost every division within the Bank. Therefore, we have established an Ex-Im Bank Small Business Committee (SBC) to coordinate, evaluate and make recommendations regarding the many Bank functions necessary for a successful small business strategy. The SBC will be co-chaired by the Senior Vice President of Export Finance and Senior Vice President for Small Business, who will report to the President and Chairman of the Bank. And we have institutionalized this structure by having the Board formally approve it. The SBC will be composed of representatives from Domestic Business Development under the Senior Vice President for Small Business as well as the principal processing units within our Small Business Group – Export Finance (Business Credit, Trade Finance and Insurance and Multi-Buyer Insurance), Credit Underwriting, the Office of the General Counsel and Asset Management. Other divisions within the Bank, including Congressional Affairs, will also participate at meetings.

The goals for the SBC are to:

- Provide a Bank-wide focus on small business;
- Report and evaluate each unit's small business performance;
- Identify opportunities for cross-selling and expanding the use of Bank programs for small business;
- Measure the progress and take steps toward meeting small business plan objectives; and
- Serve as a forum for exploring new small business initiatives.

Claims Committee

In addition, we have established a new claims reconsideration procedure and "Claims Committee." The Claims Committee will be responsible for evaluating and making final decisions with respect to claims originally denied by the Office of the Chief Financial Officer. I believe these changes will help all of our customers, but will be particularly useful to small businesses, by improving transparency in the claims reconsideration process. In addition, the new procedure establishes formal consultation among the business units of the Bank and the Asset Management Division as part of the reconsideration process. The Claims Committee will comprise (i) the Senior Vice President for Small Business, (ii) the Senior Vice President for Export Finance, (iii) the General Counsel, (iv) the Chief Financial Officer, and (iv) the Senior Vice President for Credit and Risk Management.

To strengthen customer education about the reconsideration process, a small-business portal with information pages will be created on Ex-Im Bank's Web site. The Claims Committee will hold its first meeting in mid-March.

Technology Upgrades

I also want to discuss with you the progress we are making regarding our technology improvements. The Bank has responded to the Congressional mandate in our last reauthorization to "implement technology improvements that are designed to improve small business outreach, including allowing customers to use the Internet to apply for the Bank's small business programs." The Bank has substantially expanded its online capabilities for its customers, especially small businesses. The Bank has been implementing online capabilities in stages. In the past five years, we have done the following:

- **Forms automation**. Ex-Im Bank has updated its Web site to provide all customers, particularly small businesses, with improved access to information, applications and forms. All of Ex-Im Bank's applications and forms are available through the Web site.
- **Electronic claim filing.** Ex-Im Bank has established an electronic claim filing system to expedite claim filing and enable customers to obtain a quicker claim payment.
- **Electronic compliance.** Ex-Im Bank has developed an online Medium-Term Electronic Compliance Program, which greatly improves the efficiency and turnaround time in approving disbursements.
- **Letter of Interest.** Ex-Im Bank has implemented an online application for its letter of interest. The online letter of interest system provides a paperless workflow and application process for small businesses. This capability streamlines the process for small businesses and saves them time in tracking the status of their submitted applications.
- **Registration and subscription services.** Customers can sign up online to receive Ex-Im Bank publications, e-mail updates and other information and to manage their subscriptions.

Ex-Im Online

Ex-Im Online, our major business reengineering and automation project, is the next step. In June, small business customers will begin using Ex-Im Online for multibuyer products, including support for special buyer credit limits. These are the products most heavily used by small business: more than 80% of the customers are small businesses, and these products represent half of Ex-Im's annual transaction volume. Customers will apply online, get quick decisions and receive online status information. Programming for the system is complete. The system has been fully tested and customers are being trained.

Ex-Im Online will reengineer, automate and modernize Ex-Im Bank's primary business processes, particularly for the products used by small businesses (short-term export credit insurance) and the products that provide significant indirect support for small business exporters and suppliers (medium-term insurance and guarantees).

Ex-Im Online will provide exporters, in particular small businesses, the benefits of electronic application submission, processing and insurance policy management. Ex-Im Online will reduce customers' paperwork, improve Ex-Im's response time, increase productivity and improve risk management.

Ex-Im Online will allow customers to:

- **Apply online.** Applications and all supporting documentation can be submitted and processed electronically.
- **Get quick decisions.** Online retrieval of credit and demographic information and automated underwriting will reduce review and decision time for short-term transactions.
- **Receive online information on application status.** Applicants will receive email notification of the status of their application.
- **Reduce paperwork burden.** Automatic data entry and reuse of existing data will permit "enter once–use many times" management of customer information.
- **Manage export accounts receivable online**.
- **Strengthen product development.** Ex-Im will be able to consider a broader range of product enhancements and modifications, particularly in the short-term insurance area, as a consequence of better risk quantification and management capabilities using online systems.

There will also be benefits to Ex-Im Bank:

- **Increased productivity and better resource use**. Replacing manual processes will allow staff to focus on meeting growing small business needs and extending outreach to new customers. Ex-Im will redeploy staff from processing to customer service. As small business transactions and volume grow as expected from increased outreach, we will be able to manage the growth without adding staff. In addition, staff shifted from processing to customer service will provide more person-to-person service for small business customers, especially new exporters.
- **Increased customer satisfaction.** Streamlined application submission, automated case processing and quicker decisions will increase satisfaction with Ex-Im services, supporting our outreach and marketing.
- **Stronger risk management.** Business intelligence tools and better sharing of information will improve management of the portfolio.

This program is the result of approximately $10.8 million in spending over five years, and while it has taken a long time to get it in place, I am confident it will bear fruit by easing small business customers' interaction with the Bank.

Pursuant to direction in our 2002 reauthorization, the Bank has realigned its budget to support small business technology. Technology expenditures in Fiscal Years 2001 and 2002 increased from $7.6 million to $12.0 million, an increase of more than 50%, with

Pursuant to direction in our 2002 reauthorization, the Bank has realigned its budget to support small business technology. Technology expenditures in Fiscal Years 2001 and 2002 increased from $7.6 million to $12.0 million, an increase of more than 50%, with smaller increases in FY 2003 and FY 2004. In the last three fiscal years, Ex-Im's administrative expense budget has been generally flat, and Ex-Im has funded improvements to its portfolio of online applications and services from its general technology budget.

In the end, I would like to be able to guarantee that these efforts will result in 20% of our funds being utilized by small business exporters, and that our small business figures will continue to grow in absolute terms. Unfortunately, I cannot. At Congress' direction, we are a demand-driven enterprise. I cannot predict business cycles, or whether applications that come in tomorrow will be appropriate for the financing we have to offer. But what I can guarantee is that we will do everything within our power to increase demand through improved outreach programs. And I promise you that Ex-Im Bank is going to listen to small business input concerning our programs, that we will communicate with Congress and take your concerns seriously, and that our renewed efforts in small business are going to be sustained.

ECONOMIC IMPACT

Through the economic impact process the Bank seeks to determine whether a transaction under consideration would adversely affect U.S. production or employment, or result in the manufacture of a good subject to specified trade measures. In analyzing these cases, Ex-Im Bank must balance the benefits associated with the U.S. export against the long range implications of increased foreign production. Given Ex-Im Bank's objective of maintaining and increasing employment of U.S. workers, Ex-Im Bank has long accepted the principle that it should not extend financing support when such support would adversely affect the U.S. economy.

While Ex-Im Bank's consideration of economic impact pre-dates the Bank's 2002 reauthorization, Congress made substantive changes to the economic impact section of our charter in 2002. After extensive vetting and coordination with our stakeholders – including the U.S. export community, industry, labor interests, and Congress – Ex-Im Bank issued revised economic impact procedures in March 2003.

The economic impact procedures are intended to lay out a reasonable and logical process to analyze the impact of Ex-Im Bank support for a particular transaction. The economic impact analysis considers issues such as whether the goods and services Ex-Im Bank is asked to support would establish or expand foreign production capacity of an exportable good, the relevance of trade measures, the global supply and demand for the good to be produced and the competitive impact on U.S. industry from increased production. The process includes review by other U.S. government agencies, as well as input solicited from interested parties through Federal Register notification.

In recent years, economic impact decisions have affected Ex-Im Bank financing support for many exports, including steel-making equipment, glass-making equipment, greenhouses, microchip manufacturing machinery, soda ash processing equipment, and others.

KEEPING THE COMPETITIVE EDGE IN NEW PRODUCTS AND SPECIAL MARKETS

Environmentally Beneficial Exports

Ex-Im Bank established the Environmental Exports program to increase support of environmentally beneficial goods and services. Since the program's inception in 1994, Ex-Im Bank's environmental transactions have grown significantly, with a total portfolio in excess of $2 billion. That has allowed U.S. environmental companies to compete in promising emerging markets. From FY 2002 to FY 2005, Ex-Im Bank has supported more than $1.3 billion in environmentally beneficial exports. The Ex-Im environmental portfolio includes transactions financing U.S. exports of renewable energy equipment, wastewater treatment projects, air pollution technologies, waste management services, and many other goods and services. Renewable energy and water project exports are eligible for repayment terms of up to fifteen years under an OECD agreement that became effective July 1, 2005, for a trial period of two years. It is our goal to use these new terms and our outreach programs to expand our exports in this sector, where we feel the United States has a real technological edge over its competition.

Women and Minorities

As a nation, our institutions work best if they reflect the society in which we live. This holds true especially for business. It is easier to successfully market a product or services to a community if you know that community and are part of it. With this in mind, we at Ex-Im Bank are striving to help the American export community be more competitive by working to increase our transactions involving women- and minority-owned businesses. For FY 2005, our authorizations in this area were $353 million, compared to $296 million in FY 2004. We have increased our outreach to achieve this goal, and plan to increase it even more this year. In FY 2005, Ex-Im Bank staff participated in 57 speaking engagements and attended thirteen conferences expressly aimed at these targeted audiences. We are committed to continuing and expanding these efforts.

FUTURE CHALLENGES

Any testimony about Ex-Im Bank must include a discussion of the challenges Ex-Im Bank will be facing over the next five years, the length of our request for reauthorization. That is no easy task, because it is extremely difficult to predict even such major events as the Asian financial crisis of the late 1990's, or the rise and fall of some or our major

markets in South America such as Venezuela and Argentina. But there are issues that bear watching and which may have to be dealt over the next five years.

Developing countries on the upper part of the industrialization scale (e.g. Brazil, Russia, India and China) are emerging as significant exporters of capital goods such as airplanes, trains and construction and telecommunications equipment. Those products are generally priced very attractively, are steadily improving in their quality and are typically supported by official financing. This financing is often on better terms better than agreed to by members of the OECD. U.S. companies, and those in all G-7 countries for that matter, are noting that these emerging exporters are displacing them in a variety of markets around the world – and financing is sometimes a key element in that displacement. We have to decide what should Ex-Im Bank's response be.

Looking at this issue from the standpoint of our Congressional mandate, there is little doubt that the guidance would be for Ex-Im to offset the financing if requested to do so, keeping in mind that we also must find a reasonable assurance of repayment, comply with our environmental guidelines, live within a limited budget and meet our economic impact requirements. There is no clearer or more fundamental mandate than leveling the playing field for our exporters and keeping jobs here in the United States.

CONCLUSION

I have every confidence that this institution that I have grown to admire and respect will continue to serve United States workers and taxpayers for years to come. A flexible charter allowing Ex-Im Bank – with the guidance of Congress and the exporting community, to develop answers to the pressing issues facing us now and in the future – is key. The beacons to help a steer a true course have been set so we can do our job for the U.S. economy. There is no more important economic issue than preserving our job base, and with the help of Congress in this year of our reauthorization, we will continue to fulfill that mandate.

I will be happy to answer your questions.

Statement of

James Morrison, Ph.D.

President
Small Business Exporters Association of the United States
Washington, DC

Regarding Reauthorization of the Export-Import Bank of the United States

Before the

SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL POLICY, TRADE AND TECHNOLOGY
COMMITTEE ON FINANCIAL SERVICES
U. S. HOUSE OF REPRESENTATIVES

Washington, DC

5 April 2006

The Small Business Exporters Association of the United States™

America's Premier Association for Small and Mid-Sized Exporters®

1156 15th St. NW, Suite 1100 Washington, DC 20005
(202) 659-9320 Fax: (202) 872-8543
www.sbea.org

Representatives Price and Maloney, members of the Subcommittee, good afternoon, and thank you for inviting me to appear here today. I am James Morrison, the President of the Small Business Exporters Association of the United States. SBEA is the nation's oldest and largest association of small and mid-sized exporting companies. We also serve as the international trade council for the National Small Business Association, the oldest nonprofit advocacy organization for small business. SBEA represents more than 22,000 NSBA member companies that export.

We are here today to express our support for the important work that the Export-Import Bank of the United States is doing, and to strongly urge Congress to reauthorize the Bank.

Exports are good for our country.

- Companies that began trading internationally between 1993 and 2001 had about *five times the employment growth* of other companies, a recent study has shown. Companies that stopped trading during this period actually *lost* jobs.[1]

- Export-related jobs also pay more – 15-20% more, on average, than similar jobs in non-exporting companies, according to Commerce Department statistics.

- Each $1 billion in exports generates an average of over 14,000 of these higher-paying U.S. jobs.

But exporting is highly competitive. Companies all over the globe are hunting for good export sales opportunities.

And their governments are backing them up.

Every major trading nation in the world has an "export credit agency" like Ex-Im Bank, and most use their ECA's aggressively.

[1] *Importers, Exporters and Multinationals: A Portrait of Firms in the U.S. That Trade Goods*, Andrew B. Bernard, J. Bradford Jensen, Peter K. Schott, National Bureau of Economic Research, NBER Working Paper 11404, June 2005, pp. 4-5.

Casual observers often attribute this to an affinity for government intervention by some companies and countries. And there is a grain of truth to this.

But the underlying and more important reason is *risk*.

Trade finance, which is necessary when foreign buyers can't or won't pay cash for their orders, inevitably involves foreign risk.

Sometimes that risk can be mitigated. For example, when an exporter borrows money to expand an operation so as to fill a foreign order, the exporter can pledge assets in this country against the risk of the foreign buyer failing to pay for the order. That's called "export working capital" and Ex-Im (and SBA) do quite a few of these transactions.

But most of what Ex-Im and other ECA's do is *buyer* financing.

In many parts of the world, financial systems are underdeveloped or prohibitively costly. Buyers in these countries who need financing almost always ask sellers to provide them with it.

But foreign buyer financing entails a degree of foreign risk that frightens commercial bankers everywhere.

A Mental Exercise

To understand why, try to imagine yourself walking into a nearby commercial bank with a promissory note in your hand. You've just gotten the note from a customer in Peru, who wants to buy one of your tractors. The note obligates the buyer to pay you back over two years. You want to sell the note to the bank because you need the money now, and you don't want to worry about invoicing the buyer every month. So you ask the bank to buy the note.

If this were a domestic sale of your tractor, the transaction would be pretty simple. But it isn't. However polite your conversation may be, the banker's actual thoughts will go something like this: "You want *me* to take the risk on being repaid by a company in *Peru*? A company I've never heard of? Over a period of two years? When the collateral is down there? And has wheels on it? Are you *nuts*? And even if I agreed to do it because I like you, how could I explain it to the bank examiners?"

Whether it's a large company trying to sell many tractors or a small company trying to sell a few tractors, commercial banks react this way. This mind-set changes only when they can access guarantees and insurance to cover most or all of the risk.

A few private sector companies will take on certain limited forms of short-term foreign risk. But for the most part, Ex-Im and other ECA's are the only

institutions in any country willing to offer commercial banks this backing. And they do so only if certain criteria are met to assure a reasonable assurance of repayment.

Smaller companies face the greatest difficulties in this area because they can't offer commercial banks a tempting *domestic* banking relationship worth millions of dollars -- in exchange for the export financing.

Bluntly put, then, this is problem: Relatively few commercial banks in the U.S. offer trade financing. Fewer still offer it to smaller American companies that need financing for small export transactions. And even fewer offer it to smaller companies that are not already long-time customers of the commercial bank. And that's even *with* Ex-Im backing.

Without Ex-Im, small company access to foreign buyer financing would be effectively zero.

Ex-Im is not the "bank of last resort" for smaller exporting companies in this country. It is the bank of *only* resort.

One more thing. The value of small business exports has more than quadrupled since the 1980's, and today accounts for close to 30% of the total value of U.S. exports. And this is despite the fact than less than 10% of American small companies currently export.

If Congress wants to sustain *and grow* this promising small business export performance, reauthorization of the Export-Import Bank is absolutely essential.

IMPROVEMENTS AT THE BANK

Like any institution, Ex-Im needs improvements and modernizations to handle changed circumstances. And the international trade context is indeed changing. Foreign ECA's, particularly those that are not parties to the OECD "rules of engagement" for export credit, are becoming an increasing force in the marketplace. The growth of global supply chains, with changing casts of suppliers in multiple countries, is making it harder to calculate "domestic content" in Ex-Im transactions. Environmental needs have become more pressing.

The Bank's customer base is also shifting. Ex-Im was born and raised in an era when nearly all of the demand for foreign buyer financing came from larger companies. That is changing.

Trade barriers are falling. So are communication and travel costs. The Internet is leveling the cost of reaching foreign customers. As the fixed costs

of export transactions spiral downward, ever smaller export sales to ever larger numbers of countries are becoming profitable.

One result: smaller companies are pouring into exporting. Twenty years ago, 65,000 American small businesses exported. Today it is close to 230,000. Once in the export market, smaller companies migrate upward to larger and more complex sales, with buyer financing.

The Bank's products and processes have not always kept up the pace.

H.R. 5068

To the credit of this Committee, you have taken a very thorough and careful look at course corrections that may be needed to keep Ex-Im engaged and relevant.

H.R. 5068 is an outstanding piece of legislative craftsmanship. The bill addresses nearly all of the concerns about changes in the Bank's environment that we in the private sector and the Bank itself have noted, while balancing that against the Bank's desire to have a relatively straightforward reauthorization.

From our vantage point as small business exporters, there are many desirable aspects of the bill.

- First, the legislation wisely leaves intact the floor for Ex-Im's support for smaller exporters that was established in the last reauthorization – 20% of the Bank's total financing dollars. Ex-Im met this threshold several times in the 1990's and is perfectly capable of doing so again. The fact that the Bank has fallen short of the mandate in recent years should be an occasion to improve its small business products and processes, not one to "move the goalpost".

- Second, H.R. 5068 endorses a constructive recent innovation by the Bank – the creation of a "Small Business Committee," drawn from people across the Bank who have a personal or professional interest in its small business-related products, processes and transactions, and focused on continuous improvements in those areas.

- Third, the bill would unclog the worst and most costly bottleneck at the Bank: "medium term financing" – buyer financing with payback periods of six months to seven years. Unconscionable delays in medium term financing decisions by the Bank are costing exporters -- of all sizes -- customers, cash flows, and business reputations. H.R. 5068 calls for Ex-Im to delegate medium-term financing authority to commercial banks and brokers, as the Bank has done for other products.

Let me dwell on that last point for just a moment. Why is medium-term financing – that is, financing for terms of six months to seven years – so important?

The answer is that these are the financing terms needed by some of our country's most important "value added" exporters.

A foreign buyer who wants five hundred kilos of nails will probably pay cash for it, or seek short-term financing of two or three months.

That's fine, and the U.S. should sell all the nails it can.

But a foreign buyer seeking sophisticated U.S. medical equipment, on the other hand, will generally need several years to pay for it.

Medical equipment, like other capital equipment, is a particularly desirable export.

U.S. capital equipment exports are exceptionally valuable for several reasons:

- they usually utilizes parts and sub-units manufactured by a whole array of U.S. companies.
- they are usually bundled with service exports like training and after-sale-service.
- they help build U.S. product standards and specifications in the buyer's country, paving the way for future export sales.
- they offer the biggest and fastest "bang for the buck" in U.S. job creation.
- in the case of capital equipment exports like medical equipment, construction machinery, road building equipment, food handling equipment and the like, they help demonstrate to our neighbors that the U.S. wants to work with them in improving the health and prosperity of their societies.

One of the least-recognized facts about capital equipment exporting is the smaller U.S. companies are really good at it. (See Chart 1.) And the upside potential is huge. (See Chart 2.)

But capital equipment exports require medium-term financing, and Ex-Im needs to improve in this area. Medium term approvals at the Bank are a notorious bottleneck.

With short-term financing and working capital, the Bank delegates authority to develop the "nuts and bolts" of the transaction to a network of banks and brokers.

Not medium-term. Every deal is handcrafted at 811 Vermont Avenue. And every deal requires multiple levels of approval. So exporters – large and small – wait months or even years for the financing to be approved.

In the meantime, customers walk away, exporters' reputations get bruised and foreign competitors swoop in for the sales.

The simplest and cleanest solution to this problem is for the Bank to delegate medium-term authority – not only to its banks and brokers, but also internally to its underwriters. H.R. 5068 addresses this problem squarely for the banks and brokers. And Ex-Im has the administrative authority to delegate internally -- although it's likelier to do so if this Committee includes encouragement in the Report language on the reauthorization bill.

So thank you for addressing this; it's one of the most important reforms in the bill.

FURTHER STEPS

However, in one crucial respect, SBEA believes that the bill still needs further work.

While we have strongly favored the creation of a Division at the Bank for small and medium-sized enterprises, we believe that such an "SME Division" must exercise *authority* commensurate with its *responsibilities*.

In this respect, H.R. 5068 needs further refinement, in our opinion. The bill calls for the SME Division, in conjunction with Ex-Im's "Small Business Committee," to give *advice* to other parts of the Bank, and receive it from them, as well as to offer *business outreach* to smaller companies.

What's missing is the *authority* for the SME Division to improve the customer experience of the companies that the outreach brings in -- and the *authority to take action* on the advice the SME Division gives and receives.

The *authority* to change the Bank's products and processes for SME's, and to approve SME transactions, is crucial, in our view. Crucial not only to smaller exporters, but to Congressional oversight of the Bank.

Some have questioned whether the Bank's SME business outreach and underwriting functions should be consolidated within one Division. The concern apparently is that this would be a kind of "conflict of interest."

Two points are worth keeping in mind:

- Ex-Im did pair these two functions quite successfully in the 1990's and the early part of this decade.
- Despite its name, Ex-Im is not a bank. It is a government agency. An export credit agency, to be precise. Congress gave it the primary goal of increasing exports. Rules and practices pertaining to commercial lenders, who are in the private sector and who do not have a mandate to increase exports, are of limited value in providing a guide to how the export credit agency of the United States should be organized.

If Ex-Im believes that business outreach specialists can no longer be housed with underwriters, then the SME Division should have the underwriters and the business development specialists should be assigned elsewhere.

This would be an unfortunate step, and we do not recommend it, but what ultimately matters is the transactions themselves.

To further clarify the Division's focus, we suggest that its name be the "SME Finance Division".

As it happens, this resembles the name and structure of the "Small and Medium Enterprise Finance Department" at the Overseas Private Investment Corporation.

OPIC

OPIC's Small and Medium Enterprise Finance Department is responsible for one of the most remarkable recent success stories in the history of federal government support for SME's in international trade. In FY 2001, before the Department was created, OPIC handled $10 million in SME transactions. These grew to about $350 million in FY 2005. Yet this meteoric increase was accomplished at zero cost to American taxpayer, without the loss of a single American job, while generating profits in this country as well as economic development abroad.

How did OPIC do it? The short answer is that the agency created a structure with appropriate authority and staffed it with highly-motivated and experienced individuals.

The head of OPIC's SMEF Department, who reports directly to the agency's President, manages the agency resources, expertise and decision-making related to the small business mission. Key features of this organizational structure:

- Both the lending and credit functions are incorporated within the same Department, facilitating quick decision-making for small business applications and greatly reducing the potential for "turf" conflict between lending and credit.

- The Department head has the authority to approve without further review loans up to $10 million, which covers most small business project financing needs and avoids lengthy deliberations by committee.

- The Department's senior staff, who have considerable small business lending and credit experience in the private as well as public sectors, have trained a team of investment officers in the nuances of small business finance, which has different characteristics and risks than larger-scale project financing.

GE CAPITAL

But OPIC isn't alone. Perhaps the single most successful underwriter of SME export finance in the U.S. private sector is GE Capital. GE Capital's Corporate Lending and Business Credit Division is essentially a "sales team" including a loan originator, sales representatives and underwriters. GE Capital's SME exporter portfolio is about $31 million today, and the company has had *only two claims,* both of them nominal, in its entire history.

EDC

Abroad, the "gold standard" of export credit agencies is probably Canada's "Export Development Canada." EDC's SME Division consists of three teams:

- business development, with 28 employees
- export insurance underwriting, with 40 employees, and
- financing and bond underwriting, with 25 employees

The teams and team members work **only** on SME transactions. They are given considerable autonomy. Underwriters have delegated authority to approve transactions. Most can approve deals of under C$1 million on their own. Some can approve deals of C$5 million or more -- and transactions do not require multiple signatures.

This modest staff of fewer than 100 employees delivered more than C$15 billion in Canadian SME export financing last year, or 27% of EDC's overall total of C$57 billion. It handled export financing for 7,000 SME exporters, or one-fifth of Canada's 35,000 exporters.

By contrast, Ex-Im provided $2.7 billion in SME export financing last year, or 19.1% of its overall total of about $18 billion. It handled 2,300 SME exporters, or about 1% of the 230,000 SME exporters in the U.S.

There are important differences between the EDC and Ex-Im. EDC competes with the Canadian private sector to some degree, though this is declining. It has more employees overall than Ex-Im, and it handles some transactions that might go to OPIC or SBA here. It also handles some indirect export financing, (which Ex-Im ought to do but doesn't.) Still, for all the differences, it is worth noting that EDC delivered better overall results than Ex-Im despite the fact that the U.S. economy is about seven times as large as Canada's.

What these examples – OPIC, GE Capital and EDC -- have in common is an "SME team" handling SME transactions with a high degree of authority and autonomy.

That is exactly what is missing from H.R. 5068 at this point.

The proposed SME Division at the Bank would have no authority over Ex-Im personnel actually handling SME transactions. It could not develop credit standards. Nor could it alter the Bank's products based on customer feedback. It could offer *advice*, but those receiving the advice would be free to ignore it.

Instead, it would be heavily invested in such "PR" work as attending meetings and sending out brochures. While this kind of "input" work has its value, what matters much more right now is getting the products and processes right for the companies that do come in the door.

In the end, the Bank will be judged on output.

We therefore urge Congress to create an **SME Finance Division** at Ex-Im, headed by an individual as described on pages 3 and 4 of H.R. 5068, and with a team of underwriters and credit specialists *dedicated exclusively* to SME transactions. This Division should be given full authority to alter the Bank's SME products and processes, and to approve its SME transactions.

The **SME Finance Division** also should be held accountable for the Bank's overall SME performance.

That concludes my testimony. I would be happy to accept any questions at this time.

Chart 1

Can American business compete in selling capital equipment abroad? Can small business?

We *can* and *do*!

U.S. CAPITAL EQUIPMENT EXPORTS IN SELECTED MAJOR CATEGORIES, 2002, BY SIZE OF EXPORTING BUSINESS

In Billions of U.S. Dollars

NAICS Code	Description	Total receipts	SME Receipts	% SME
331	Primary metal manufactures	$14.3 billion	$4.4 billion	30.4%
332	Fabricated metal products	$15.9	$4.8	30.3%
333	Machinery manufactures	$65.5	$18.6	28.4%
334	Computers and electronic products	$133.3	$29.5	22.1%
335	Electrical equipment, appliances and parts	$19.5	$4.7	24.3%
336	Transportation equipment	$118.8	$17.5	14.7%
337	Furniture and related products	$1.6	$0.7	42%
339	Miscellaneous manufactures	$22.5	$10.0	44.6%
Totals		**$391.4**	**$90.2**	**23%**

(Sources: *2002 Economic Census* and *2002 County Business Patterns*, U.S. Census Bureau. SME's are small and mid-sized enterprises with fewer than 500 employees.)

Chart 2

Can Exports By American Small Businesses Be Increased? YES!
Examples of economic sectors where strong SME domestic performance could yield more exports -- with the help of export financing

U.S. Domestic Production, 2002, in Billions of Dollars (except as noted)

NAICS Code	Description	Total Receipts	SME Receipts	SME %
2213	Waste, Sewage & Water Systems	$8.3 billion	$4.0 billion	48%
233	Building and developing	$535	$411.4	77%
234	Heavy construction	$174.4	$119.7	69%
2358	Water well drilling	$3.2	$3.0	93%
421	Wholesale trade in durable goods	$2,332.2 (= $2.33 trillion)	$979.3	42%
441	Motor vehicle & parts dealers	$813.2	$683.5	84%
*44122**	*Motorcycle, boat and other motor vehicle dealers*	*$32.9*	*$31.0*	*94%*
4431	Electronic and appliance stores	$92.3	$37.6	41%
444	Bldg equipment, garden equipmt & supply dealers	$288.4	$146.8	51%
45393	Manufactured home dealers	$9.6	$7.2	75%
54136	Geophysical surveying and mapping services	$1.0	$ 0.785	78%
54151	Computer systems design and related services	$181.8	$93.0	51%
5416	Mgmt, scientific & technical consulting svcs	$130.8	$74.3	57%
5418	Advertising and related services	$60.4	$36.0	60%
5419	Market research & public opinion polling	$11.4	$5.5	48%
56	Administrative & support: waste management & remediation svcs	$457.4	$210.3	46%
Total		**$5.1 trillion**	**$2.8 trillion**	**55%**
Total, less 421		$2.8 trillion	$1.8 trillion	64%

<u>Adding just 10% of these SME sales to the export market would increase U.S. SME exports by up to $280 billion annually.</u>

(Sources: *2002 Economic Census* and *2002 County Business Patterns*, U.S. Census Bureau. SME's are small and mid-sized enterprises with fewer than 500 employees.)
* Subset of preceding (441) category, excluded from totals

TESTIMONY OF EDMUND RICE
ON BEHALF OF
THE COALITION FOR EMPLOYMENT THROUGH EXPORTS
ON H.R. 5068
THE EXPORT-IMPORT BANK REAUTHORIZATION ACT OF 2006

Before the
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE AND TECHNOLOGY
COMMITTEE ON FINANCIAL SERVICES

APRIL 5, 2006

Madam Chairman, Congresswoman Maloney and members of the subcommittee, thank you for the opportunity to testify at this hearing. The Coalition for Employment Through Exports is comprised of 27 member exporters, banks and trade associations. We are focused on strengthening the competitiveness of U.S.-origin exports and export-related investment.

Our coalition strongly supports the reauthorization of Ex-Im Bank. We commend the subcommittee members and staff for their work on this issue. We believe that H.R. 5068, introduced by the Chair, Ms. Maloney, Mr. Oxley, Mr. Frank, Ms. Biggert, Mr. Manzullo and Ms. Velazquez provides a sound basis to begin the legislative process.

In recent years, Ex-Im Bank has supported roughly 3,000 overseas sales of American-made goods and American-provided services. During FY 2005,

Ex-Im issued $13.9 billion in financing – mostly guarantees and insurance of commercial loans. That financing supported $17.8 billion in U.S. exports. Those export sales in turn supported thousands of jobs for American workers. In FY 2005, the Bank approved 3,100 separate credit authorizations. Of these, 2,600, or 84 percent were to support exports by small- and medium-sized companies.

THE TWIN MISSIONS OF EX-IM BANK

For U.S. exporters and their banks, Ex-Im Bank has two essential missions: to address the unavailability of private financing for export sales in certain overseas markets and to level the playing field when foreign competitors have the financial backing of their own governments. In both of these circumstances, American exporters and their banks are increasingly dependent on Ex-Im Bank, as the utilization data indicate.

EX-IM HELPS GENERATE PRIVATE EXPORT FINANCING

All U.S. exporters prefer private financing for their overseas transactions and projects. However the availability of private financing varies greatly from market to market. In some cases, financing is readily available, such as in western Europe, Japan, Australia, etc. However, in many markets, private

trade financing is difficult or impossible to obtain, at any price. This is certainly true for small- and medium-sized companies, but it is also true for the largest corporations. Our coalition members report that the mis-match is growing between export sales opportunities for U.S. companies and the availability of loans to their customers.

When a U.S. exporter has an export transaction or project, but cannot find private financing for the customer or project sponsor, the availability of an Ex-Im guarantee or credit insurance is often the key to obtaining private financing. In FY 2005, all of Ex-Im's 3,100 transactions were guarantees or insurance of private loans; there were no direct loans made by Ex-Im. In FY 2004, it was essentially the same: of 3,100 transactions, all but 5 were guarantees or insurance of private transactions.

By facilitating private financing of trade, Ex-Im is supporting, not competing with or supplanting, the private sector.

EXPORT CREDIT AGENCIES ARE GROWING IN WORLD TRADE

Traditionally, companies competed on product quality, price and service. In today's world, financing has become an equally important competitive

element. Increasingly, overseas customers require that bids include a proposed financing offer, especially in the largest transactions and projects.

To meet this competitive pressure, virtually all major trading nations operate export credit agencies. The most recent data show that ECA financing is increasing. Last October, the International Union of Credit and Investment Insurers – the Berne Union – reported that its 52 member ECAs issued a total of $788 billion in financing during 2004, the highest total ever measured. That total approaches 10 percent of global trade flows in that year. Even more telling, the 2004 total marked a 60 percent increase over the 2001 level of $470 billion.

While the structure of ECAs varies from country to country, virtually all operate in close cooperation with their national government, and most operate with government financial support of some type. Faced with that financial backing for its foreign competitor, no U.S. company, no matter how large, can compete on its own. When foreign ECA support is present, our exporters must have the backing of Ex-Im Bank.

KEY COMPETITIVE CHALLENGES FROM FOREIGN EXPORT CREDIT AGENCIES

For U.S. exporters and their banks, competitive challenges arise not only from the growth of foreign export credit agencies, but also from the increasingly aggressive financing activities that they employ to help their national exporters. These activities include: co-financing, tied and untied aid, flexible national content rules, aggressive risk-taking in selected markets or industry sectors and rapid processing and approval times. In sum, there is an increasing pattern among some of our major trade competitors to use their export credit programs strategically.

Co-financing - Cofinancing is the combination of two or more export credit agencies to share in the financing of an individual transaction or project, usually to mirror the multinational cooperation of companies. These arrangements are most effective when there is an established framework between the ECAs through which transactions can be processed easily. Such a framework is well-established in western Europe, where the ECAs of France, Germany, Italy and the U.K. are spearheading the development of an EU-wide co-financing network to support consortia of European companies in competing jointly on large transactions and projects.

By contrast, Ex-Im Bank has four co-financing agreements and will consider case-by-case agreements with others. However, U.S. government policies on documentation, claims recovery and currency acceptance all have impeded expansion of co-financing agreements, to the competitive disadvantage of U.S. companies.

Ex-Im Bank has statutory authority to enter into co-financing arrangements, which are -- and should remain -- limited to the U.S.-origin content of all transactions and projects. However, we believe that the committee can play a role in urging the Bank and other U.S. government agencies to expand co-financing arrangements to better support our exporters.

Tied and Untied Aid - Tied aid refers to the combination of export credits and other financing or assistance to gain a competitive advantage in a transaction. The supplemental financing or assistance is "tied" to the export transaction. Despite an international agreement two decades ago that constrains the use of tied aid, some of our exporters report that tied aid is increasing once again. Moreover, some foreign governments appear to be masking tied aid offers as assistance that is ostensibly not tied to an export transaction, but is tied in reality.

The U.S. approach is to seek tighter international rules to restrict tied aid and to expand the rules to unmask untied aid offers in export transactions. We commend and fully support these initiatives. However, we believe that the U.S. tied aid "war chest" should be used more aggressively in individual transactions to support our exporters, and not only to support our multilateral negotiations. The war chest should support both goals.

We commend the committee's continued oversight of the Executive Branch on this issue.

Flexible National Content Rules - The U.S. has the most strict requirements of any major ECA on the origin of goods and services that Ex-Im can support. By contrast, some other ECAs are moving to a more flexible "national benefits" test, instead of tying financing strictly to the origin of good or service. The Japanese, German and Canadian ECAs, in particular, are willing to provide financing for transactions that are in the overall trade-strategy interests of their countries, not only to support their exporters. As a result, ECAs are being used both to gain a foothold in a given overseas market and to solicit the shifting of manufacturing and service capacity to their countries.

While we do not have a specific legislative recommendation at this point, we believe the committee should add this issue to its oversight agenda for Ex-Im Bank, to help focus the U.S. government's attention to the competitive advantage that such flexibility gives to our trade competitors.

Aggressive risk-taking - Increasingly, export credit agencies are being used strategically by their governments to strengthen trade and economic ties with targeted markets. Part of this strategy is to aggressively assume credit risk in order to win export sales and project contracts, as well as to support national foreign policy goals.

By contrast, the U.S. government does not use export credit programs strategically. As a result, in any given transaction, U.S. exporters may be faced with a competitor whose government will extend financing terms that the U.S. will not match. In our companies' view, the U.S. should consider a more aggressive policy to be prepared to match all competing financing offers, especially in the largest transactions or projects.

We believe that the two Chinese export credit agencies (one of which is already equal in annual financing volume to Ex-Im) are being used in this

way to push Chinese companies into overseas markets, both for market share increases and for larger Chinese trade policy objectives. We urge the committee to include this development in its oversight agenda and to press the Executive Branch to develop a policy to respond to this development.

Rapid processing/approval times - Some of our exporters continue to report significant differences between the processing and approval time frames of other export credit agencies and Ex-Im. In some cases, this appears to be another aspect of governments' strategic use of export credit for competitive and policy goals. In some cases, ECAs will make a firm financing commitment as part of a company's bid on a transaction or project, which provides a significant competitive advantage.

In 2002, the Administration announced that it would begin a pilot program to test a similar approach. Called the "early project development" initiative, the idea was to identify as early as possible significant transactions and coordinate export credit, advocacy and related government backing for U.S. companies, up front. The goal was to give U.S. companies a stronger competitive position in these significant transactions. The effort was included in the 2002 National Export Strategy.

We strongly supported this initiative. However, we do not find evidence that it has been implemented. It remains a potentially important competitive improvement for U.S. companies. We urge that the committee add this to its oversight agenda and seek implementation.

Let me conclude by drawing the committee's attention to the financial strength of Ex-Im Bank and its net positive impact on the federal budget.

EX-IM BANK IS FINANCIALLY SOUND

Ex-Im Bank is financially sound. At the end of FY 2005, Ex-Im Bank had a total exposure of $62.9 billion. Against that exposure, the Bank had $7.6 billion in reserves – a very strong reserve position.

Exporters and our overseas customers pay fees for Ex-Im's participation in export sales, which in the last several years have covered the government's costs of operating the Bank. Ex-Im charges interest on its direct loans and premiums for its guarantees and insurance. Ex-Im does not subsidize interest rates. In financial terms, Ex-Im's crucial role is in mitigating risk, especially in markets where commercial financing is not available.

According to the Bank's FY 2005 annual report, the Bank generated a net income of $2.6 billion, through its interest charges, premiums and fees. Unfortunately, under the Credit Reform Act of 1990, the Bank cannot retain its own revenues to cover its costs. Instead, the Bank must obtain annual appropriations for both its operating expenses and its loan-loss reserves, even those outlays are fully offset by its income. Thus, the Bank is handicapped by the government's own budget rules.

CONCLUSION

We commend this subcommittee for its timely consideration of Ex-Im Bank's reauthorization and we urge that the committee act expeditiously to report a reauthorization bill to the House, so that Congress can complete the legislative process prior to the September 30th expiration of the Bank's charter. We believe that H.R. 5068 is a sound basis for beginning the legislative process and we commend its sponsors and their staffs for a thoughtful and carefully-drafted bill. Doubtless refinements and amendments will be considered by the subcommittee and full committee and we look forward to contributing to those deliberations.

################

Brett Silvers
President

WorldBusiness Capital, Inc.
One State Street, Suite 2350
Hartford, CT 06103
(860) 246-6300 Phone
(860) 246-6789 Fax

April 3, 2006

The Honorable Deborah Pryce
Subcommittee on Domestic and International
Monetary Policy, Trade and Technology
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairwoman Pryce,

Re: Reauthorization of the Export-Import Bank of the United States (Ex-Im Bank)

Fast Track Processing of Medium Term Loan Applications
Supporting U.S. Small Business Exports

As a small business lender with considerable experience and expertise in providing guaranteed loans through U.S. government programs, I support this year's renewal of the Ex-Im Bank charter. I have been a strong advocate for Ex-Im Bank and its programs for 15 years, and I appreciate the Subcommittee's efforts to consider making significant changes that improve and increase lending for small business export transactions. As an active member of the Small Business Exporters Association (SBEA), I strongly support SBEA's recommendations to improve Ex-Im Bank's small business programs.

I am submitting the attached statement recommending a "fast track" process for reviewing medium-term loan applications supporting U.S. small business exports. I respectfully request that my statement be included in the record of the Ex-Im Bank reauthorization hearing of April 5, 2006.

Sincerely,

Brett N. Silvers
President and Chief Executive Officer
WorldBusiness Capital, Inc.

TESTIMONY OF
BRETT N. SILVERS
PRESIDENT AND CHIEF EXECUTIVE OFFICER, WORLDBUSINESS CAPITAL, INC.
TO THE
HOUSE FINANCIAL SERVICES SUBCOMMITTEE
ON DOMESTIC AND INTERNATIONAL MONETARY
POLICY, TRADE, AND TECHNOLOGY
APRIL 5, 2006
ON
REAUTHORIZATION OF
THE EXPORT-IMPORT BANK OF THE UNITED STATES (EX-IM BANK):

FAST TRACK PROCESSING OF MEDIUM-TERM LOAN APPLICATIONS
SUPPORTING U.S. SMALL BUSINESS EXPORTS

Madam Chair and Members of the Subcommittee: My name is Brett N. Silvers, and I am President and Chief Executive Officer of WorldBusiness Capital, Inc. (WBC), a commercial finance company based in Hartford, Connecticut. My company specializes in lending to small and midsize businesses to support international trade and investments using loan guarantee programs of Ex-Im Bank and the Overseas Private Investment Corporation (OPIC).

Since WorldBusiness Capital was founded in 2003, my company has provided 26 medium-term loans guaranteed or insured by Ex-Im Bank that have involved at least one U.S. small business exporter with less than 500 employees. WBC has supported U.S. exporters located in 23 different States, and has financed buyers of U.S. exports in six different countries that are eligible for Ex-Im Bank coverage (Mexico, Russia, India, Bulgaria, Philippines, and Korea). WBC's staff actively markets Ex-Im Bank programs directly to SME exporters in the U.S. and during regular trips to overseas markets. During the last three years our lenders and I have made presentations which included information about Ex-Im Bank programs at approximately 25 business seminars and conferences worldwide.

Prior to establishing WorldBusiness Capital, I served as the Chief Executive Officer of Hartford-based First International Bank (FIB). In the early 1990's, I was one of the first proponents of enabling U.S. small businesses and their lenders to access Ex-Im Bank's medium-term loan guarantee program. In that capacity, I served as a member of Ex-Im Bank's Advisory Committee. I have also served as a member of the Board of Directors of the Private Export Funding Corporation (PEFCO) helping PEFCO build its Small Business Note Purchase Program which today provides many small lenders with the liquidity critical for financing small export transactions. FIB was the second-ever recipient of Ex-Im Bank's "Small Business Lender of the Year" Award (1997) and was one of very few U.S. banks ever selected to receive the President's "E" Award (2000), specifically for financing U.S. small business exports. For five consecutive years, between 1996 and 2000, FIB was Ex-Im Bank's largest lender measured by number of transactions.

As a strong advocate for Ex-Im Bank and its programs for the last 15 years, I support this year's renewal of Ex-Im Bank's charter. As an active member of the Small Business Exporters Association (SBEA), I strongly endorse SBEA's recommendations to improve Ex-Im Bank's small business programs. Congress has a unique opportunity this year to make changes that will improve and increase lending for America's small companies to compete in overseas markets.

Competitiveness of U.S. Small Business Exports

U.S. small business exporters face intense competition from suppliers of other nations when they sell products to developing countries. Often the difference between winning and losing a sale depends on the speed with which the U.S. company can provide financing options to its overseas customer.

According to U.S. Census Bureau data, there are approximately 66,000 businesses in the United States with 500 or fewer employees that manufacture the types of products particularly suitable for Ex-Im Bank's medium-term financing support, including agricultural, industrial, computer, telecommunications, electrical, transportation and medical equipment. **Ex-Im Bank must give these U.S. small businesses a significant competitive edge by committing to processing, on a "fast track" of no longer than 30 calendar days, applications from lenders for guarantees and insurance covering 3 to 7 year medium-term loans up to $5 million that finance overseas purchases of U.S.-made equipment and technology.**

As background, in 1999 under James Harmon's leadership as President and Chairman, Ex-Im Bank announced that it was "expanding the scope of its new streamlined Medium-Term Credit Standards to cover transactions in the $1 million-$5 million range. U.S. companies applying to Ex-Im Bank for insurance, loans or guarantees with terms of one-to-seven years are promised a 20-day turnaround time if their transactions meet the simplified credit criteria." (See attached Ex-Im Bank news release.)

Recommendations

To meet the needs of small business exporters, **30-day fast track processing** must have the following features:

- From the date a lender submits a medium-term loan application to Ex-Im Bank, Ex-Im Bank will take **no more than 10 calendar days** to review the application and submit its questions in writing to the lender;

- From the date Ex-Im Bank provides its questions to the lender, to keep on the fast track the lender will take **no more than 10 additional calendar days** to respond to Ex-Im Bank's questions; and

- From the date the lender answers Ex-Im Bank's questions, Ex-Im Bank will take **no more than 10 additional calendar days** to either formally approve the application by providing the lender with an executed Annex B form (for medium-term guarantees) or an Insurance Binder (for medium-term insurance), or formally decline the application.

- Fast track processing must apply to all medium-term loan applications supporting small business exports, **whether or not the overseas customer meets all of the existing medium-term credit standards.** In cases where not all of the credit standards are met, the fast track process will have **flexibility to allow for reasonable, well-supported exceptions. This flexibility is critical to the success of the program, since many medium-term loan applications approved by Ex-Im Bank have at least one exception.**

- The Senior Vice President for a new Small Business Finance Division should provide a **detailed quarterly report to the Ex-Im Bank President and Chairman and Board of Directors** on the results of the processing time for medium-term loan applications, and provide recommendations for improvements.

WorldBusiness Capital will be pleased to provide additional information to the Subcommittee to assist in its efforts to help America's small businesses compete overseas and increase U.S. exports.

Export-Import Bank Press Release*

FOR IMMEDIATE RELEASE
October 29, 1999
Contact: Marianna Ohe (202) 565-3200

EX-IM BANK SPEEDS SERVICE WITH SIMPLIFIED CREDIT STANDARDS FOR DEALS OF UP TO $5 MILLION

20-Day Processing Time Promised To US Firms Whose Transactions Meet Criteria

Ex-Im Bank is expanding the scope of its new streamlined Medium-Term Credit Standards to cover transactions in the $1 million-$5 million range, effective Nov. 1, 1999. US companies applying to Ex-Im Bank for insurance, loans or guarantees with terms of one-to-seven years are promised a 20-day turnaround time if their transactions meet the simplified credit criteria. Ex-Im Bank introduced new Medium-Term Credit Standards last May for transactions of under $1 million. The success of that program lead to this expansion of the standards.

"We look forward to serving our customers with faster, more transparent case processing," said Ex-Im Bank Chairman James A. Harmon. "Small businesses should especially benefit from these new standards, as they compete in the international market."

Under the program, applicants must meet a streamlined set of financial criteria to demonstrate creditworthiness, including earnings, operating income, debt service coverage ratio, cash flow, and total liabilities.

In addition, Ex-Im Bank has dropped the previously required supplemental financial information form on financial institutions for all medium-term transactions, and on nonfinancial institutions for transactions of up to $5 million.

Ex-Im Bank is an independent U.S. government agency that assists in financing the export of US goods and services to developing markets around the world. Worldwide in fiscal year 1999, Ex-Im Bank supported nearly $17 billion of US exports.

*Source: Ex-Im Bank Website – 1999 News Archives

○