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FULL COMMITTEE HEARING ON OVERSIGHT OF THE U.S. EXPORT-IMPORT BANK'S IMPLEMENTATION OF ITS SMALL BUSINESS MANDATE

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UNITED STATES HOUSE OF REPRESENTATIVES

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FULL COMMITTEE HEARING ON OVERSIGHT OF THE U.S. EXPORT-IMPORT BANK'S IMPLEMENTATION OF ITS SMALL BUSINESS MANDATE

Thursday, January 17, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:00 a.m., in Room 2360 Rayburn House Office Building, Hon. Nydia Velázquez [chairman of the Committee] presiding.

Present: Representatives Velázquez, Clarke, Sestak, Higgins, Chabot and Davis.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

Chairwoman VELÁZQUEZ. I call this hearing to order. Today, the Committee will review the Export-Import Bank's efforts to assist small businesses. Congress established the Bank seven decades ago to promote national competitiveness in an increasingly globalized economy. It was envisioned that this Agency will serve as a critical resource for domestic firms of all sizes, as they began to look abroad for new opportunities. But, unfortunately, this has not fully materialized.

Currently, it is small U.S. firms that dominate foreign market sales, and operate at a trade surplus in numerous industries. Due to the ingenuity of this sector, small exporters are growing two times faster than their corporate counterparts. However, many still face hurdles when it comes to fully accessing the international marketplace.

In order to provide assistance for these small firms, Congress has revised the Bank's charter multiple times. In 2006, with the input of this Committee's members, legislation was enacted that refocuses the Agency's structure to better promote small exporters. Since adoption, it has been working and meeting its obligation under the legislation. However, there is still a long way to go before it is fully implemented. Overall, if I were to assign a grade, it will be an incomplete.

While the Bank will point out that they have met their small business goal, the facts tell a different story. The number of small business loans is on the decline. In 2005, right before the legislation was enacted, there were 2,600 awards, but today there are only 2,300, a drop of more than 10 percent.

These figures indicate that affordable trade financing is on the decline. The reality is that a smaller number of businesses are getting larger loans. What we need to see is more loans and more dollars. Until we see increases in both, it will be questionable if small businesses are the priority they are supposed to be.

If it had fully implemented the 2006 legislation, perhaps these numbers would have been better. The Bank has failed to establish several key initiatives, including changes aimed at increasing bank lending, and reducing regulatory burden for both of which little progress has been made.

The 2006 law also provides the authority to put U.S. firms on equal footing against heavily subsidized foreign firms. But, again, this is a tool that has failed to be used, and, again, small firms are left waiting.

The effect of these delays is significant. By not implementing these programs, the Bank's actions are tantamount to cutting off assistance to small firms that are trying to access foreign markets. It is also deterring greater private sector involvement with export financing programs, which is a critical step to their expansion. Without the system mandated in the re-authorization legislation, many firms will be left at a disadvantage against their foreign competitors.

As a result of the Bank's failure to establish key provisions of the 2006 re-authorization legislation, the Committee wants quick and decisive action on implementing these reforms. Going forward, we will continue to conduct regular oversight of its progress.

Small exporters must be the priority at the Bank that Congress had envisioned. The 2006 legislation should be administered in a way that fulfills the mandated specific requirements, as well as its underlying purpose, which is to expand trade opportunities across the small business sector.

As small firms increasingly look to international markets, and the nation's trade deficit remains unbalanced, Congress, Ex-Im Bank, and small business leaders must collaborate to promote U.S. interest in a global economy.

I look forward to hearing ideas from the Bank, as well as industry representatives, on ways to improve its outreach and services to small exporters.

Thank you all for your attendance today, and I now recognize the Ranking Member, Mr. Chabot, for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr. CHABOT. Thank you. I'd like to thank the Chairwoman for holding this hearing today to evaluate the U.S. Export-Import Bank's ability to serve the needs of the American small business community.

I'd also like to thank our witnesses for being here today, and I appreciate their willingness to engage in this important discussion.

Over the past two decades, obstacles to trade have been crumbling at a staggering pace. In the last 20 years, for example, the United States has entered into 14 separate free trade agreements with negotiations currently underway for several more.

The benefits of disintegrating trade barriers for the average American, and American businesses, abound, including increased

employment opportunities, increased wages, and increased profits for businesses that export their goods, and import material used to make their goods. This spike in trading opportunities also encourages businesses to produce a better product, and sell that product at a lower price to both Americans, and to consumers in other countries.

The process of becoming a successful exporter can be extremely daunting for a small business, whether it's determining if you need a license to export your product, or making sure you have the proper insurance, the maze of tasks to be completed can prove to be a minefield. Financing your new exports can be a very considerable challenge, and sometimes the ultimate challenge.

Established in 1934, the Export-Import Bank provides financing, insurance, and exporting advice to U.S. businesses that export. Although some, including myself, have had concerns in the past regarding the types of businesses the Export-Import Bank has financed, our focus today is on America's small businesses that export, and making sure they benefit from the Bank that we're talking about here today, and make sure that all the services provided are done in a very good manner.

The 2006 Export-Import Bank Re-Authorization Act require the Export-Import Bank to take several steps to maximize opportunities with small businesses. The Re-Authorization put in place a structure, the Small Business Division, that bears the sole responsibility of insuring that small businesses have equal access to Ex-Im Bank products.In order to accomplish this, the Small Business Division should provide outreach and manage feedback from small businesses.

Additionally, they should maintain a liaison for the Small Business Administration, advise small business concerns on financing products offered by the Bank, and provide insight of the technology department to strengthen the small business outreach.

With these thoughts in mind, today we hope to ascertain just how productive these new standards put in place by the Re-Authorization of 2006 have been for small businesses. Adherence would most certainly help to put U.S. small businesses on a more level playing field with other small companies around the world.

Once again, I thank the witnesses for joining us today and look forward to your testimony. I might note that I'm also a member of the Foreign Affairs Committee, and we have a classified briefing on the recent assassination of President Bhutto, which I am hoping to attend, and it's my understanding that Congressman Davis will be substituting for me during that period of time, at least for some of the hearing, but I hope to be back. And so I'll be here for some, and away for some. So, again, thank you for holding this hearing.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot.

Now it is my pleasure to welcome Mr. James H. Lambright. He's the President and Chairman of the Board of the Export-Import Bank of the United States, the U.S. government's official export credit agency. Prior to his work with Ex-Im Bank, he served as an investment banker, an attorney specializing in real estate, and venture capital.

Sir, welcome, and you have approximately five minutes to make your presentation.

STATEMENT OF THE HONORABLE JAMES H. LAMBRIGHT, CHAIRMAN AND PRESIDENT OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

Mr. LAMBRIGHT. Good morning. Thank you, Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee. It's my pleasure to be here with you today.

Each passing day, the U.S. grows more economically interdependent with other nations across the globe, both as partners and competitors. For decades, the industries, both large and small, that drive the American economy have provided an example to the world, and many competitors have proved to be fast learners.

As a result, the divide that once existed between the United States economy and that of the rest of the world has narrowed, not because our economy has taken a step back, but rather because other nations' economies have advanced. This is a reminder that America's preeminence in the global economy is the product of achievement, not birthright.

Our station can only be maintained through the hard work and entrepreneurial spirit of American businesses and workers. Our GDP growth has increasingly been driven by exports, and exports have increasingly been driven by small exporters. Ninety-seven percent of all U.S. exporters are small firms, and they sell over a quarter of the value of U.S. manufactured exports.

These small exporters create opportunity. Workers in such firms can expect, on average, 15 percent higher wages. Women and minorities are particularly strong drivers of job growth right now. Women own more than a quarter of all American businesses today, and that number is growing. And Hispanic Americans are opening their own businesses at a rate three times the national average.

It's a great time for these firms to export. Ninety-five percent of the world's population lives outside of the United States. The buying power of these customers continues to grow. Yet, only a tiny percentage of America's small businesses export, and of the nearly quarter million that do, the majority sell into only one market. That's because exporting poses a variety of challenges; from the time and money required to deal with documentation, travel, and shipping, to increased risks from unfamiliar languages, relationships, and business practices.

This is why in 2006, I directed our network of seven regional business development offices to dedicate their outreach and marketing efforts exclusively to small businesses. And these offices are working closely with the local export assistance centers to reach as many small businesses as possible.

The Export-Import Bank can help small businesses reach new markets and shoulder new risks through a variety of financial products. We offer loans, insurance, and guarantees as a lender of last resort to insure U.S. companies are able to finance export sales that otherwise would not go forward.

In essence, the Bank exists to bolster the U.S. economy and employment through trade finance. So my priority since assuming my current position has been to make sure we at Ex-Im Bank are doing everything we can to be as effective and efficient as possible in serving small businesses within the bounds of the niche we fill in the financial world.

We've listened to the small business community, and to Congress, and we've made changes accordingly. And our changes have addressed every stage of the small business experience inside Ex-Im Bank. In addition to more organizational focus on outreach, we've made technological improvements to allow customers to use the internet to apply for our small business programs. Today, every short-term insurance and medium-term application can be filed and tracked through Ex-Im online.

We've also identified small business specialists in each of our operating units to provide our customers with professional staff knowledgeable about, and sensitive to, the particular characteristics of small businesses.

Processing transactions involves nearly every division of the Bank. That's why we established an Ex-Im Bank Small Business Committee, chaired by the Senior Vice President for Small Business, and comprising senior members of each division to coordinate, evaluate, and make recommendations for a successful small business strategy involving all of the Bank's functions.

We've also retooled our claims process, so that insurance claim denials can be appealed to a senior level committee that includes the Senior Vice President for Small Business.

I appreciate the Congressional guidance that shaped these reforms. And I want to extend an ongoing invitation to all the Members of this Committee to continue to work with me, the Bank's Board, and the Bank's staff on our service to America's small businesses, because I agree with Chairwoman Velázquez, that more can always be done on this critical front.

So far, the results have been good. Our small business continues to grow. In fiscal year 2007, we authorized $3.4 billion in direct support of small business transactions, up from $3.2 billion the year before. For the past two fiscal years, we've exceeded the target set for us by Congress that the value of our small business authorizations be at least 20 percent of our overall authorizations, with the 2007 ratio coming in at 26.7 percent. In terms of numbers of transactions, over 85 percent of our total were directly for small businesses.

I should note, we're equally proud of the indirect support our financings provide small businesses, that act as suppliers to larger exporters.

While important, the data only tell part of the story, that we supported nearly 2,400 transactions with small business exporters this past year. I'll limit myself to just one illustration of the Bank's impact on a customer.

The Robbins Company of Solon, Ohio, used a $25 million Ex-Im Bank working capital guarantee to fulfill $130 million contract for the export of two large tunnel-boring machines to India. The machines will dig a 27 mile long tunnel to supply potable water to drought-stricken farmland in 516 villages in Andhra Pradesh. The tunnel will be built 300 feet below the Nagarjuna Sagar Tiger Reserve to avoid disturbing the tigers' habitat.

This export provides a significant environmental benefit, but what makes Ex-Im Bank's ability to support the sale so gratifying is that to satisfy the contract, this company with fewer than 200 employees has added 50 new employees to its payroll.

While I can't guarantee increases in our small business numbers every year, I can promise you that we'll continue our work to improve the quality of the small business experience at Ex-Im Bank, and I can assure you this is a commitment shared by staff and Board members alike.

I'm pleased that this effort will benefit from the leadership of Diane Farrell, our newest Board member, whose enthusiasm and insight make her a terrific fit for this portfolio.

When given a level playing field, America's small firms have proven to be resourceful, creative, and a reliable engine for the economy.

I look forward to working with the Members of this Committee to insure that small businesses continue to enjoy the financial support they require as they make foreign sales and provide jobs for hardworking Americans.

Thank you, again, for the opportunity to appear today. I look forward to your questions.

[The prepared statement of Mr. Lambright may be found in the Appendix on page 39.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Lambright.

And I would like to ask my first question regarding the Bank's 2006 Re-Authorization that required the establishment of a preferred lending program for medium-term transactions. This was designed to increase small business access to products with longer repayment terms for higher volume transactions. Although the Bank has taken steps to implement the program, one year later it's still not in operation.

I would like to know the following. First, when will the final regulations for the program be implemented? Two, when will the Bank alter its standard operating procedures to implement the program? And, third, what will borrowers and lenders be able to utilize, when they will be able to utilize the program?

Mr. LAMBRIGHT. This is an important new program for Ex-Im Bank that was approved by our Board in October, and work had begun on it shortly after the new charter was passed by Congress. And the time that it has taken is to make sure that when we offer this new program, that we get it right, and that it's something that the market will appreciate and use. So there has been significant vetting with potential users, including small business exporters. But this is a program that creates new relationships with lending partners that gives them true delegated authority to approve transactions without going through the Ex-Im Bank processes. And what that will give small businesses is quicker processing, but creates a new relationship between Ex-Im Bank and lenders where they share some of the risk, and we will cover about 90 percent of the commercial risk for your typical transaction, if it's a small business exporter, slightly more of the risk will be borne by Ex-Im Bank.

And to answer your question on timing, we have put out the final set of documents for review by the pool of lending partners, so we're awaiting their comments and feedback, and hope that at our annual conference in April, we can roll this out so that all of the exporters and lenders that attend that conference can learn exactly what the product offers, and begin to use it.

Chairwoman VELÁZQUEZ. When is your expectation as to the time line for borrowers and lenders to be able to utilize the program?

Mr. LAMBRIGHT. In April, when we would roll this out, and have final documents.

Chairwoman VELÁZQUEZ. One interesting dichotomy following the enactment of the Re-Authorization, is that while the Bank has met the small business financing goal, the number of small business awards has decreased by 10 percent since 2005.

Do you think this drop is reflective of the intent of the Re-Authorization legislation?

Mr. LAMBRIGHT. No. I agree with your observation that that's a trend in the direction that we shouldn't be happy with. I think we should aspire to do more for small businesses, both in terms of dollar amounts, and in terms of numbers of transactions, and so your observation is correct.

Chairwoman VELÁZQUEZ. How do you intend to accomplish that?

Mr. LAMBRIGHT. Well, all of the changes that the charter directed us to make, that we have made, focus more organizational effort on outreach to small businesses, because awareness is really the biggest hurdle that we have in reaching the community of small businesses, getting them to understand the financing that we do offer, and so we have all of our branch office staff focused exclusively on reaching more small businesses.

This year, for example, we had about 370 small businesses that were first-time users of the Bank as a result of that outreach. You're correct that the average size of the transaction went up, and so I agree with you that we would like to do more in terms of numbers and outreach and education, and making the whole process of using Ex-Im Bank easier, is the way to accomplish that.

Chairwoman VELÁZQUEZ. Mr. Lambright, I am concerned about the General Accounting Office report that stated that in 2006, "That the Bank is inflating its small business financing numbers, which include loans and other products." And the General Accounting Office asserts that the Bank is including awards that did not go to small firms.

My question, do your small business numbers include any awards that went to firms that were not small?

Mr. LAMBRIGHT. In the dollars reported, the answer is no, and the GAO has confirmed our methodology, and made accomodations for internal control improvements that we have executed.

The one remaining area of disagreement between their recommendations and our practices gets to reporting the numbers of transactions, not the dollars. And there is a set of transactions that we make available to banks to use for their customers. And those support more small business transactions than the numbers of policies, and so we report the number of policies.

GAO makes the correct observation that some of those at the end of the year may not, in fact, have been used for small businesses. But in our assessment of the data, we believe we're actually underreporting the number of transactions for small business, but they make a correct factual statement.

Chairwoman VELÁZQUEZ. So would it be more accurate to leave those numbers out until you can determine who they went to?

Mr. LAMBRIGHT. Ideally, yes, it would be. But we have a volume of transactions underneath some of those policies where we may not know until after our reporting period whether that policy has been used, and so because the trend has been more transactions supported than the number of policies, we believe we're being conservative by reporting the number of policies.

Chairwoman VELÁZQUEZ. Well, I've been in this predicament before in dealing with the Small Business Administration reporting of contracts awarded to women, minorities, and small businesses. And years after years, they were saying we are achieving their goals, and what we found through not only a report that we did in this Committee, but the General Accounting Office, and their own Inspector General was that they were miscoding, and that awards that they claim went to small businesses, in fact, $12 billion in one year to small businesses, went to large firms. So I don't want this to happen here, because as you know, the intent of the Re-Authorization was clear. And we need to increase not only the volume of loans, and the amount of money that is going to small businesses.

So let's talk about what are you doing in terms to outreach, or how can you increase the number of loans going to small businesses?

I want to ask you, you have dedicated staff located in regional offices, but they lack the authority to make loans, so why hasn't the Bank sent small business underwriters out into the field, or provided the regional offices with the authority and training to make those loans?

Mr. LAMBRIGHT. Well, the staff in the regional offices do have the training to work with small businesses on all of the products that they might use, and to walk them through the process.

Small businesses use all of our products, and so each of those products units is located here in Washington to maximize efficiency of processing. And because we now have the online application system, the underwriters being here in Washington really don't slow down the processing of those transactions, and so the most value that those branch office staff can provide is in finding new small businesses that would be eligible for our support, and educating them, and working with them, and then advocating within Ex-Im Bank for increased support to those businesses.

Chairwoman VELÁZQUEZ. Well, let's talk about the Office of Minority and Women Exporters, which was designed to expand your outreach. Can you talk to us as to what type of outreach you're doing to reach out to minority and women? That's a way where you can expand the number of small businesses, trying to access financing through the Bank.

Mr. LAMBRIGHT. You're exactly right, Chairwoman Velázquez. In fact, as a result of the chartering process, and the discussions that we've had with you and other members, we created an Office of Minority and Women-Owned Exports, and dedicated four full-time staff to that office. And, also, all of our branch officers who work on outreach support their effort in identifying women and minority-owned businesses.

Collectively, that staff attended and participated in over 80 events and conferences focused directly on either minority-owned

businesses or women-owned businesses, and that effort has led to a significant increase in the amount of business that we see in that sector.

Chairwoman VELÁZQUEZ. This is what I hear. Well, let me just say this. The Bank currently provides just 2 percent of its financing to minority exporters. And this is clearly insufficient given that nearly one in five of these entrepreneurs export goods and services to markets around the globe. So why is the Bank's lending to minorities so low?

My understanding is that you signed an MOU with the National Suppliers Council, and now it is MIA, missing in action. They haven't heard back from you guys from the Export-Import Bank. So you have an opportunity to tell me what's going on here.

Mr. LAMBRIGHT. Thank you. I think if you look at the numbers of our support to minority and women-owned businesses, it's a trend that is improving with the increase in organizational focus that we've given it.

Last year, we supported $524.6 million in exports to women and minority-owned businesses, a little over $400 million of that was small businesses owned by minorities and women. But if you look at our universe of small business support, about 12 percent of our small business support was to small businesses owned by minorities and women. And if you look at the products where the exporter is itself directly the borrower, and that's our working capital line of products, women and minority-owned businesses received over 20 percent of that financing, and so we would like to continue this trend of increased support, because it is a growing and important sector.

Chairwoman VELÁZQUEZ. Mr. Lambright, numbers don't like. Just 2 percent of financing is going to minorities. You've got to do better. It will be good for you, it will be good for our economy. And with that, I recognize Mr. Chabot.

Mr. CHABOT. Thank you, Chairwoman.

Mr. Lambright, as I had mentioned in my opening statement, there are some who have reservations, including myself, just philosophically about the Export-Import Bank; not that we don't think you do a good job, or that you have good people, you do. But who just believe that when you're giving out loans, and people—businesses get those loans, basically claiming that there's excessive political or commercial risk, and, therefore, they have difficulty getting them in the private sector. And those of us, like myself, just believe philosophically that risk should be reflected in the amount of the loan, and it just ought to be done through the private sector, philosophically. And that's traditionally where I have been on that issue. But the fact is, we have not prevailed in that effort, those of us that basically believe the government is doing things that were never intended to be done by our Founding Fathers, and we sort of lost that battle over the years. So you do exist, and so my concern here as the Ranking Member of the Small Business Committee, is that if you're going to give loans to the business community, that the small businesses in this country ought to get their fair share. And that's what the purpose of this hearing is. So in that spirit, I just have a few questions.

Since the creation of your enhanced web site, have you noticed any increased interest by small businesses via the internet? Could you discuss that briefly?

Mr. LAMBRIGHT. Of course. I will note that our Small Business program, like our overall program, is not intended to compete with commercial lenders, so we're not trying to compete with the private sector. And all of our programs are created with an eye on supporting U.S. employment, and keeping U.S. companies from having to compete with foreign competition supported by its government.

And we do price our products according to the risk that we perceive. And, in fact, have been consistently returning money to the Treasury in excess of our appropriation, so we believe that we have been operating in a responsible manner.

With respect to our technology upgrades, we have increased the dollars supported for small business year over year, but I think the real benefit of it is not in the numbers that have increased, but really in the ease of working with Ex-Im Bank. So, for us moving from paper submissions and paper files to an electronic system has made it easier for small businesses to submit their information, and not just submit an application, but track it so that they know where their application is in the pipeline as it goes through the system. And so, really, I look at the benefit primarily being one of customer service, not simply a business development tool, even though we have been able to boost the numbers with the new system.

Mr. CHABOT. Thank you.

What type of feedback is received by Ex-Im Bank from small businesses concerning the Bank products, and how does the Bank go about obtaining feedback from small businesses?

Mr. LAMBRIGHT. We receive a lot of anecdotal feedback just through the course of working with exporters. They may make comments to loan officers, or even write a note to me, or pick up the phone, so we hear a lot anecdotally, but we have tried in the spirit of these organizational changes to be more formal about it. And so, our Small Business Division and the Small Business Committee have conducted focus groups, and have sent out questionnaires to be more disciplined in our soliciting of feedback. And that feedback is very useful to us.

I would say that the feedback could be categorized broadly into two buckets, one is customer service, just pushing us to be faster and more responsive, which we are always trying to do, and the new computer system will be helpful on that front. And the second broad category is in our product limitations. And this is where we have less freedom to respond, because our products come with limitations that a lot of commercial lending products or foreign competition, their export credit agencies may not have all the same restrictions that we have from a policy point of view. So our charter creates certain policy restrictions on us in terms of U.S. content, or shipping requirements, and environmental and economic impact standards that prevent us from supporting every potential small business exporter that may be seeking our help. So we take all of that feedback from both of those broad categories, and within the narrow niche that we fill, try to be as effective as we can in serving that community.

Mr. CHABOT. Thank you. If a small business would apply for a capital loan, what's the average time for the application process, and to receive the loan? I know that's going to vary on a case-by-case basis, but just what kind of parameters do you work with that?

Mr. LAMBRIGHT. As you noted, it varies on a case-by-case basis. It also varies by product type, so working capital, which is the pre-export financing, most of that is done through delegated authority, so that the lenders are processing those transactions, and our approval comes concurrent with the lender's approval, so there's really no added time by Ex-Im.

On short-term insurance, we try to turn those around and typically do within 10 days. Where that turn-around time becomes more of an issue, and where we would hear more negative comments in that feedback that we solicit, is when you start to move into longer terms, say five or seven-year financings, where we need to spend more time underwriting the credit risk of a foreign borrower, and we start to have more entities involved in a transaction, so we need to be more careful. Those transactions can take 60 days, and so given the pace of commercial life, if we need to ask a lot of questions to get comfortable with the transaction, that can create some negative feedback. So for the shorter terms, it's usually a week or two, and for the longer terms, it could be around 60 days.

Mr. CHABOT. Okay. Thank you very much.

I yield back the balance of my time.

Chairwoman VELÁZQUEZ. Mr. Sestak.

Mr. SESTAK. Thank you.

I was going to ask that same question. You said 60 days for the larger ones?

Mr. LAMBRIGHT. Right.

Mr. SESTAK. And what was it for the small ones?

Mr. LAMBRIGHT. Ten days or less.

Mr. SESTAK. Ten days.

The question I had was, you had, to the Chairwoman's question about moving underwriters out to the regional offices, we're going to hear from community lenders. And the value I found of the community lenders is they're there, they understand the community. They are quite responsive.

You responded to her question by saying for efficiency purposes, if I heard you correctly, we like to do it down in Washington. But how about for effectiveness purposes? I mean, the statistics show they were not quite as effective this year as last year, so are we giving up effectiveness for efficiency? And, if so, should you be asking for additional resources in order to make this happen?

I mean, my perspective, just from my background, is decentralization. You actually garner a lot of effectives and efficiencies if the right management is done. Why don't we look at the effectiveness of this?

Mr. LAMBRIGHT. I think it's a very good question, and one that we have spent time on. And, really, the resources aspect that you highlight is a large constraint on moving large numbers of people around the country.

We have staff in seven regional offices to identify, and work with, and cultivate new business, but small businesses that we then bring in as applicants could use one of any number of our products. Each product has a dedicated staff that specializes in processing that product, so the difficulty would be in sending one or two people out to a branch office. They have expertise in one product, but not another. And so, by having them housed in Washington, it actually does serve both efficiency and effectiveness.

I think with unlimited resources—

Mr. SESTAK. But aren't you, to some degree, able to do some of that under the Export Assistance Centers? I mean, because they do financing packages right there on-site. I mean, haven't they had to deal with this problem?

And in your answer, then my question is, you're making, understandably, an argument here that it going to be less deficient, so I assume you've studied this. Do you have a study on it? I mean, because those are nice general statements, but what's the study that actually shows the statistics between your assertion?

Mr. LAMBRIGHT. We don't have a formal study to give you, Congressman.

Mr. SESTAK. But we do show that we're less effective this year than last year to the Chairwoman's point. So why don't we do a study to see if we can't be more effective, because I understand those good general words. We use them all the time in the military, but what's the real facts on this? Because I do think we have to think about the value I see community lenders do, because they're there. And I don't think they're ineffective. I think they're pretty darned efficient, so could we take that to the next step?

Chairwoman VELÁZQUEZ. Yes. Mr. Sestak, would you yield for just a second?

Mr. Lambright, if I understand correctly, you're saying that you're compromising your outreach because you lack the resources, in terms of having underwriters in those regional offices. Correct?

Mr. LAMBRIGHT. I'm saying that there are resource considerations. I think there are also organizational considerations.

Chairwoman VELÁZQUEZ. But I don't understand, because my understanding is that last year you proposed to terminate Ex-Im Bank subsidy, and that—so why do you do that?

Mr. LAMBRIGHT. Well, by terminating the subsidy, and moving to self-sustaining financing, that wouldn't necessarily increase the amount of resources we have available, because our appropriators would still set a cap on the funds available to us for admin and program uses. Even if we have excess revenue coming in—we consistently have more revenue than we spend - but the accounting of it has been that all of that revenue goes to the Treasury Department. So we still have limited funds available to us, as set by our appropriators.

Mr. SESTAK. My only issue here is, there has to be a tipping point for efficiency and effectiveness. And you can —I understand your assertions, and I'm not saying they're wrong. I think they might be, but I think this should be studied before we assert it.

Mr. LAMBRIGHT. Congressman, I appreciate your remarks about the value of community banks, which is a view I share. We have

relationships with about 100 community banks throughout the country.

Mr. SESTAK. I think it's larger than that.

Mr. LAMBRIGHT. We have slightly over four hundred banks that we have relationships with. In the past year, we signed up 17 new ones. Developing those relationships is part of the goals that we give our outreach staff, because those banks in the local communities can serve as gatekeepers for us, and multipliers of our outreach efforts. So we work with them to cultivate new business. And, in fact, in many cases, we then delegate authority to some of these banks to approve transactions for us.

Mr. SESTAK. Madam Chair, may I make—I know I'm over time.

I just want to thank you, also. And I wish I could remember his name, your Expert Assistant Center in the Philadelphia region was tremendous. They helped us on our second Economic Development Summit. I saw the value of this outreach out there, but I'm in a district that's lost 762 small businesses net in the last six years, and so that's why I'm interested in this effectiveness and decentralization. But thank you for the assistance they gave us. Tony Caballos. Thank you.

Chairwoman VELÁZQUEZ. Time has expired.

Mr. Davis.

Mr. DAVIS. Thank you, Madam Chairwoman. And, Mr. Lambright, thank you for being here with us today. Appreciate you taking part in this hearing.

In the 2002 Re-Authorization of the legislation, there was a mandate that 20 percent of the financing goals, can you tell me where we're at right now on that 20 percent?

Mr. LAMBRIGHT. Yes. The reference in the charter is to making available at a minimum 20 percent of our authorizations to small—of our total authorizations to small business, and in fiscal year 2007, that ratio was 26.7 percent of our total authorizations going directly to small businesses.

Mr. DAVIS. Thank you.

Currently, there are over 200,000 small exporters in the United States. The Bank has, therefore, provided just 1 percent of the firms with resources to competitively compete abroad. Can you tell me why that just 1 percent, why you think it's so low?

Mr. LAMBRIGHT. Well, first of all, I think it should be bigger, and I want to do everything we can to make that as big as possible. But the reasons for the low percentage reflect the nature of our business. There are constraints on what we can and cannot do.

We are not intended to compete with the private sector, so much of that trade finance is being provided by commercial lenders and insurers, which is terrific. That's the way the market should work.

Second, we have certain policy constraints on what we can provide for small business exporters. There are requirements as to the U.S. content of shipments. There are shipping requirements, environmental and economic impact considerations, and so not every small business export is eligible for our consideration.

And then I would say the last consideration is really awareness. We have our work cut out for us in educating those several hundred thousand small exporters about the financing that is available to them in the U.S. government, because when I go meet with

small businesses around the country, I find that most of our time is spent explaining who we are, and what we do. And so, we need to get out there and meet as many of them as possible.

Mr. DAVIS. You mentioned the private sector. What are some of the advantages for a small business firm to actually go through the private industry, rather than go through the Export Bank?

Mr. LAMBRIGHT. Well, if they have a credit worthy transaction to a borrower or to a market that the commercial lenders are comfortable with, the advantage of working with a commercial lender then is that they would get cheaper products. We are not designed to compete with the private sector, and so we are there to take riskier positions, and serve really as a lender of last resort. So when we are providing assistance to exporters, it's because the commercial market isn't available to them, and yet they want to proceed with a sale, and so we are underwriting the political and commercial risk of those transactions.

Mr. DAVIS. One of the requirements that you have is to lower the fees that you charge. Can you talk to me about some of the things you're doing to move in that direction?

Mr. LAMBRIGHT. We have—we try to price our products both to reflect the risk we're taking, and to avoid competing with private sources of capital. And in the universe of our small business products, we have certain policies where there are benefits provided if the exporter is a small business. So there's a multi-buyer insurance product that offers small businesses a fixed rate regardless of the risk of the export market.

We talked a little bit about our new medium-term delegated authority program, where we will retain a bit more risk where the exporter is a small business. So we're constantly looking across our offerings of products to find areas where we can enhance the experience for small businesses.

Mr. DAVIS. Okay. One last question, if you look at statistics, larger firms typically will compete in about five countries around the world, small firms, if they compete at all, will be about one. Can you tell me why you think that's the case?

Mr. LAMBRIGHT. Well, your observation is correct. The last statistic I saw was that about three-fifths of small businesses that export, export to only one market, and typically that would be Mexico or Canada. So one reason is that it's easier to export to a neighbor than to start exploring far away lands. And there are challenges to exploring those foreign markets, in terms of the time and money required to deal with complicated documentation, and the risks of undertaking new relationships with foreign business practices, so it is a challenge to start to sell overseas. And financing can also be difficult, when there aren't as many lenders financing for overseas sales as there are for domestic activity. And small businesses, unfortunately, often are involved in transactions that may be too small to be attractive to those commercial lenders, so we at Ex-Im Bank take pride in the fact that nothing is too small for us to consider, that we will work on very small transactions so that small business exporters have financing available to reach those overseas markets.

Mr. DAVIS. Thank you, and I yield back.

Chairwoman VELÁZQUEZ. Thank you.

Ms. Clarke.

Ms. CLARKE. Thank you very much, Madam Chair.

Honorable Mr. Lambright, it's good to have you here, because I think that this hearing is very, very important, given where we are with regard to our economy right now.

I am a native New Yorker, Brooklynite of Jamaican descent, and so this whole issue of how we do import/export utilizing your institution as a tool is very important to me. My district has entrusted me to insure that small exporters are united with their Caribbean partners, Latin American partners, and the global marketplace, and capitalize on the great trading opportunities that we have available.

It's been my observation, particularly coming from New York City, that many immigrants who are now second, third, fourth generation, come with an entrepreneurial spirit, so the disconnect between our ability to help them finance businesses with real nature connections to other parts of the globe is something that I find very interesting; that we can't help them make that connection.

I think that your institution is poised right where we need it. And I think that it takes some ingenuity, and it takes some real aggressiveness to make the marriage, to make a win-win.

You spoke in your testimony today about the global competition that exists for the American small business. Your description about the growth and aggressiveness of the international interest outside of the United States, having reached a point where they're approaching the level that we have maintained. I find that interesting, because shouldn't we be concerned about that?

Your observation is very similar to ones that I've had. When you look at what is happening with nations like China, India, and the EU, and their ability to be strident in their globalization, moving their businesses forward, not only throughout the globe, but right here in the United States should be of real interest to your organization.

It seems to me that it should be key to raising the bar for U.S. preeminence and competition in the global economy. Do you have a strategy in place to be more aggressive in outreach in getting American business into the game?

And let me also say this. As we sit here today, you are sitting on the goods. Our Congress is poised to initiate an economic stimulus plan. Small businesses are our employers. What can you see your institution doing to help in an economy that has become sluggish, many believe is about at the advent of a recession? What role should your institution be playing in partnering with Congress around this whole economic stimulus? Are we missing something? Is there a disconnect? And if we admit that today, what is the plan? What is the strategy for making that connection? That's what we should be talking about here today.

Mr. LAMBRIGHT. You've covered a lot of ground, Congresswoman, and I agree with much of what you've said.

We notice a trend that you notice, which is oftentimes in difficult export markets, the first people in from America are people that came from those markets, and they understand those markets the best, and so they're very good partners for us to support in that effort. And we are always looking for ways to reach those groups

through the right trade associations, or the right events to help introduce them to Ex-Im Bank, and find ways to work with them.

And I think doing more of that reaches your second main point on U.S. competitiveness. There are a lot of things to talk about in terms of U.S. competitiveness, but in the context of this hearing, I think it's important to emphasize the growing role of exports in the U.S. economy. And exports are approaching 12 percent of our economy. They were just five years ago well below 10 percent, and so the growth of exports is exceeding the growth of our economy. And it really has become a driver of the economy. And so focusing our efforts on helping companies compete overseas, and providing a level playing field against foreign competition is what we can be working on together to help U.S. competitiveness.

Ms. CLARKE. Mr. Lambright, I hear you saying that. What I don't hear coming from you is the sense of urgency. And we're really in a time where that level of urgency is one that we really need to express through all the work that we do.

And my time is up, but I want to suggest to you that expanding your operations, and fortifying them, particularly in the seven banks that you have, is a very, very critical tool at this point. If there is a need for additional resource to make that happen, you need to make that plain, because like I said, you're sitting on the goods. And we need to get them into the hands of capable people to make this thing happen, and happen in real time.

So I want to thank you for testifying here. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Thank you, Ms. Clarke.

Mr. Lambright, I guess that our frustration is that given the state of our economy, and the fact that our trade deficit is so huge, how can the Bank, Ex-Im Bank, meet the legislative goals that were set in the 2006 Re-Authorization?

My question is, should the Bank develop new programs and customize its policies so that it is on par with what is going on in today's economy, and today's challenges? What are you doing, what is the plan, what is the strategy? Are you making such offerings available?

Mr. LAMBRIGHT. With our new Small Business Committee, we are undertaking that exercise of reviewing all of our products, and all of our divisions.

Chairwoman VELÁZQUEZ. Can you mention to us, or discuss some of the new services and products?

Mr. LAMBRIGHT. Well, there are revisions to, say, the commission schedule on insurance products that create incentives for brokers to put more energy into policies benefiting small business exporters. I mean, there are very detailed adjustments that have been made to, as you say, customize our products to benefit small businesses, and so at the very granular level, we are constantly refining our offerings to benefit small businesses. But then at a very broad strategic level, we also have to think about what are we doing competitively to serve all of our exporters, as well as possible, because there's a lot going on with China's economic rise, and changes going on with European integration that really create competitive challenges for a government export credit agency like ours. And the rechartering process really gives us the opportunity to

work with Congress on making those adjustments. So as we implement the new charter and look forward to the next reauthorization process, now is the time to have that dialogue about what's going on in the world, and what do we need to be doing. But I agree with you that there are challenges, both big and small.

Chairwoman VELÁZQUEZ. In that revision, you should keep in mind the fact that 97 percent of all exporters are small firms. And to give you an example, other countries are just in a proactive way looking for new products to be able to compete. Canada's Export Credit Agency launched a new program last year helping small businesses compete for larger export contracts. The year before, an initiative was implemented to help small exporters meet new custom security guidelines. Is Ex-Im Bank undertaking similar efforts?

Mr. LAMBRIGHT. We are evaluating all of our products and programs, and looking at the efforts of export credit agencies like that in Canada to see what we can do. But I should note that there are also different government philosophies in these countries. We purposefully do not compete with the private sector, so our offerings are inherently limited; whereas, Canada's export credit agency isn't bound by the same policy constraints as our's. And, in a resource sense, they have about five times our staff to support an economy one-tenth our size, so what they are able to do for small businesses, I would expect would greatly exceed what we have done.

Chairwoman VELÁZQUEZ. Well, what I'm saying is, what can you establish, and how can you come up with new products within the mandate?

Mr. LAMBRIGHT. That's exactly our challenge of how to do as much as we can within the limitations that we have, both in a resource, and a policy sense. And I have to tell you that I come to work every day asking myself that question, and thinking about how to help U.S. employment stay strong by helping all of our exporters win overseas sales. And all of our staff and our Board members ask themselves the same question, and so with all of these institutional reforms that we've undertaken, they're just a year old. We're trying to institutionalize those and really challenge everybody involved in their new roles to ask themselves how we can be doing as much as possible for small business. And it's a challenge that will continue, because no matter what we do, we will always be able to aspire to do more, and I hope that we will.

Chairwoman VELÁZQUEZ. Okay. Mr. Davis.

Well, not only as the Chair of this Committee, we will continue to monitor the implementation of the 2006 Re-Authorization, but as a Member of Financial Services that has jurisdiction over Export-Import Bank, I will tell you that I was planning to introduce an amendment to the 2006 Re-Authorization to limit the re-authorization for only three years, to make sure that you will implement the intent of the law.

I'm not planning to leave Congress pretty soon, so I guess I'll be here for the next re-authorization, and I hope that we will not have to make changes because of the lack of progress, as intended by the re-authorization that we just passed in 2006.

My challenge to you is, we can do better within the mandate, and we expect for you to do better when it comes to financing, not only

in terms of the numbers of loans, and the volumes of loans, but the amount of money that is provided to small businesses. And, particularly, don't forget the new face of small businesses; more women, Blacks and Latinos.

Thank you very much for your participation today.

Mr. LAMBRIGHT. Thank you, Chairwoman.

Chairwoman VELÁZQUEZ. The gentleman is excused.

I will ask for the second panel to please come forward and take your seats.

Mr. Lambright, I will ask if there is going to be any staff that will remain in this hearing.

Mr. LAMBRIGHT. I believe we will have a representative.

Chairwoman VELÁZQUEZ. Very good. Thank you.

I welcome the second panel, and our first witness is Mr. Harry Alford. Mr. Alford is the President, CEO, and co-founder of the National Black Chamber of Commerce, which has 100,000 members. He is also on the Board of Directors for the U.S. Chamber of Commerce and serves on the National Advisory Council for the Small Business Administration.

Welcome, Mr. Alford, and you will have five minutes to make your presentation.

STATEMENT OF MR. HARRY ALFORD, PRESIDENT & CEO, NATIONAL BLACK CHAMBER OF COMMERCE, WASHINGTON, D.C.

Mr. ALFORD. Thank you, Madam Chair, Ranking Member Chabot—Davis I guess right now. Thank you for allowing the National Black Chamber of Commerce to provide some input.

You have my written testimony. I am just going to have some comments in addition to that, and will be glad to entertain any questions.

I must say, when I saw the invitation to come and talk about Ex-Im Bank and that they had a small business and a small disadvantaged business, minority business outreach program, I was quite surprised and very curious, and somehow I want to chuckle, but at the same time something inside me says you should be enraged, because if they do have a minority business program, and the National Black Chamber of Commerce, which is the largest black business association in the world, with 150 chapters in 41 states, interfacing in those communities where they have regional offices, having annual conventions and conferences and workshops about international trade, having trade missions around the world multiple times every year, has yet to see an official manager from Ex-Im Bank any place.

I have done a search in preparation of my testimony through our membership, trying to find that one black business that does business with Ex-Im Bank. There are rumors. There may be one in Chicago, I understand. But we are still trying to identify them.

I would like Ex-Im Bank to provide a list of the top 10 African-American-owned businesses utilizing their services. I want to see 10, and I wonder if we can get one. And if they cannot come up with that list, Congresswoman Clarke, I would recommend to the Congressional Black Caucus that they need a civil rights audit, and

perhaps we should expunge them from the federal budget, if they are taking tax money and discriminating with it.

Discrimination is a hard term. But when we are in your face, and we send you invitations to come, to have international trade meetings, no charge, be our guest, just tell us what you do, and you don't come, you don't show, you are not around, something is terribly wrong.

Now, when we have these trade missions, and when we interact with Spain, with France, with Africa, with the Dominican Republic last November, with Brazil, when we have these—and these countries tell us, "You joint venture with our businesses, and we have got all of these programs for you. We have all of these financial programs to help you interact in business."

And then, the word gets around that African-American businesses, there are a million African-American businesses. African-Americans account for $970 billion in expendable income. And when Ghana tells us that that 972—excuse me, Kenya tells us that that $972 billion, if they just got 1 percent of that, it would triple their GDP. We become very attractive. And they know that we are vulnerable, should I say approachable, because we don't have programs here in our country like they have in their country.

The Canary Islands, which has programs from Spain and the EU, and it was aggressively trying to do business in Africa, wants to match with us where we have in-roads into Africa, naturally, and can provide opportunities, and they have got the programs and everyone can make money.

That is to the detriment of this country, and I think that it does a disservice in total, that America is at risk in this globalization where other countries can utilize the talents and the skills of African-Americans, of Hispanics, and of Asian-Americans to further along their business, because the United States Government is on deaf ears to being inclusive.

I think that is a national disgrace, and I for one, as an American, as a veteran of this country, can't stand to sit here and see an entity of the United States Government that thinks it is a country club and can utilize an entrepreneur from China has a better chance of working with Ex-Im Bank than an African-American business.

I understand in my research through Wikipedia Ex-Im Bank financed two Mexican drug cartels. I guess that is the Minority Business Program—two Mexicans, who happen to be in the drug business, from Mexico. They have it easier in working with Ex-Im Bank than a Hispanic-American trying to get into the export-import business in South America. Something is terribly wrong.

So I challenge the Committee to really get firm with Ex-Im Bank, and after that you can go to the Trade Development Agency, and after that you can go to OPEC, because they are pretty much the same. We don't have the luxury, or should I say the opportunity, to utilize incentive programs that Congress has written for us.

Thank you, ma'am.

[The prepared statement of Mr. Alford may be found in the Appendix on page 43.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Alford.

Our next witness is Mr. Paul Warfield. Mr. Warfield is the Vice President and Director of Global Banking at First National Bank of Omaha. He serves on the U.S. Department of Commerce, Nebraska District Export Council, and the Nebraska Department of Agricultural Directors' Advisory Panel on International Trade. He is also a member of, and is representing today, the Independent Community Bankers Association.

Welcome, Mr. Warfield.

STATEMENT OF MR. PAUL WARFIELD, DIRECTOR OF GLOBAL BANKING, FIRST NATIONAL BANK OMAHA, OMAHA, NE; ON BEHALF OF THE INDEPENDENT COMMUNITY BANKERS ASSOCIATION

Mr. WARFIELD. Thank you. Madam Chairwoman, Ranking Member, and members of the Committee, my name is Paul Warfield. I am Director of Global Banking for First National Bank Omaha.

I am pleased to appear this morning to testify on behalf of the Independent Community Bankers of America on the Export-Import Bank's trade finance programs. The ICBA represents nearly 5,000 community-based financial institutions nationwide.

Trade financing is a fast-growing area of opportunity for our nation's community banks and the small businesses they serve. I strongly support the valuable programs provided through the U.S. Export-Import Bank. Community banks like First National Bank have increased their involvement with the Ex-Im Bank programs to the benefit of our small business exporters and local economies.

The Ex-Im Bank's programs represent a success story of how the Federal Government, working with private sector lenders, can assist small businesses to support greater U.S. trade, small business job creation, and economic growth. The ICBA supports the Ex-Im Bank and wants to ensure Ex-Im Bank programs reach their full potential.

Specifically, the Ex-Im Bank programs and activities should be structured and managed so they work well for lenders and borrowers of all sizes. This Committee helped to mandate that 20 percent of Ex-Im's transactions support small businesses, and I believe that is working.

We are all aware of the recent decline in the value of the U.S. dollar and the rapid growth in global economies. Combined, these developments have created an environment ripe for greater U.S. exports worldwide. This offers U.S. lenders, and particularly small businesses, the ability to better reach new markets, to expand their sales, and create jobs using Ex-Im's programs.

While there has been a small increase in the number of lenders and small businesses participating in the Ex-Im programs in recent years, ICBA believes many more can and should be involved. In addition to the valuable support provided for large- and mid-sized businesses, the Ex-Im Bank should continue to enhance its ongoing small business-focused efforts, trade promotion, and engage even more community banks in its trade finance activities and programs.

ICBA recommends enhancing the Ex-Im Bank's program budget funding for small business outreach. A portion of any Ex-Im Bank earnings should be allowed to be retained to further advance small

business outreach. Today, Ex-Im returns funds back to the U.S. Treasury that could be retained for outreach.

ICBA suggests additional Ex-Im Bank budget resources be applied to better staff and support community lenders' and small businesses' outreach nationwide, including enhancing community bank programs. Additionally, Ex-Im Bank should ensure solid community bank representation on the Ex-Im Bank Advisory Committees. This would help to engage more community lenders and their small business customers in the mix.

The Ex-Im Bank currently has about 200 lenders participating at some level in the Bank's trade finance programs. In 2007, Ex-Im Bank added 26 new lenders to the roles, with about half representing community lenders. With a total of 8,560 FDIC-insured banks nationwide, there is ample opportunity to reach even more community lenders with the products and services offered through the Ex-Im Bank.

Since its initial contact with Ex-Im, First National Bank Omaha has grown its trade services and trade finance business. In just seven years, the global banking group at First National has grown from six employees to 14. Using the Ex-Im programs, First National has been able to meet the needs of more small business customers across the Midwest.

I would like to mention just a couple of examples. By using the Ex-Im Bank letter of credit policy, First National Bank has been able to successfully offer letter of credit confirmations for small businesses. Using this tool, First National can assign proceeds to small business suppliers, extend payment terms to foreign buyers, and utilize working capital financing.

These activities have helped our local exports. Products often exported by our local small businesses include center pivot irrigation systems, scientific equipment, water purification systems, construction equipment, and various professional services.

First National undertook a challenging transaction with a Nigerian buyer. They were seeking Ex-Im Bank medium-term financing for the purchase of used equipment from a small business supplier. The assistance Ex-Im Bank offered as exceptional. The transaction was successful, and we are now awaiting approval for a second shipment to the same buyer.

In conclusion, I want to make it very clear that the Ex-Im bank programs are unique and extremely valuable in helping community banks and U.S. businesses compete in the international trade arena. I know that under Ex-Im Bank Chairman Jim Lambright's tenure there have been noticeable improvements in Ex-Im's relationship with both the lending and small business community.

First National Bank Omaha looks forward to working even more closely with the Small Business Committee and the Ex-Im Bank to ensure a more robust Ex-Im Bank in the future. The ICBA is optimistic that community banks, working more closely with Ex-Im, will continue to meet and exceed the challenge of serving even more small businesses.

Thank you.

[The prepared statement of Mr. Warfield may be found in the Appendix on page 47.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Warfield.

Our next witness is Dr. Loren Yager. He is the Director, International Affairs and Trade Team, of the U.S. Government Accountability Office. He has managed a body of work on export promotion issues generally, and on several issues related to the Export-Import Bank.

Welcome, sir.

STATEMENT OF MR. LOREN YAGER, Ph.D., DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, D.C.

Mr. YAGER. Good morning, Madam Chairwoman, Ranking Member, and other members of the Committee. Thank you for the opportunity to appear again before the Small Business Committee, this time to talk about the Export-Import Bank.

We have been involved in a number of studies of the Export-Import Bank in recent years, and we have just begun our engagement on a requirement of particular interest to this Committee regarding the performance standards related to the Bank's small business program, including finances for businesses owned by women, socially and economically disadvantaged individuals.

We look forward to reporting back to the Committee when we complete our work under this congressional mandate. Hopefully, this will contribute to the continuing oversight that you mentioned, Madam Chairwoman, in your opening statement.

We would also be happy to brief the Committee on some of our other trade-related studies, including recent studies of the U.S. free trade agreements, the effectiveness of U.S. Customs in protecting intellectual property at the U.S. borders, and other subjects that you and other members raised at your last trade hearing in November of 2007.

My statement today is based primarily on research we performed for the Congress in 2006 on the Bank's efforts to assist small business. In particular, I will cover two main issues. First, I will report on the trends in Ex-Im's small business financing since the fiscal year 2000. Second, I will briefly summarize the weaknesses GAO identified in our 2006 report on the tracking and reporting of small business financing, and I will briefly describe the steps the Bank has taken to address those weaknesses.

In terms of the first issue, as Chairman Lambright has mentioned in his testimony, the share of Ex-Im financing directly benefiting small business has increased over recent years, surpassing a required 20 percent in both 2006 and 2007. The percentage reflects an increase in the value of Ex-Im financing for small businesses, while financing for larger businesses was noticeably lower in 2006 and 2007 compared to 2005.

In terms of the second topic of the statement, when we performed our 2006 work on the methods used by Ex-Im for tracking small business financing, we found a number of weaknesses and made several recommendations to the Bank. I am pleased to report that Ex-Im has made changes that should provide this Committee and other interested members of Congress greater confidence in Ex-Im's reporting on its small business financing. Madam Chairwoman, you also have noted the importance of this reliability in your opening statement.

Let me give a few illustrations of the problems that we found, and the kinds of changes made by the Bank. For example, we found that Ex-Im sometimes had conflicting information in their internal databases about the same company, so that the same company might appear as both a small company and a large company at the same time. In other cases, we found weaknesses in the Bank's data systems that affected the reliability of the value of its small business financing.

We believe the Bank has made a number of changes to address the weaknesses we identified. For example, Ex-Im replaced its previous data system with Ex-Im Online, as Chairman Lambright also mentioned. This is an interactive web site that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. This eliminates the need to transfer information from paper files to the Bank's electronic files for the bulk of Ex-Im's applications.

GAO also recommended that Ex-Im contract for an audit of the congressionally-mandated report on the level of direct support for small business. Ex-Im was also responsive in this area, and the auditor found that the process that they have operates in accordance with the policy and approved methodology for these program types.

Ex-Im disagreed with one recommendation that we made regarding the number of its authorized transactions that directly benefit small businesses. Ex-Im has frequently reported that about 85 percent of its authorized transactions directly benefit small business. For example, this includes crediting all bank-held insurance policies as directly benefiting small businesses.

While many of the transactions under each of these policies may benefit small businesses, not all of the transactions under these policies do so. And we continue to believe that Ex-Im should consider ways to more accurately determine and report on these transactions.

In summary, I believe that there are a number of positive developments to report regarding the Bank's activities towards small business, including its success in meeting the 20 percent target and the improvements in its record keeping system.

We appreciate the opportunity to contribute to the oversight of Ex-Im's activities, and want to note that the Bank has indicated its willingness to work with us on our ongoing assignment related to the performance standards for financing by businesses owned by women and from persons of economically and socially disadvantaged groups.

Madam Chairwoman, Ranking Member, this concludes my remarks. I would be happy to answer any questions that you have.

[The prepared statement of Mr. Yager may be found in the Appendix on page 54.]

Chairwoman VELÁZQUEZ. Thank you very much, Mr. Yager.

Our next witness is Mr. Steven Thiry. Mr. Thiry is Vice President of Business Development at the Association for Manufacturing Technology. During his tenure, he has assisted in the development of export-oriented programs designed to increase AMT members' share of export markets for manufacturing technology.

Welcome.

STATEMENT OF MR. STEVEN A. THIRY, VICE PRESIDENT, AMT, THE ASSOCIATION FOR MANUFACTURING TECHNOLOGY, MCLEAN, VA

Mr. THIRY. Thank you. Madam Chairman, Ranking Member, members of the Committee, thank you for holding the hearing today and giving me the opportunity to be here. Before I speak, and pursuant to House Rule XI, I am obliged to report that AMT, the Association for Manufacturing Technology, received $225,100 from the Commerce Department's Market Development Cooperator Program for a technical center in China, $207,254 of which was disbursed in 2005, $17,846 disbursed in 2006.

AMT is an association whose membership represents 400 manufacturing technology providers located throughout the United States, almost the entire universe of machine tool builders who manufacture in our country. Most of these companies are small. An estimated 78 percent of them have less than 50 employees. Most are multi-generation, family-owned business. But their contribution is huge.

They are the ones that build the machines that make things work. In fact, everything in this room, and everything in this city, with the exception of the people, was either built by one of their machines or a machine that their machines built. They are an essential part of the manufacturing base and over the past few decades, these companies have faced increasing competition from abroad, and seen a decline in the U.S. manufacturing base. As a result, they have turned heavily to the export market to keep their companies alive and growing, which in turn has safeguarded jobs here in the United States.

Increasingly, the ability to compete in the global markets is determined by factors beyond the products offered and the manufacturers' ability to support those products at the end user. Foreign competitors from countries such as Taiwan, Italy, and Brazil can often package their products and services with government-subsidized financing that substantially improves their competitive position.

This support becomes even a greater differentiator when the purchasing company in those countries is a small business. As such, small businesses in foreign markets must often pay substantially greater credit insurance and interest rates, and undergo a difficult and uncertain application process in order to acquire American products.

It is our belief that the Ex-Im Bank has made some progress in its efforts to support small businesses, and we cited a number of those in our written testimony. But, first, all small businesses are not created equal, and this is something we feel that is very important for everyone to understand.

The U.S. Government defines a small business as having less than 500 employees. It is very important to remember that the organizational structure, as well as the specialization of skills in businesses ranging in size from 10 to 500 employees, is dramatically different. A business with 300 to 500 employees is likely to have a far more experienced and sophisticated financial organization than one with 20 to 50 employees.

In fact, the chief financial officer of a 20- to 50-employee company is quite likely also to be the chief operating officer and the owner. Wearing multiple hats greatly limits the time he or she can dedicate to learning the ins and outs of getting an Ex-Im application through the approval process.

Second, speed is of the essence. With a shrinking product life cycle, today's business environment is one where first to market, first to produce, and first to deliver carries a greater competitive advantage than ever. An application approval process that exceeds the time allotted by the buyer for selecting a product and releasing an order effectively eliminates the Ex-Im Bank financing and, by default, the American exporter from competing even where American products might be preferred.

Simplifying and accelerating the application and approval process needs to be a priority to improve future support. Providing delegated authority for medium-term loans to lending institutions with the resources and experience in these targeted markets is a program that offers tremendous potential for improvement. And I want to emphasize that this is strongly supported by AMT. We urge rapid authorization of that program.

And, finally, it is our strongest recommendation that the current U.S. content requirements be reviewed. American manufacturers compete in a world market. Increasingly, customers in export markets want to reduce the number of vendors and orders they transact in order to reduce their operating costs. This often forces American exporters to bundle U.S.-produced products with products manufactured outside of the United States.

When financing support is offered only in proportion to the American content, it puts the American exporter at a substantial disadvantage to foreign competition, who can and will finance the entire project. Although intended to ensure financing support is only given to American-produced products, the ultimate effect of this proportional support is a reduction in the sale of U.S.-exported product.

Every member of AMT manufactures products in the United States. Each one is fiercely competitive and determined to ensure that American manufacturing technology remains preeminent. They continue to invest their time and money in their family businesses to grow their share of the world marketplace. They need your help to level the field that they must compete on.

Madam Chairman, Ranking Member, and members, thank you, again, for giving me this opportunity.

[The prepared statement of Mr. Thiry may be found in the Appendix on page 71.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Thiry.

I would like to address my first question to Mr. Warfield. Currently, less than 100 commercial banks finance international transactions, and less than half of those lend to small exporters. Surveys have shown that most lenders involved in trading financing are large money-centered banks, plus a few regional and small institutions.

My question to you is: what structural changes to the Bank's financing programs would you recommend to increase the participation of smaller banks in these transactions?

Mr. WARFIELD. I can offer a couple of comments. Early in the process, the credit culture of the Bank has to be willing to look at transactions that take the receivable outside of the U.S., and understand in that supply chain where the goods are moving, how they are producing, what they are producing, for what country, and be a better partner with that small business to understand how they can help them financially work through that transaction. And that really comes with the lenders and the Bank, the senior lender and the Bank to say, yes, we want to offer this type of service.

Following up to that, it then really becomes somebody's task. And I think we heard it mentioned earlier, stuff gets put on the side, it becomes more difficult, and they work on different transactions. Or the answer might just be, wow, good luck getting paid, you know, things like that. And that's inappropriate. There needs to be a better initiative, working with the community banks, to better understand how they can mitigate those risks in working with those small businesses, and actually provide a better service to the small businesses.

In your opening comments, when you referred to Ex-Im Bank's ability to work with the small business mandate, maybe being incomplete, I would offer this in addition to that comment in saying that while maybe parts are incomplete, they are in process. But, more importantly, they are incomplete in the sense that we need to tie the bankers that work with the small businesses into the picture more efficiently and more effectively.

And that two years ago, three years ago, at First National, we weren't near as aggressive at looking to find small businesses that were looking to do more trade finance transactions. We were more on the transactional side of international trade, working with letters of credits and collections and some of the other tools. And we broadened our base, because I was able to add staff that could work specifically with that.

It is just a matter of taking that time to make the commitment, move through the education process, and find the right partners, whether they are through the Export Assistance Center. We work primarily with Barry Bent and Michael Howard in the Chicago office, as well as the staff here in Washington. And once you develop those partnerships, you get the trust, things really fall into place. It just takes time.

Chairwoman VELÁZQUEZ. A follow-up question regarding the 2006 reauthorization that required the Bank to establish a preferred lending program for its medium-term transactions. And the fact is that the Bank has not been able to implement this program as of yet. So do you think that the Bank is deterring smaller lenders from participating in Ex-Im Bank's programs?

Mr. WARFIELD. No, I do not believe that. And I would give our bank as an example, and the preferred lending in doing delegated authority on the medium-term transactions. I wouldn't be ready to do that tomorrow. If Jim Lambright said, "Today we are going live with the program," we rely on Ex-Im Bank to be our partner and help us underwrite those transactions. And I don't have in my staff, in my size institution, that ability to do that. I am not a Wells Fargo or a J.P. Mortgage Chase, or one of those institutions.

So I am still going to probably want to work with Ex-Im closely to make sure the transaction is getting underwritten. The last thing I want is that the foreign buyer can't pay and then we have a loss or a default in the transaction. And so I don't want that to happen. I want to use their expertise. I don't have country officers, and I don't have offices in foreign countries, so I need them as a partner.

So for me that has really not been a priority. What has worked well on the delegated authority, very much so with us, and we have become an active participant, is on the working capital side, providing the pre-exporting financing, which is very valuable to the small businesses.

Chairwoman VELÁZQUEZ. Dr. Yager, in the study that you conducted in 2006 of Ex-Im Bank, discrepancies were found in small business lending reporting practices. Do you believe that the current accounting method for small business transactions is still overestimated?

Mr. YAGER. Chairwoman Velázquez, we believe that the Bank has made some very important improvements, and I believe that the Congress can have much greater confidence now in the reporting that the provide to you in their mandated report.

We did have one area of continued discussion and disagreement with Ex-Im Bank. You mentioned it in your questions, that we think that the Bank should continue to look for better ways to try to report on these umbrella policies that they provide to different banks. Instead of counting 100 percent of those as oriented towards small business, we believe the Bank should consider different ways to report that information in order to be completely reliable and up front about what they are doing.

But we certainly looked at what they have done and we believe they made some important changes which remedied many of the problems, all but one of the problems in fact, that we identified in our 2006 report.

Chairwoman VELÁZQUEZ. Okay. Mr. Thiry, in your testimony, you state that the Bank has failed to fulfill its small business financing mandate in the past due to budget cuts. Do you think that the recent restructuring of the institution and its policy will expand small business lending?

Mr. THIRY. I am a little confused on your question.

Chairwoman VELÁZQUEZ. Well, it wasn't you, it was your association in—

Mr. THIRY. Yes.

Chairwoman VELÁZQUEZ. —an article that came out.

Mr. THIRY. Okay.

Chairwoman VELÁZQUEZ. So—

Mr. THIRY. Yes. I think if we back up and look at what Ex-Im Bank does and what they are trying to do, we feel very strongly that there needs to be a recognition of the difference in the size of small businesses, and that the people you have that support those businesses need to understand how they operate.

Under the current structure and with the resources they have, and how they currently allocate those resources, we don't believe adequate attention goes to the small small businesses. That is an

area that, if resources are not allocated differently, then certainly we feel additional resources need to be brought on.

Chairwoman VELÁZQUEZ. Let me ask you about the fact that manufacturers are located throughout the United States, including in regions that are isolated from major urban areas. And so their lending options are quite limited. I asked Mr. Lambright why is it that the Bank does not locate underwriters in many areas? Do you think that there is a benefit to placing Ex-Im Bank underwriters in such local communities?

Mr. THIRY. I do. And the biggest reason for that, frankly, is people that are local are focused on getting things done locally, and understand local issues. And I do believe that the right people when placed closer to the customer base gets things done more quickly.

Chairwoman VELÁZQUEZ. Yes. Mr. Alford, I heard you and your frustration regarding the establishment under the 2006 reauthorization of an office for minority and women exporters, and as of yet you haven't heard from Ex-Im Bank. The staff is here, and my guess is that you will be able to discuss with them how can they better enhance its outreach and educational services to minority businesses interested in exporting? But if you have to make a recommendation, what would that be?

Mr. ALFORD. I think—years ago, and you participated in this, we had a problem with the SBA and its outreach. And you wanted the National Black Chamber of Commerce to report to you quarterly on what is going on with the SBA and what changes have been made. I would commit that to this Committee, that—and I see a representative of the Supplier Development Council here, who they supposedly had an MOU with, but as we all know MOUs aren't enforceable in a court of law, and it makes a good press conference, but the follow-up has to be there.

But I would suggest that we would let them know where there are conferences, where there are workshops, where there are opportunities for outreach, and they should attend, and we would not charge or make sure that no one would have to charge them to attend.

Chairwoman VELÁZQUEZ. They will attend. They will attend.

Mr. ALFORD. Just to come and to outreach, and then we could report back to you on their efforts.

Chairwoman VELÁZQUEZ. Thank you.

Mr. ALFORD. And if they don't, we will be glad to and certain to let you know that they aren't.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Davis.

Mr. DAVIS. Thank you, Madam Chairman.

Mr. Alford, many small businesses have difficulty in security export finance assistance through commercial banks. What are the greatest obstacles to small businesses in securing this type of financing?

Mr. ALFORD. I think having some assets that they can hold as collateral. I think history. The easiest way, the most successful way, for many of our businesses to get financing is to partner with a big brother, more or less. Someone—let us take pineapples in Ghana. KDI out of Chicago, what they did, they went to the biggest

pineapple importer in the United States and got them into a protege program going with them, where they could pick up the phone and get some lines, and let them know who are the friendly people in town. And from that they have been able to import enough pineapples to be in five supermarkets in the United States, and they are going from there.

Those creative ways—banks are traditional and there are banking laws that you have to deal with. So it is up to the entrepreneur to try to find ways of doing this.

Mr. DAVIS. You mentioned that collateral and your background, your history, how could the Ex-Im Bank address some of these challenges?

Mr. ALFORD. All Ex-Im Bank has to do is just expose themselves, and we understand what Ex-Im Bank is. So if we can certainly get billions of dollars of business loans from Wells Fargo Bank, which we do, I can't understand why we can't get loans from Ex-Im Bank.

Mr. DAVIS. Sounds like the—from what I hear in your testimony, if they will show up at your conferences, that is a good first step.

Mr. ALFORD. That is a great step.

Mr. DAVIS. Okay. Continue, one more question with you. What steps do you believe the Bank needs to take to be of greater assistance to minority and disadvantaged businesses specifically?

Mr. ALFORD. Yes. Again, the communication. And you take two traditional banks—Bank of America and Wells Fargo—who I believe have a great track record in doing business with small and minority-owned businesses. And that is through basically their interaction out there in the field, letting people know what their products are. They aren't bending lending laws and requirements, but they are there to provide access. And when that need occurs, it occurs.

So I have got a lady in Brooklyn, in fact—Wandi Sheneke from Kenya—who has a tea business. And she got her financing through her family. She had a big family reunion and shook down her aunts and uncles and all. But today her tea is in Whole Foods, based off that creative way of financing. It would have been nice if she could have gone a traditional route.

Mr. DAVIS. Mr. Warfield, I will direct my last question to you. You mentioned in your testimony that you believe more lenders could be working with Ex-Im Bank by participating in their programs. What do you believe is keeping more lenders from doing just that?

Mr. WARFIELD. Just the knowledge of knowing how to help their customers and ask the right questions. Oftentimes when we make calls on some of our correspondent banks, other community banks, we ask the question, "Do you have companies that import and export?" And they kind of—they draw back, because they don't typically ask that question. They don't know what their customers are typically doing maybe outside of the U.S. They know what they doing on their business loan or real estate loan and things like that.

It is asking the right questions and identifying when those lenders are present, you know, what can we do for you? And when they say, you know, "I have got an order to Malaysia, and the buyer wants two years to repay," a bell needs to go off and say, "Yes, I

remember Ex-Im Bank can help with that. And, if needed, I can get hold of the Export Assistance Center." It is knowing that process and really getting in front of them, so they have those connections when they hear the right—ask the right questions and then hear the answers.

Mr. DAVIS. Thank you, and I yield back.

Chairwoman VELÁZQUEZ. Ms. Clarke.

Ms. CLARKE. Thank you, Madam Chair.

And, Mr. Alford, I certainly hear you, and I can relate to your pain. It would seem to me if there is a real commitment to working with minority and disadvantaged small businesses, there would be someone in that office dedicated to the outreach, to the preeminent organizations around this nation. And, certainly, it wouldn't take much, if one couldn't find them, to reach out to this Committee and this Chairperson to say, "Who have you been working with? Who has been attending your hearings?"

What I am concerned about is the lack of urgency and the lack of openness to really creating as many corridors for success in our nation. And one could say by extension that it is benign neglect, or take it even further and say there is some discriminatory type of practice taking place. So I will certainly be taking this up with the CBC.

And if you have any further recommendations, I would love for you to make sure that I am in touch with that, so that we can move forward and make sure that we bridge this gap, and that it is sustainable, because oftentimes people will reach out, they will come to a conference, you will see them one year, one session, and after that you never see them again.

We want sustainable relationships established, because business is taking place each and every day in this nation.

Mr. ALFORD. Yes, ma'am.

Ms. CLARKE. And we need to capture that.

Mr. ALFORD. I think—

Ms. CLARKE. Mr. Alford, would you like to comment?

Mr. ALFORD. There has been reticence at best, and it is not because they didn't know, because they have been invited, and they have been—and many businesses have gone to their doors trying to find help and being discouraged. they will go back, and they will keep going back. But we will find a way, but it is a shame that, you know, that is not a resource that we can use. And last time I checked, it was being funded with taxpayers' money.

Ms. CLARKE. Very well. We will make sure that we make that connection, and that we hold folks accountable.

Let me turn to Mr. Warfield at this time. In a transitional economy, there has to be robust collaboration. I think that is some of what I got from your testimony. For us to reach the tipping point in closing the gap of the U.S. trade deficit, I think that each of your organizations really have to play a role, bridging this disconnect.

In theory, what do you believe would occur if the Import-Export Bank's program is enhanced for small business outreach? And, secondly, would you recommend that community banks be represented on the Import-Export Bank's Advisory Committee? And how would this help increase small business exports?

Mr. WARFIELD. Thank you. I guess I would start by saying that the outreach—it needs to be a strong partnership, and it needs to be partners that are committed to working through the community bank process to work with small businesses across the country. And, yes, I myself would be willing to participate in any way I can. I have been active in a lot of banking organizations in my career, and I enjoy that a lot. It is something that adds a lot of value back to our banking industry.

I am a third generation banker, and my family still holds and owns a couple of banks in Nebraska. So I participate at the very small community banking level as well.

From an outreach standpoint, in reaching the right folks and being more robust about it, I think it is kind of—the saying, "You hit on all cylinders," or "You really get the power," it is really kind of connecting through the process, through Ex-Im Bank's annual conference is an excellent way to get more people involved in what Ex-Im does. There is firsthand experiences there. There is people that have been exporting for a long time. There is new to export folks to network.

Ex-Im makes themselves very available for people to attend those types of events on the more local level through the Export Assistance Centers. I get—oftentimes get offers to say, "Hey, if you are having a seminar or workshop in the area, we would be glad to send someone to speak," and been open about that. It gets down to a matter of us committing the time on the banker's side to make sure all of those things happen, and that is where I need to do a better job at working with Ex-Im, to get them in front of more people in the Midwest.

From a standpoint of working through the process, helping customers and small businesses, oftentimes they are new to export. So it is not just getting to the financing part, it is, how do we ship it? How do we pack it? How do we insure it? You know, what happens here? Do I need to get credit information?

And then, on top of that, you put know your customer, know your transaction, and the BSA/AML regulations. And that is usually about if they are still hanging in there with you, you have got somebody that is willing to make that commitment to export, if they have—you have lost them along the way, you have—it just takes time and it takes more of an education.

So we could be much more robust on the educational process. I think we could be a lot more robust in terms of banks like myself that have had successes with Ex-Im Bank talking to other banks through our correspondent network, and saying, "Hey, we are there as a partner as well. We can share our experiences with you and participate in the transaction."

Ms. CLARKE. Thank you very much, Madam Chair. I yield back.

Chairwoman VELÁZQUEZ. Thank you. Mr. Chabot?

Mr. CHABOT. Thank you, Madam Chair.

Mr. Alford, could you tell us about a success story or two about a member of the National Black Chamber of Commerce in your experiences with the Bank?

Mr. ALFORD. With Ex-Im bank?

Mr. CHABOT. Yes.

Mr. ALFORD. There are none, sir.

Mr. CHABOT. None?

Mr. ALFORD. None.

Mr. CHABOT. Okay.

Mr. ALFORD. Nada.

Mr. CHABOT. Thank you.

All right. Mr. Warfield, in doing business with the Bank, what type of problems have small businesses encountered during the loan process?

Mr. WARFIELD. Problems can often arise with the U.S. content regulation. And that is probably the first question we ask anymore is: is your—is the content U.S.—is there any foreign content to what you are exporting? It is difficult, at best, to go to Main Street America and find a manufacturer that hasn't imported some component part to be competitive in their pricing, so they can sell overseas.

And I really—that becomes a question, "Well, the SBA can help them, because they don't have the same requirement," or you get into some of the private insurance and private providers. Once you get past that question, then it says, okay, then we can fit and look into some of these. And would say 50 percent of the time, easily, there is a U.S. content, and we look for some other solutions, or we go back to working with some of the more traditional trade tools.

That is probably—in the small business arena, that is more and more prevalent. And I guess what we—our mantra really is that trade is a two-way street, and these folks are being innovative. They want to keep employing their people in the small towns and small communities, and they need to be competitive on price, and they have imported some of the component parts. So that is an issue that I think—ongoing I think we need to keep looking at.

And if there could be some leeway for small businesses in the content, that would be great. And aside from that, I think to the extent that—just assistance with the paperwork. It is just paperwork that you have got to do, and it is a matter of, yes, nobody really likes to do all that, but it is finding the right partner to help you. And at the same time, when you go through it a couple of times, it gets much easier. It is just a matter of doing it.

The enhancements they have made to the online system is wonderful. That helps a great deal speeding up the process. From the standpoint of customers oftentimes wanting something tomorrow, well, in international trade it oftentimes doesn't happen tomorrow. It takes time. And when you are dealing with foreign banks and maybe need to get information back from them, as well as some other credit information and things like that, it is just a matter of building that expectation appropriately, so they know what time frames are appropriate.

Mr. Lambright mentioned 60 days for the medium term, 10 days for some of the other programs. Those are pretty accurate. Some are more complex; they might take more time. But I don't think there was any deal-breakers, because we can't process something instantly.

Mr. CHABOT. Thank you.

Dr. Yager, you mentioned in your written testimony that the Ex-Im Bank's reported increase in small business transactions was

due partly to a drop in the overall level of financing provided in other—to other customers by the Bank. Could you discuss that a little further?

Mr. YAGER. Yes, Ranking Member Chabot. We wanted to make sure that we looked at both components of that particular ratio. Obviously, you count the number of transactions or the value of transactions provided to small business on the top, and then the denominator is the entire work of the Bank. And we did notice that between 2005 and 2006, and continuing on into 2007, the denominator, which is all of the business of the bank, dropped off.

So one of the reasons why the ratio went from 19 percent all the way up to 25 and 26 percent had to do with both of those numbers changing—the increase, a fairly steady increase, in the value of business going to small business, and somewhat of a sharper drop in the value of business going to larger businesses. So both of those things had some contribution to the fact that now Ex-Im can report that 26 percent of its financing value is being directed towards small business.

Mr. CHABOT. Thank you very much.

And, finally, Mr. Thiry, what type of other barriers to trade are small businesses experiencing now that the Ex-Im Bank may be able to help alleviate?

Mr. THIRY. In our particular industry, we do struggle with some export control issues that I think a lot of effort is going in to improve. The real key one, though, and I do have to emphasize, is the content issue. And to really understand why this is such a barrier, put yourself in this position. I will use an example of a Mexican business that wants to buy manufacturing product. And let us say in the project he has it would involve 60 percent U.S. content, if it was coming from a bundled group of products here. So 40 percent would be foreign. To try and finance that out of here, if you can only finance 60 percent of it, and I am the buyer there, where do I come up with this other money?

But if we are competing with Germany, Italy, or other countries, they might put 80 percent their content, there might be 20 percent American content, they will finance it. So we lose the opportunity for that business. None of our members really want to see foreign content financed, but, as you know, the real issue is: how do you serve that customer? And as much as we would like to see 100 percent American content on everything, that simply is not the real world anymore. By keeping that old constraint, we are forcing ourselves out of the world market.

Mr. CHABOT. Thank you very much, Mr. Thiry.

I yield back.

Chairwoman VELÁZQUEZ. Thank you.

I have a last question, Mr. Thiry. Out of the 205,000 exporting firms of manufactured products, 200,000 are small businesses. You indicated that time is critical to maintain the competitiveness of small businesses. Have your members experienced an improvement in the processing time for large overseas transactions?

Mr. THIRY. Where they are dealing with a bank that has delegated authority on things such as working capital financing, that has helped dramatically. But in terms of attempting to work

through the standard loan process, quite frankly, we have not seen significant differences.

Chairwoman VELÁZQUEZ. Okay. Well, you don't have any more questions. With that, I just want to take this opportunity to thank all of you for being here today. And we will continue to monitor the progress in implementing the 2006 reauthorization, especially at a time when our economy is struggling, and our trade deficit is big. We have to make sure that the financing is there to help those who are really providing the jobs in our American economy, and those are the small business sector.

So with that, I ask unanimous consent that members will have five days to submit a statement and supporting materials for the record. Without objection, so ordered.

This hearing is now adjourned. Thank you.

[Whereupon, at 11:56 a.m., the Committee was adjourned.]

NYDIA M. VELÁZQUEZ, NEW YORK
CHAIRWOMAN

STEVE CHABOT, OHIO

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STATEMENT
of the
Honorable Nydia Velázquez, Chair
Committee on Small Business
Hearing on
Oversight of the US Export-Import Bank's Implementation of its
Small Business Mandate
Thursday, January 17, 2008

Today, the Committee will review the Export-Import Bank's efforts to assist small businesses. Congress established the Bank seven decades ago to promote national competitiveness in an increasingly globalized economy. It was envisioned that this agency would serve as a critical resource for domestic firms of all sizes as they began to look abroad for new business opportunities. But, unfortunately, this has not fully materialized.

Currently, it is small US firms that dominate foreign market sales and operate at a trade surplus in numerous industries. Due to the ingenuity of this sector, small exporters are growing two times faster than their corporate counterparts.

However, many still face hurdles when it comes to fully accessing the international marketplace.

In order to provide assistance for these small firms, Congress has revised the Bank's charter multiple times. In 2006, with the input of this Committee's members, legislation was enacted that refocuses the agency's structure to better promote small exporters. Since adoption, it has been working on meeting its obligations under the legislation. However, there is still a long way to go before it is fully implemented. Overall, if I were to assign a grade, it would be an "Incomplete."

While the Bank will point out that they have met their small business goal, the facts tell a different story. The number of small business loans is on the decline. In 2005, right before the legislation was enacted, there were 2,600 awards. But today, there are only 2,300 – a drop of more than 10 percent.
These figures indicate that affordable trade financing is on the decline. The reality is that a smaller number of businesses are getting larger loans. What we need to see is more loans and more dollars. Until we see increases in both, it will be questionable if small businesses are the priority that they are supposed to be. If it had fully implemented the 2006 legislation, perhaps these numbers would have been better.

The Bank has failed to establish several key initiatives, including changes aimed at increasing bank lending and reducing regulatory burden – for both of which, little progress has been made. The 2006 law also provides the authority to put US firms on equal footing against heavily-subsidized foreign firms. But again, this is a tool that has failed to be used and again small firms are left waiting.

The effect of these delays is significant. By not implementing these programs, the Bank's actions are tantamount to cutting off assistance to small firms that are trying to access foreign markets. It is also deterring greater private sector involvement with export financing programs, which is a critical step to their expansion. Without the assistance mandated in the reauthorization legislation, many firms will be left at a disadvantage against their foreign competitors.

As a result of the Bank's failure to establish key provisions of the 2006 reauthorization legislation, the Committee wants quick and decisive action on implementing these reforms. Going forward, we will continue to conduct regular oversight of its progress.

Small exporters must be the priority at the Bank that Congress had envisioned. The 2006 legislation should be administered in a way that fulfills the mandate's specific requirements as well as its underlying purpose, which is to expand trade opportunities across the small business sector.

As small firms increasingly look to international markets and the nation's trade deficit remains unbalanced, Congress, Eximbank, and business leaders must collaborate to promote US interests in a global economy. I look forward to hearing ideas from the Bank, as well as industry representatives, on ways to improve its outreach and service to small exporters. Thank you all for your attendance today.

U.S. House of Representatives
SMALL BUSINESS COMMITTEE
Representative Steve Chabot, Republican Leader

Thursday,
January 17, 2008

Opening Statement of Ranking Member Steve Chabot

Oversight of the U.S. Export-Import Bank's Implementation of its Small Business Mandate

I would like to thank the Chairwoman for holding this hearing today to evaluate the U.S. Export-Import Bank's ability to serve the needs of American small businesses. I would also like to thank our witnesses for being here today. I appreciate their willingness to engage in this important discussion.

Over the past two decades, obstacles to trade have been crumbling at a staggering pace. In the last twenty years, the United States has entered into fourteen separate free trade agreements with negotiations currently underway for several more. The benefits of disintegrating trade barriers for the average American and American businesses abound, including increased employment opportunities, increased wages, and increased profits for businesses that export their goods and import materials used to make their goods. The spike in trading opportunities also encourages businesses to produce a better product and sell that better product at a lower price to both Americans and other countries.

The process of becoming a successful exporter can be extremely daunting for a small business. Whether it's determining if you need a license to export your product or making sure you have the proper insurance, the maze of tasks to be completed can prove to be a minefield. Financing your new exports can prove to be the ultimate challenge.

Established in 1934, the Export Import Bank provides financing, insurance, and exporting advice to U.S. businesses that export. Although some, including myself, have had concerns in the past regarding the types of businesses the Export-Import Bank has financed our focus today is on America's small businesses that export and making sure they benefit from all that the Bank has to offer.

The 2006 Export-Import Bank Reauthorization Act required the Export-Import Bank to take several steps to maximize opportunities with small businesses. The Reauthorization put in place a structure the Small Business Division that bears the sole responsibility of ensuring that small businesses have equal access to Ex-Im Bank products. In order to accomplish this, the Small Business Division should provide outreach and manage feedback from small businesses. Additionally, they should maintain a liaison for the Small Business Administration, advise small business concerns on financing products offered by the Bank, and provide oversight of the technology department to strengthen small business outreach.

With these thoughts in mind, today we hope to ascertain just how productive these new standards put in place by the Reauthorization of 2006 have been for small businesses. Adherence would most certainly help to put US small businesses on a more level playing field with other small companies around the world. Once again, I thank the witnesses for joining us today, and I look forward to hearing your testimony.

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Statement of Rep. Jason Altmire
Committee on Small Business Hearing
"Oversight of the U.S. Export-Import Bank's
Implementation of its Small Business Mandate"
January 17, 2007

Thank you, Madam Chairwoman, for holding today's hearing to examine the U.S. Export-Import Bank's implementation of its small business mandate. As the economy becomes globalized, U.S. businesses face increased competition, making the Eximbank's role all the more important for small business.

During the reauthorization of Eximbank in 2006, Congress included tools to help the bank meet its small business mandate. While the financing goal has been met, small exporters are still finding it difficult to obtain access to capital. Many small exporters blame this on Eximbank's inadequate implementation of much of the legislation and in turn claim that Eximbank has not shown a true commitment to actively pushing an effort to expand trade financing to small exporters.

Eximbank serves an important role in our country's trade market, providing necessary capital for businesses to actively engage in exporting activities. Today we will hear from a panel of witnesses that will testify on the effectiveness of Eximbank's program and outreach to small exporters. It is important that Eximbank consider the testimony given here today and use what they learn to improve their relationship and outreach to the country's small exporters.

Madam Chair, thank you again for holding this important hearing today. I yield back the balance of my time.

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TESTIMONY OF
JAMES H. LAMBRIGHT
CHAIRMAN AND PRESIDENT
OF THE EXPORT-IMPORT BANK OF THE UNITED STATES
BEFORE THE COMMITTEE ON SMALL BUSINESS
OF THE UNITED STATES HOUSE OF REPRESENTATIVES

JANUARY 17, 2008

Madam Chair, Representative Chabot, Members of the Committee:

I am pleased to appear before you today to discuss Ex-Im Bank's efforts to promote exports within the U.S. small business sector.

We continue to foster a culture throughout the Bank that provides tailored small business assistance at every stage of the transaction lifecycle. There is always room for improvement, but I am quite pleased with the progress we have made.

EXPORT-IMPORT BANK PROGRAMS FOR SMALL BUSINESS CUSTOMERS

Allow me first to briefly review with the Committee Ex-Im Bank's mandate. The Bank has a primary directive – to create and sustain jobs here in the United States by helping to finance exports of U.S. goods and services that the private sector cannot or will not finance on its own. This can occur when there is official foreign government-supported assistance from competing exporters, or when the transaction is too risky to attract funding from standard commercial sources. Over the 73 years of its existence, the Bank has provided financing for an estimated $500 billion in U.S. exports. In FY 2007 alone, we supported over $16 billion in U.S. exports. And since the institution of credit reform, the Bank has maintained an overall loss rate of less than 2%.

Our basic operating principle is to support loans on behalf of U.S. exports when there is a "reasonable assurance of repayment." Fulfilling this mission is akin to navigating between two beacons. One beacon is the Bank's aggressive support of U.S. small business and jobs. The other is the exercise of prudent stewardship of taxpayer resources.

In addition, each transaction is subject to our environmental guidelines and procedures. Moreover, our economic impact process ensures that our financing does not support an export that could result in a net harm to the U.S. economy.

The Bank supports exports through four basic programs. Let me begin with those that are most important to our small business customers. First, our insurance program offers exporters a range of policies that allow them to offer terms to foreign buyers, instead of insisting on full payment up front. $2.1 billion, or 58%, of our credit insurance transactions in FY 2007 involved small business exporters. Second, under our working capital guarantee program, we will guarantee 90% of a commercial bank loan to a U.S. exporter to fund the purchase of the equipment necessary to meet an export contract.

$989.6 million, or 79%, of our working capital guarantees authorized in FY 2007 directly supported small businesses.

Our other programs involve direct loans to foreign buyers and guaranteeing commercial bank loans to foreign buyers. In FY 2007, the Bank did not make any direct loans, and of the loan guarantees processed, $274.8 million, or 4%, directly benefited small business exporters.

Information on all of these programs is available on our web page, www.exim.gov, which has a small business portal that is very informative, accessible and easy to use.

IMPLEMENTING REAUTHORIZATION AND INSTITUTIONALIZING SMALL BUSINESS AS THE TOP PRIORITY THROUGHOUT THE BANK

Congress has reauthorized the Bank's charter for five years to 2011. I am proud to report that Ex-Im Bank has implemented the vast majority of the requirements included in the reauthorizing legislation. I have made implementation of the small business requirements the Bank's highest priority.

Our senior business and financial executives meet regularly as members of the Bank's Small Business Committee, focusing on how the Bank can be more proactive as it serves small businesses.

This group, drawn from personnel across the Bank, is taking great strides towards making it easier for small businesses to interact with the Bank. To this end, the Bank has increased its commercial bank delegated lending levels to speed up transaction processing and has increased internal delegated authority limits to facilitate quicker decisions by the Bank's front-line business officers. Moreover, we have strengthened our partnership with the Small Business Administration (SBA).

The Small Business Committee has created additional financial incentives for its business development multipliers in the private sector to utilize Ex-Im Bank to serve small business exporters. For example, the Bank has extended the 25% discount on its multibuyer credit program to users of the SBA's export working capital guarantee program and increased brokers' commissions for small business multibuyer policies.

We are not only taking action we believe beneficial to our small business customers, but we are also being mindful to listen to their suggestions. Members of the Bank's Small Business Committee have conducted focus groups and customer surveys to learn what is most important from their perspective.

A critical component of attracting greater small business activity at Ex-Im Bank is simply letting small business exporters throughout the country know that the Bank is here to assist them. This is why in August 2006 I directed our network of seven regional

business development offices to dedicate their outreach and marketing efforts exclusively to small businesses.

Within the Ex-Im Bank's headquarters in Washington, D.C., we also have personnel dedicated exclusively to reaching out to minority- and women-owned exporters, as well as personnel that are responsible for developing new products and services designed to meet the specific needs of small business.

In addition, we have designated throughout all of the Bank's business units small business specialists who possess the knowledge and training to assist small business customers. These specialists' contributions to the Bank's small business activity are an integral part of their performance evaluation and incentives.

Ex-Im Bank's specialized small business experience does not end once a transaction is approved, but rather continues for the entire lifecycle of the transaction. We have small business specialists who work with small business customers to expedite their claims processing. We have also instituted a speedy claims appeals process for small businesses in which the Senior Vice President for Small Business plays a major role.

We have also improved our information technology resources to make it easier for small businesses to work with Ex-Im Bank. Ex-Im Online, the Bank's automated transaction processing system, has been implemented and now serves all insurance and medium-term guarantee products. This includes virtually all of the small business transactions approved internally. Ex-Im Online provides our customers with a user-friendly application process with greatly reduced paperwork, the ability to track applications in real-time and, most importantly, quicker decisions from the Bank. The Bank's web site has a user-friendly small business portal to walk first-time customers through the transactional process as well as provide education for avoiding mistakes when filing claims.

HELPING SMALL BUSINESS EXPORTERS – A POSITIVE TREND OF RESULTS

Now that I have explained how we have reformed our operations at the Bank over the past two years in accordance with your guidance, let me review the results of our small business performance with you.

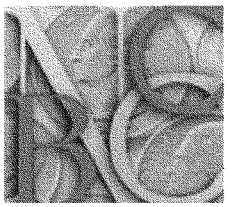
First, in absolute terms, our small business continues to grow. In FY 2007, we authorized $3.352 billion in direct support of small business transactions, up from $3.185 billion in 2006. Indeed, the value of our small business authorizations has increased every fiscal year since 2001. I am also pleased to announce that for the past two fiscal years, we have exceeded the target set for us by the Congress that the value of our small business authorizations be at least 20% of our overall authorizations. This target was reached for the first time in FY 2006, when 26.2 % of our authorizations were devoted exclusively to small business, and that figure increased to 26.7% in FY 2007. Over the past decade, 85% of our transactions have been exclusively for small business.

This data set is important as it provides a picture of our overall success in supporting small business exports. However, the people who work at Ex-Im Bank know the true success story are the exporters supporting U.S. jobs by doing concrete deals. For example, in FY 2007, American Tank and Vessel (AT&V), a small business engineering/construction firm headquartered in Mobile, Alabama, secured a $109.5 million Ex-Im Bank loan guarantee for the export of oil storage tanks and pipelines to a company in Ghana. Not only will Ghana benefit, but the new pipeline will be used to transport petroleum products to landlocked Mali and Burkina Faso. AT&V has more than 250 employees, working mainly at its fabricating facility in Lucedale, Mississippi, and its headquarters in Mobile. It has regional offices in Houston, Texas; Baton Rouge, Louisiana; and Birmingham, Alabama. The company also sources from other small businesses in the United States.

The Robbins Company of Solon, Ohio, utilized a $25 million loan facility backed by an Ex-Im Bank working capital guarantee to secure the advance payments of an Indian customer so that it could fulfill a $131 million contract for the export of two large tunnel-boring machines and related equipment. This 27-mile-long tunnel will supply potable water to 300,000 acres of drought-stricken farmland and 516 villages in the state of Andhra Pradesh. The tunnel will be built 300 feet below the Nagarjunasagar Tiger Reserve to avoid building a pipeline through the tigers' habitat. For this project, The Robbins Company won Ex-Im Bank's 2007 Small Business Environmental Exporter of the Year Award at our Annual Conference held last April in Washington, D.C. The company has 170 employees in its manufacturing facilities and offices in Solon, Ohio; Kent, Washington; and Oak Hill, West Virginia. To meet this contract, The Robbins Company has added 50 employees to its payroll.

While I cannot guarantee increases in our small business numbers every year, I can promise you that we will work tirelessly to improve the quality of the small business experience at Ex-Im Bank. Small business is going to retain its seat at the table because it is at the core of our mission and I have personally made it my top priority to institutionalize the changes in our operations I described above. Moreover, it simply makes good business sense.

I will be happy to answer your questions.



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CONGRESSIONAL TESTIMONY

U. S. EXPORT-IMPORT BANK'S ASSISTANCE TO SMALL BUSINESS

Presented To:

U.S. House of Representatives Committee on Small Business

Honorable Nydia M. Velazquez, Chair

Presented By:

Harry C. Alford
President/CEO

January 17, 2008
Washington, DC

Madam Chair Velazquez, Minority Leader Chabot and distinguished members of the House Small Business Committee thank you for offering the National Black Chamber of Commerce, Inc. an opportunity to discuss our activities in exporting and importing and what role or interaction the Export – Import Bank of the United States has had in that. Frankly, the EXIM Bank has had virtually no role, interest or presence in our growing trade activities.

The National Black Chamber of Commerce, Inc., in its 15 years of activity, has become the largest Black business association in the world. We have over 150 chapters located in 41 states in this nation and have a viable presence in the Caribbean, South America, Europe, Africa and certain destinations in Asia. I am an Honorary Lifetime Board Member of the Ghana National Chamber of Commerce and Industry. Our Board of Directors has had membership representing Jamaica, Ghana and Kenya. Besides representing the 1 million+ African American businesses in this nation we have direct access and reach to over 100,000 business owners via our email database. We are proud to say that if anyone wants to communicate to the Black business community of this nation. No other organization can provide that access better than the network of the NBCC.

In preparation for this testimony we sent out a request to our membership for any feedback on experiences with the EXIM Bank. There was very little. The following is that feedback:

David Doswell of I.C.C.A.N.N. Services of Washington, DC – "I went to an OPIC Conference in New Jersey and met with EXIM Bank officials who supposedly were there to assist with projects such as mine. But I left very disappointed much like several others. They told me the ONLY way that they could help is if my clients wanted to buy my goods that could only originate in the U.S. They never offered any advice but provided the same old rhetoric that most of those agencies give. I even explained to them that I had heavy equipment that my clients needed for their projects and they still would not assist me."

Michael Harris, Hampden Pait Corporation – "The EXIM Bank sets the standards too high for a minority owned business like mine. It's funny that we do a lot of business in Ghana and Nigeria with the help from Korean resources while at the same time the Chinese with a few majority American front firms are benefiting from the EXIM Bank in their endeavors that directly compete with ours throughout Africa."

Robert Willis, KD International, Inc. – "KDI has imported approximately fifty (50) tons of sugarloaf pineapples from Ghana under the brand name Royal African Produce. With the promotional and marketing assistance of the largest distributor of exotic and specialty fruits and vegetables in the U.S. we now have commitments from five (5) of the top (25) retail chains in North America. We now have equal success importing bananas from Honduras and Guatemala. Government programs from these countries have been most helpful to us. Unfortunately, we have found the EXIM Bank to not be that business

friendly to us in seeking financial assistance or participating in importing programs. Maybe when we become a big firm they will be amenable to assisting us."

The National Black Chamber of Commerce has been featuring International Trade at all of its annual conventions and summits since the late 1990's. For a few years, an employee from the EXIM Bank would attend our meetings on her own initiative. We later found out that she was trying to build a case for her superiors to consider sponsoring or officially attending some of the NBCC events. Her efforts fell on "deaf ears".

Currently, the NBCC and the Canary Islands' Chamber of Commerce are working on an initiative to joint venture our firms and begin trade activity with West African nations. We, the NBCC, have identified opportunities in this region and they, the Canarians, have incentive programs from Spain and the European Union that can facilitate this endeavor. It seems strange that a business organization from the United States has to find ways to participate in foreign business incentive programs rather than have access to programs devised by our own government.

We are currently working with Black organizations in France to emulate our activity with the Canarians. Many of the French have blood lines and connections with African nations and they, too, can use programs devised by the European Union to assist us in import/export activity.

In November, 1999, we carried the largest trade mission in the history of Rio de Janeiro. Today, many of those firms who participated are still doing much business with the Brazilians. One, Freight Masters International, is shipping millions of tons of auto parts to Brazil for Chrysler and Ford Motor Co. as a result of this trade mission. There has been no interaction with EXIM Bank on any of these ventures.

During 2002 -2003, the NBCC utilized a grant from the US State Department and began serious technical assistance with 13 chambers in Jamaica on doing business with firms from the United States. Much progress was made and firms from both nations are still quite active in trade activity. Never was there a representative from the EXIM Bank in any of this well publicized effort.

Every July, the NBCC has its Annual Convention with a panel and subsequent workshop on International Trade. Every November, our Fall Summit is held off shore and features much international trade discussion. We have trade missions as the opportunities present themselves and host trade delegations from nations all over the world.

During the last two years we have had two Trade Missions to Ghana and three to Kenya. We have worked intensely with the International Trade Committee of the US Chamber. A prototype has been developed, via best practices, on light manufacturing in Nassau, Bahamas. That model will be replicated in New Orleans as a part of the Katrina Disaster Rebuilding. The NBCC works often with embassies from Africa and Central America taking advantage of the African Growth and Opportunity Act (AGOA) and the Central American Free Trade Agreement (CAFTA). Some of our members have been quite

successful in the Philippines and Vietnam. Even my own sons have entered into an import venture with Korean principals. Export and Import activity is booming within the infrastructure of the National Black Chamber of Commerce. The only thing that is missing is the EXIM Bank.

Who are they? What do they do? Are we allowed to participate?

Madam Chair thanks again for this opportunity and perhaps the EXIM Bank will one day become a taxpayer funded, government agency that serves all the people of this nation.

Testimony of

Paul Warfield
Vice President and Director of Global Banking
First National Bank Omaha

On behalf of the

Independent Community Bankers of America

Before the

Congress of the United States
House of Representatives
Committee on Small Business

Hearing on

"U.S. Export-Import Bank's Assistance to Small Businesses"

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January 17, 2008
Washington, D.C.

Good morning. My name is Paul Warfield and I am Director of Global Banking for First National Bank Omaha in Omaha, Nebraska. Chairwoman Velazquez, Ranking Minority Member Chabot, and members of the committee, I appreciate the opportunity to testify today on behalf of the Independent Community Bankers of America[1] on the Export-Import Bank's trade finance programs.

The ICBA represents nearly 5,000 community-based financial institutions nationwide. Community banks are independently owned and operated and are characterized by personal attention to customer service and lending to small business. Trade financing is a growing area of opportunity for our nation's community banks and the small businesses they serve. I strongly support the valuable programs provided through the U.S. Export-Import Bank and appreciate the opportunity to discuss how the Ex-Im Bank can work best for our nation's lenders and small business exporters.

Summary of Testimony

The Ex-Im Bank international financing programs represent a success story of how the federal government, working with private sector lenders, can assist small businesses to support greater U.S. trade, small business job creation, and economic growth. The ICBA supports the Ex-Im Bank and wants to ensure Ex-Im programs reach their full potential.

[1] The Independent Community Bankers of America represents the largest constituency of community banks of all sizes and charter types in the nation, and is dedicated exclusively to representing the interests of the community banking industry. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace. For more information, visit ICBA's website at www.icba.org.

Specifically, the Ex-Im Bank programs and activities should be structured and managed so they work well for lenders and borrowers of all sizes. Congress mandated that the Ex-Im Bank ensure that 20 percent of its transactions support small businesses. The Ex-Im's aggregate loan, guarantee, and insurance authority activities can help many U.S. businesses, but it is important to ensure that small businesses as well as large benefit from these programs.

The recent declines in the value of the U.S. dollar and growing global economies have created an environment for greater U.S. export opportunities worldwide. These economic developments offer U.S. lenders, and particularly small businesses, the ability to better reach new markets to expand their sales and create jobs using Ex-Im Bank programs.

The Ex-Im Bank is positioned to play an important part in helping U.S. small businesses successfully reach global markets. While there has been a small increase in the number of lenders and small businesses participating in the Ex-Im programs in recent years, ICBA believes many more can and should be involved. In addition to the valuable support provided for large and mid-sized businesses, the Ex-Im Bank should continue to enhance its ongoing small-business-focused efforts, trade promotion, and engage even more community banks in its trade finance activities and programs.

Ex-Im Bank activities should not compete with private lenders but should continue to fill in gaps and help mitigate risk that may exist in trade financing to facilitate greater private funding and support of U.S. trade.

ICBA fully supports the Ex-Im Bank programs and respectfully proposes several recommendations that can help to enhance the effectiveness for lenders and small business borrowers alike. ICBA recommends:

- Enhancing the Ex-Im Bank's program budget funding for small business outreach. A portion of any excess earnings by the Ex-Im bank should be retained to further advance small business outreach.

- Applying additional Ex-Im Bank budget resources to better staff and support community lenders and small business outreach nationwide, including enhancing community banks programs.

- Ensuring community bank representation on the Ex-Im Bank advisory committees.

Community Banks are Strong Supporters of Ex-Im Programs

First National Bank Omaha is a community oriented bank based in Omaha, Nebraska. For more than 150 years, the bank has been constantly innovating to best serve its individual and small business customers. The bank's Global Banking Group initiated a dedicated program for trade finance in 2005 and has successfully helped many U.S. small businesses compete in the global export market. First National Bank of Omaha strongly supports the work of the Ex-Im Bank and actively participates in its various programs.

Chairwoman Velazquez, we appreciate your prior work to mandate that the Ex-Im Bank ensure that 20 percent of its transactions support small businesses. I know First National Bank Omaha's activities and involvement with Ex-Im are helping to make sure more small businesses are in fact benefiting. I have seen the Ex-Im Bank make significant strides in meeting this important 20 percent goal in the last few years. Community lenders like First National Bank Omaha are proud to work with Ex-Im in helping supply needed capital and resources to small businesses across our nation. Whether located in small towns, suburbia or big city neighborhoods, community banks help grow our towns and cities by funding small business and creating jobs. Community banks are one of the key sources of credit and other financial services to small business, the most prolific job creating sector of our economy. I believe community banks are well-positioned to increase their trade finance services through Ex-Im programs to help meet the needs of a growing U.S. small business export sector.

First National Bank Omaha made a commitment to work with Ex-Im Bank programs after an initial meeting with the Bank's President, Sr. Lender, Commercial Division Head, Director of Global Banking and Dan Renberg, who was an Ex-Im Bank Board Member at the time. During this meeting, the bank heard firsthand about how a partnership with Ex-Im Bank could add great value to the customers and prospective customers of the bank. To serve local small businesses, First National Bank moved forward to develop expanded credit products including trade finance.

Since the initial contact with Ex-Im, First National Bank Omaha has grown the trade services and trade finance business. In just seven years, the Global Bank Group at First National has grown from six employees to fourteen. The staff has participated in numerous Ex-Im Bank training functions and events including their annual meeting. First National Bank also participated as a panelist in the Sub-Saharan Africa Bankers meeting late last year.

Using the Ex-Im programs, First National Bank has been able to meet the needs of more small business customers across the Midwest. Here are some examples of how using Ex-Im Bank has added great value to small business:

- By using the Ex-Im Bank Letter of Credit policy, First National Bank has been able to successfully offer letter of credit confirmations for small businesses. This tool enhances the value of the letter of credit by allowing the small business to accept First National Bank and Ex-Im Bank credit risk in place of the foreign bank risk. Using this policy, First National Bank can assign proceeds to small business suppliers; extend payment terms to foreign buyers under the letter of credit, and utilize working capital financing. These activities have helped our local exports. Products often exported by our local small businesses include center pivot irrigation systems, scientific equipment, water purification systems, construction equipment, and various professional services.

- The Ex-Im Bank Working Capital Program has been a great success for First National Bank since it first began marketing this product in 2005. For example, we have been able to assist a small business who exports base oil. We are currently seeking to offer working capital financing to a small business company that exports weather station equipment. Several additional working capital finance deals for small businesses are in our pipeline.

- First National undertook a challenging transaction with a Nigerian buyer who was seeking Ex-Im Bank medium-term financing for the purchase of used equipment from a small business supplier new to exporting. The assistance Ex-Im Bank offered was exceptional. Both the buyer and the seller were new to the intricacies of international trade. While the transaction faced many twists and turns, it was successfully completed without any problems. We are now waiting for approval for a second shipment to the same buyer.

Export-Import Bank Programs a Proven Success

I want to make it very clear that the Ex-Im Bank programs are unique and extremely valuable in helping lenders and U.S. businesses compete in the international trade arena. The Ex-Im Bank represents a success story of how the federal government, working with private sector lenders, can support small businesses that otherwise would not have had access to capital and the resources to successfully compete globally. Created in 1934 as an independent federal agency, today the Ex-Im Bank is the primary vehicle by which the U.S. government supports U.S. exports around the world. The Bank provides working capital loans for U.S. exporters, makes loans to foreign purchasers of U.S. goods and services (or guarantees the repayment of private loans to those purchasers), and provides credit insurance against non payment by foreign buyers.

With international trade and small business development the fastest growing segments of our changing economy, the demand for small business international transactions will only increase. Consequently, the demand for Ex-Im assistance will increase as well and it is critical to ensure these programs are best suited for meeting the needs of small business. Virtually all major trading nations operate export credit agencies. Therefore, the U.S. Ex-Im Bank must be robust and responsive in order to strategically foster a level competitive playing field for U.S. lenders and small businesses.

Chairwoman Velazquez, in holding this important hearing we are optimistic and encouraged by your actions to make the successful Ex-Im programs work even better. I know that under Export-Import Bank Chairman Jim Lambright's tenure there have been noticeable improvements in Ex-Im's relationship with both the lending and small business communities. First National Bank Omaha looks forward to working even more closely with the Small Business Committee and the Ex-Im Bank personnel to ensure a strong and more robust Ex-Im Bank into the future.

Opportunity to Engage More Community Banks in Ex-Im Bank

The Ex-Im Bank currently has about 200 lenders participating at some level in the Bank's trade finance programs. In fiscal year 2007, the Ex-Im Bank added 26 new lenders to the rolls, with about half representing community bank lenders. With a total of 8,560 FDIC-insured banks nationwide, there is ample opportunity to reach even more community lenders with the products and services offered through the Ex-Im Bank.

Additionally, the beneficial Ex-Im Bank programs reach only a small fraction of small businesses. There are more than 230,000 small business exporters across the U.S. In fiscal year 2007, the Ex-Im Bank approved an estimated 2,390 transactions that were made available for the direct benefit of

small business exporters. Given the large number of community lenders and growing number of small business exporters, both community banks and the Ex-Im Bank have tremendous opportunities to further assist the trade finance needs of U.S. businesses. First National Bank Omaha is helping to do its part in serving the needs of small exporters in its local markets and has been working with other community lenders to expand trade finance services to more small businesses.

Chairwoman Velazquez, I believe your prior and ongoing efforts to ensure that 20 percent of Ex-Im Bank's transactions benefit small businesses are having a positive result. While Ex-Im had great difficulty fulfilling the 20 percent small business mandate early on, their current estimates indicate they are now exceeding this level. Notably, in fiscal year 2007, the Ex-Im Bank approved 988 small business transactions in amounts under $500,000. Community banks specialize in meeting the needs of small businesses, and in particular, help facilitate such smaller-dollar trade finance transactions often unattended by the largest financial institutions. The ICBA is optimistic that community banks working more closely with Ex-Im will continue to meet and exceed the challenge of serving even more small businesses.

The Ex-Im Bank operates regional offices in locations including New York, Florida, Illinois, Texas, and California. ICBA commends the Ex-Im Bank on its regional outreach and encourages even greater harmonization to serve the thousands of small businesses and lenders throughout the middle regions of America. Additionally, the Ex-Im Bank should ensure community bank representation on the Bank's advisory committees.

Small Businesses and Exports Key to Economic Growth

U.S. small businesses represent a large and growing share of our economic wellbeing. Small businesses now employ more than half of the private sector workforce and produce more than 50 percent of the nonfarm private sector Gross Domestic Product. Small businesses are responsible for two-thirds of all the net new jobs being created. Given the significance of small business growth to our economy, the ability of the Ex-Im Bank to help small businesses is of growing importance.

Notably, the U.S. has experienced an international trade deficit with the rest of the world for many years. Our trade imbalance has been a persistent drag on our U.S. growth over the past decade, shaving an average of one-half percentage point from real GDP growth each year. If we want to improve our trade balance and economic opportunities we must do better on our export front. The Export-Import Bank is a small, yet important, part of advancing this important goal.

The declining value of the U.S. dollar relative to our major trading partners over the past few years has helped to boost our exports as U.S. goods have become more affordable in foreign markets. This has helped reverse some of the drag trade has had on the economy and export levels have recently boosted GDP growth levels. Today, exports comprise 12 percent of or GDP. Five years ago exports represented 9.7 percent, and 40 years ago only 5 percent. Additionally, strong global economic growth in recent years has created greater demand for U.S. goods, especially manufactured products. Combined, strong global economies and a declining dollar have fostered a greater need for the activities and programs of the Ex-Im Bank as global and financial conditions favor greater U.S. exports.

The importance of expanding exports to the economic well-being of the U.S. economy cannot be overstated. With the economy digesting higher energy costs, and the fallout from a meltdown in the domestic housing sector, exports represent a bright spot for supporting growth. Export-related jobs on average pay 15-20 percent more, according to Commerce Department data. Each $1 billion in U.S. exports helps foster some 14,000 jobs. Given the tremendous benefit small business trade has, community banks stand ready to work even closer with the Ex-Im Bank to support greater U.S. small business exports and economic activity.

Conclusion

The ICBA pledges to work closely with the Small Business Committee to ensure our Nation's small businesses have the access to the beneficial Ex-Im programs they need to compete globally, grow, and to provide jobs. The important and beneficial Ex-Im Bank programs can and should be more widely used by community banks and the small businesses they serve nationwide.

In our changing economy, the ability for small businesses to successfully reach global markets will continue be a prime area for new job creation and economic growth. This is a time to strengthen small business resources and build upon the successful Ex-Im Bank programs. First National Bank Omaha is proud to serve the trade financing needs of a growing number of small businesses by successfully leveraging the Ex-Im Bank programs. ICBA sincerely appreciates the opportunity to testify today on the important issue of available small business capital and lending. Thank you.

United States Government Accountability Office

GAO

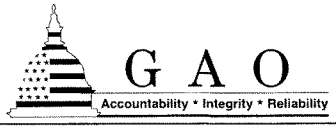
Testimony
Before the Small Business Committee,
House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EST
Thursday, January 17, 2008

EXPORT PROMOTION

Export-Import Bank Has Met Target for Small Business Financing Share

Statement of Loren Yager, Director
International Affairs and Trade



GAO-08-419T

January 17, 2008

GAO
Accountability·Integrity·Reliability
Highlights

Highlights of GAO-08-419T, a testimony to the Committee on Small Business, House of Representatives

EXPORT PROMOTION

Export-Import Bank Has Met Target for Small Business Financing Share

Why GAO Did This Study

The Export-Import Bank (Ex-Im) provides loans, loan guarantees, and insurance to support U.S. exports. Its level of support for small business has been a long-standing issue of congressional interest. In 2002, Congress increased the proportion of financing Ex-Im must make available for small business to 20 percent. In 2006, Congress directed Ex-Im to make organizational changes related to small business and to better evaluate its small business efforts.

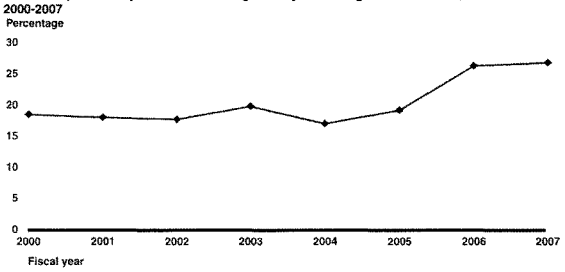
This statement discusses (1) trends in Ex-Im's small business financing since fiscal year 2000 and (2) the weaknesses GAO found in the tracking and reporting of Ex-Im's small business financing and the steps Ex-Im has taken to address them. This testimony is based primarily on GAO's March 2006 report (GAO-06-351) concerning Ex-Im's small business program. In that report, we recommended that Ex-Im (1) improve the data it maintains on its customers with regard to their small business status; (2) improve its system for estimating the value and proportion of direct small business support for those transactions where the exporter is not known at the time of authorization; (3) more accurately determine and clearly report the number of transactions that directly benefit small business; and (4) have its auditor audit Ex-Im's reporting of its direct support for small business. Ex-Im agreed with three of the four recommendations. We discuss the actions Ex-Im has taken to implement our suggestions in this statement.

To view the full product, including the scope and methodology, click on GAO-08-419T. For more information, contact Loren Yager at (202) 512-4347 or YagerL@gao.gov.

What GAO Found

The share of Ex-Im financing directly benefiting small business has increased over recent years, surpassing the required 20 percent in 2006 and 2007. The percentage increase reflects a slow increase in Ex-Im financing for small businesses, while financing for non-small businesses was noticeably lower in 2006 and 2007 compared to 2005. Ex-Im continues to finance most small business transactions through insurance or working capital guarantees.

Ex-Im's Reported Proportion of Financing Directly Benefiting Small Business, Fiscal Years 2000-2007



Source: GAO analysis of Ex-Im data

In our 2006 report, we found weaknesses in Ex-Im's data and data systems for tracking small business financing and made recommendations for improvement, and Ex-Im has taken steps to address those weaknesses. We reported that while Ex-Im generally classified companies' small business status correctly, weaknesses limited its ability to accurately determine small business financing values. For transactions where Ex-Im can identify the exporter at the time it authorizes the transaction, we found that internal control weaknesses in Ex-Im's data systems limited its ability to accurately determine small business financing amounts and share. For transactions where Ex-Im cannot identify the exporter up-front, we found that weaknesses in its system for estimating small business financing also limited its ability to accurately measure and report on such financing. We also reported some limitations in Ex-Im's calculation of the number–as opposed to the value—of transactions benefiting small business. GAO made four recommendations. Ex-Im has taken several steps in response to those recommendations. Most notably, Ex-Im replaced its previous data systems with "Ex-Im Online," an interactive, web-based process that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. According to Ex-Im, this has resulted in more timely and accurate information on Ex-Im's financing.

Madam Chairwoman, Ranking Member, and Members of the Committee:

I am pleased to be here today to discuss the Export-Import Bank of the United States' (Ex-Im) small business program. I appreciate the opportunity to provide some insights from GAO's work on this issue. As you know, since the early 1980s when Congress first directed Ex-Im to make available a specified percentage of its export financing for small businesses, there has been considerable interest in Ex-Im's support for small business. Initially, Congress directed Ex-Im to make 10 percent of its financing authority available to small businesses, but increased the requirement to 20 percent in the 2002 reauthorization of the bank's charter. While Congress did not change the percent required in the 2006 reauthorization of Ex-Im, it did direct the bank to make organizational changes related to its small business financing, and to better evaluate its small business efforts.

As requested, today, I will discuss (1) trends in Ex-Im's small business financing since fiscal year 2000 and (2) the weaknesses GAO found in the tracking and reporting of Ex-Im's small business financing and steps Ex-Im has taken to address them.

My remarks are based primarily on a report that GAO published in 2006,[1] done at the request of this committee, and analysis we conducted to update selected information and follow up on our recommendations. For the 2006 report, we analyzed data on Ex-Im transactions, examined Ex-Im documentation regarding its small business calculations, and interviewed knowledgeable staff.[2] The work for this statement was conducted in accordance with generally accepted government auditing standards.

I would also note that GAO has work underway that should be of particular interest to this committee. Ex-Im's 2006 reauthorization legislation requires Ex-Im to develop—and GAO to assess—performance standards related to its small business program, including financing for businesses owned by disadvantaged individuals and women. GAO is

[1]GAO, *Export-Import Bank: Changes Would Improve the Reliability of Reporting on Small Business Financing*, GAO-06-351 (Washington, D.C.: March 3, 2006)

[2]That report also described Ex-Im's interpretation of its obligations under the 20 percent small business mandate.

specifically addressing the following questions: (1) What performance standards has Ex-Im developed? (2) How well do they meet established criteria such as tracking progress and providing managers needed information to make decisions regarding assistance under the mandate? and (3) What steps has Ex-Im taken to implement these standards? We look forward to working with the officials at Ex-Im to complete this work, and to reporting our findings to Congress later this year.

Summary

The share of Ex-Im financing directly benefiting small business has increased over recent years, surpassing the required 20 percent in 2006 and 2007. The percentage increase reflects a slow increase in Ex-Im financing for small businesses. Financing for non-small businesses was noticeably lower in 2006 and 2007 compared to 2005. Ex-Im continues to finance most small business transactions through insurance or working capital guarantees.

In our 2006 report, we found weaknesses in Ex-Im's data and data systems for tracking small business financing and made recommendations for improvement, and Ex-Im has taken steps to address those weaknesses. We reported that, while Ex-Im generally classified companies' small business status correctly, weaknesses in its data and data systems limited Ex-Im's ability to accurately determine small business financing amounts and share. Ex-Im calculates its small business financing amounts by recording the financing value when the exporter can be identified at the time of authorization and by estimating the financing value when the exporter cannot be identified at authorization. For transactions where the exporter can be identified at authorization, we found that internal control weaknesses in Ex-Im's data systems affected the reliability of Ex-Im's reported small business financing value. For transactions where the exporter cannot be identified at authorization, we found that weaknesses in Ex-Im's system for estimating small business financing also limited Ex-Im's ability to accurately measure and report on the amount of small business financing. We also reported some limitations in Ex-Im's calculation of the number—as opposed to the value—of transactions benefiting small business. GAO made four recommendations. Ex-Im has taken several steps in response to those recommendations. Most notably, Ex-Im replaced its previous data systems with "Ex-Im Online," an interactive, web-based process that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. According to Ex-Im, this has resulted in more timely and accurate information on Ex-Im's financing.

Background

Established in 1934, Ex-Im operates as an independent agency of the U.S. government and is the official export credit agency of the United States. In 1983, Congress required Ex-Im to make available for fiscal year 1986 and thereafter not less than 10 percent of its aggregate loan, guarantee, and insurance authority for financing exports by small businesses.[3] In 2002, Congress established several new requirements for Ex-Im relating to small business, including increasing from 10 to 20 percent the proportion of Ex-Im's aggregate loan, guarantee, and insurance authority that must be made available for the direct benefit of small businesses.[4] When reauthorizing the bank's charter in 2006, Congress again established new requirements for Ex-Im, including a small business division with an office of financing for socially and economically disadvantaged small business concerns and small business concerns owned by women, designating small business specialists in all divisions, creating a small business committee to advise the bank president, and defining standards to measure the bank's success in financing small business. Ex-Im has taken steps to meet these requirements.

Ex-Im uses the Small Business Administration methodology to determine whether a company qualifies as a small business.[5] To apply this methodology, Ex-Im obtains company information through its application process. Ex-Im also subscribes to Dun and Bradstreet, a commercial information vendor, which provides information about companies, including Standard Industrial Classification (SIC) codes. Ex-Im uses the SIC codes provided by Dun and Bradstreet to determine a company's small business standing by obtaining the corresponding North American Industry Classification System (NAICS) code through the Small Business Administration website.

[3]Pub. L. No. 98-181. The law provided for this percentage to increase from 6 percent in fiscal year 1984 to 10 percent in 1986 and thereafter.

[4]Pub. L. No. 107-189.

[5]The Small Business Administration uses "size standards" to identify the largest a company can be and still qualify as a small business. Small Business Administration's size standards vary by industry, as defined by the North American Industry Classification System, which replaced the Standard Industrial Classification system, and are typically expressed in either millions of dollars or number of employees, reflecting average annual receipts or average employment of a firm.

Ex-Im offers a variety of financing instruments, including loan guarantees,[6] export credit insurance, and working capital guarantees.[7] Ex-Im provides its insurance either directly to exporters (non-bank-held insurance) or to banks which in turn finance U.S. exporters (bank-held insurance). For the bank-held insurance policies, Ex-Im authorizes the policy for the bank, which does not know at the time it applies for the financing which exporters will eventually use the export credit insurance.

Trends in Ex-Im's Small Business Financing

Between fiscal years 2002 and 2007, Ex-Im increased the percentage of its financing for small businesses and continued to finance most small business transactions through insurance or working capital guarantees.

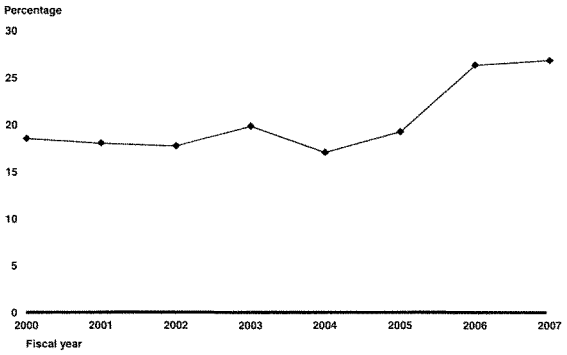
Ex-Im Small Business Financing Share Has Recently Exceeded 20 Percent

Ex-Im met the Congressional requirement to make available not less than 20 percent of its financing authority for small businesses in 2006 and 2007. In fiscal year 2006, Ex-Im's small business financing was 26.2 percent of its total financing and in fiscal year 2007 it increased to 26.7 percent. In fiscal years 2002 through 2005, Ex-Im did not reach the goal, with its small business financing share ranging from 16.9 percent to 19.7 percent. (See fig. 1.)

[6]One type of loan guarantee is a credit guarantee facility, a line of credit between a bank or corporation in the United States and a foreign bank (or occasionally a large foreign buyer). Ex-Im guarantees the repayment of the foreign bank's obligations. The foreign bank then makes credit available to the end user of the U.S. exports and takes the repayment risk of the local company.

[7]Ex-Im also provides a small number of direct loans, which are primarily used to offer concessionary financing to U.S. exporters to match concessionary financing by other countries' export credit agencies.

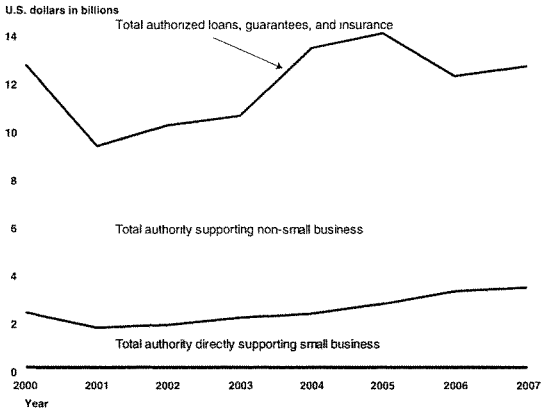
Figure 1: Ex-Im's Reported Proportion of Financing Directly Benefiting Small Business, Fiscal Years 2000-2007



Source GAO analysis of Ex-Im data

The percent of Ex-Im financing directly benefiting small business depends on the value of small business financing compared to the value of non-small business financing. (See fig. 2.) While the small business financing value slowly increased between fiscal years 2001 and 2007, the value for non-small business financing was noticeably lower in 2006 and 2007, compared to 2005.

Figure 2: Comparison of Ex-Im Small Business and Non-Small Business Financing, Fiscal Years 2000-2007

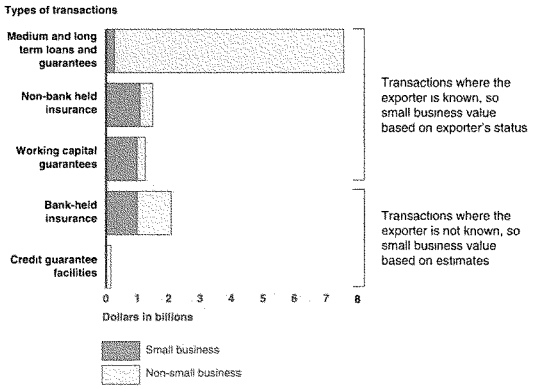


Source GAO analysis of Ex Im Bank data

Ex-Im Finances Most of Its Small Business Transactions through Insurance or Working Capital Guarantees

Ex-Im has primarily used three types of tools to finance small business transactions: non-bank-held insurance, working capital guarantees, and bank-held insurance (see fig. 3). In 2007, each tool was used to finance about 30 percent of the $3.4 billion Ex-Im made available for small business transactions. The remaining 8 percent of small business financing was through medium- and long-term loans and guarantees. This pattern contrasts with non-small business financing, where the largest share is through medium- and long-term loans and guarantees.

Figure 3: Ex-Im's Reported Amount of Fiscal Year 2007 Transactions by Finance Instrument.



Source GAO analysis of Ex Im Bank data

Ex-Im's use of bank-held insurance has posed some challenges for accurately calculating the small business financing share, in part because Ex-Im does not know who the exporter will be prior to authorizing the bank-held insurance transaction and therefore cannot make a small-business designation at that time. For bank-held insurance and credit guarantee facilities, Ex-Im estimates the share of the financing benefiting small business based on data regarding previous shipments under those types of transactions.[8] These estimates of the small business share of authorized transactions can differ significantly from the small business

[8] To make these estimates, Ex-Im analyzes data on exports under each type of transaction and determines whether each exporter is small, non-small, or unknown by estimating the percentage of the value of shipments. Ex-Im divides the value of shipments made by small business exporters by the sum of the shipments by small and non-small business exporters. (Shipments by companies of unknown size are excluded from the calculation.) Ex-Im applies this percentage to the value of the entire year's authorized transactions of this type, resulting in its estimate of the value of direct support for small business from that transaction type.

amounts actually shipped under the authorizations. For example, in 2005 Ex-Im authorized a $10 million short-term insurance policy under which no shipments had been reported prior to our March 2006 report. In contrast, in 2005 Ex-Im also authorized a $50 million short-term insurance policy where shipments under the policy exceeded $87 million for a 6-month period (or $174 million on an annualized basis).

Weaknesses Limited Ex-Im's Ability to Measure Small Business Financing; Ex-Im Has Implemented Improvements

In our 2006 report, we found weaknesses in Ex-Im's data and data systems for tracking small business financing and made recommendations for improvement, and Ex-Im has taken steps to address those weaknesses. We reported that, while Ex-Im generally classified companies' small business status correctly, weaknesses in its data and data systems limited its ability to accurately determine its small business financing amounts and share. In implementing "Ex-Im Online" and certain internal control measures, Ex-Im has improved its ability to accurately measure small business financing.

Ex-Im Generally Classified Companies' Small Business Status Correctly

Based on our review of independent data and Ex-Im's paper transaction files, GAO reported in 2006 that Ex-Im's classification of companies' small business status was generally correct. From our review of Ex-Im's electronic databases and Dun and Bradstreet data on companies' sales and employment, we estimated that, 83 percent of the time, Ex-Im's small business designation[9] matched the designation based on Dun and Bradstreet data. Based on a review of Ex-Im's official paper transaction files in instances where Ex-Im and Dun and Bradstreet's designations differed, we determined that Ex-Im's designation was justified in most instances.[10]

[9]The term "small business designation" refers to the decision regarding whether or not a company qualifies as a small business.

[10]Our analysis showed that, where Ex-Im's small business designation differed from the designation indicated by Dunn and Bradstreet data, Ex-Im almost always identified a company that appears to qualify as a small business as a non-small business.

Weaknesses Existed in Ex-Im's Process for Calculating Its Small Business Financing

In our 2006 report, we identified weaknesses in Ex-Im's process for calculating its small business financing and made some corresponding recommendations for improvement. The weaknesses ranged from internal control weaknesses that may affect only a few transactions a year to more significant weaknesses in Ex-Im's system for estimating about one-third of its small business support.

Internal Control Weaknesses Existed in Ex-Im's Data Systems Used to Measure Small Business Financing

We reported two internal control weaknesses in Ex-Im data systems[11] used to calculate and report on Ex-Im's small business financing; by implementing its interactive database, Ex-Im Online, the bank has largely addressed those weaknesses.

First, we found that Ex-Im's electronic data systems used to calculate its small business support did not contain complete or up-to-date information on companies' small business status. As a result, to obtain the most current information for these companies, Ex-Im officials needed to identify and locate paper transaction files. While Ex-Im's paper files generally supported its small business designation, we found a significant number of discrepancies between Ex-Im's paper and electronic files.

Second, we found that Ex-Im's data systems sometimes contained conflicting information for the same company. Ex-Im maintained information about insurance transactions and participants in one data system and information about loans and guarantee transactions and participants in another data system. According to Ex-Im, updating information in a company's record (including its small business designation) in one database did not update the company's record in the other database. As a result, the two databases could, and in some cases did, have conflicting information about the same company.

GAO recommended that Ex-Im improve the completeness, accuracy, and consistency of its transaction data. Since the issuance of the GAO report, Ex-Im Bank has implemented a number of controls to enhance and reinforce the bank's methodology for capturing relevant information for reporting small business statistics. Most notably, Ex-Im replaced its previous data systems with Ex-Im Online, an interactive, web-based process that allows exporters, brokers, and financial institutions to

[11]At the time of our analysis, three databases were relevant to Ex-Im's small business financing calculation. Two databases stored information on companies involved in the transactions, and a third integrated information from these databases and performs the actual calculation.

transact with Ex-Im electronically. According to Ex-Im, more than seventy-five percent of all applications are now submitted online, omitting the need to transfer information from paper copies to the bank's electronic files. Ex-Im officials stated that Ex-Im Online also includes a direct feed from Dun and Bradstreet, which provides current demographic information about a company so that Ex-Im can make an accurate assessment of the company's small business status. In addition to initiating Ex-Im Online, Ex-Im changed its internal procedures to require documented dual signoff on the small business determination for each transaction.[12]

Weaknesses Existed in Ex-Im's System for Estimating Small Business Financing When the Exporter Is Not Immediately Knowable

We reported two weaknesses in Ex-Im's system for estimating small business financing when the exporter is not known at the time Ex-Im authorizes the transaction, which applied to about one-third of Ex-Im's total small business financing for fiscal year 2004. First, we found that Ex-Im's estimates might not accurately reflect the amount of small business financing under bank-held insurance policies because of large differences between the amount of financing authorized and the amount of financing used to actually ship goods. For both fiscal years 2004 and 2005, the value of shipments under bank-held insurance policies was a fraction of the total authorized value of the bank-held insurance policies. For example, according to Ex-Im records, it authorized $3.4 billion of bank-held insurance transactions for fiscal year 2004, but there were only $280 million in shipments under bank-held insurance policies in the first 6 months of the fiscal year. Ex-Im applied its estimate of the small business share of transactions, based on these shipments, to the $3.4 billion of bank-held insurance policies it authorized during the year, and determined that about $720 million of the authorized value of bank-held insurance policies during the year directly benefited small business. Thus, the method resulted in estimates of small business shares for the authorized value of these types of transactions based on a very small share (about 8 percent) of the total authorized value.

Also, we found that Ex-Im classified the small business status of a significant portion of the companies making shipments as "unknown" and excluded them from its calculation of the estimate of its small business support. Of the $280 million of shipments under bank-held insurance for 2004, for example, an Ex-Im official classified about $128 million (or

[12]In specific instances for short-term insurance transactions, only one signature is required because signing authority has been delegated to staff based on certain policy parameters.

nearly half) as shipments by companies whose small business status was "unknown" and excluded these shipments from its calculation of total shipments.

GAO recommended that Ex-Im improve its system for estimating the value and proportion of direct small business support for those transactions where the exporter is not known at the time Ex-Im authorizes the transaction. According to Ex-Im, its implementation of Ex-Im Online improves these estimates because borrowers can now enter their shipment reports directly into Ex-Im Online. According to Ex-Im, two-thirds are being entered in this manner. Ex-Im officials stated that such automated submission of shipment information has significantly reduced the amount of shipments by exporters whose small business status is unknown. They stated that only 3 percent of the fiscal year 2007 shipments under bank-held insurance were by exporters whose small business status was unknown. They also stated that, for credit guarantee facilities, no shipments were recorded by exporters whose small business status was unknown.

GAO also recommended that Ex-Im engage an external auditor to audit its annual, legislatively mandated report on its direct support for small business. Ex-Im engaged Mayer Hoffman McCann P.C., its internal auditor, to perform the audit. With respect to credit guarantee facilities, bank-held policies, and non-bank-held insurance (i.e., single buyer/multi-buyer) policies, the auditors found that Ex-Im's process to obtain and calculate eligible small business counts operates in accordance with its policy and approved methodology. However, the auditors found exceptions to stated policy during their review of the working capital guarantee and non-credit guarantee facilities programs. For example, in the working capital guarantee program, the auditors noted a number of exceptions related to the completion of data fields that would have "flagged" these accounts as small business. The auditors stated that they believed that Ex-Im management was taking action to strengthen supervisory edit controls over these processes.

Ex-Im's Reporting on the Number of Transactions Directly Benefiting Small Business

Ex-Im is statutorily required to report on the number of its authorized transactions that directly benefit small business; in our 2006 report we found that Ex-Im's method of determining this number included some transactions that did not directly benefit small business. Ex-Im has frequently reported that about 85 percent of its authorized transactions directly benefit small business. For instance, in fiscal year 2004, it reported that 2,572 (or 83 percent) of its authorized transactions directly supported

small businesses. This count was based on crediting all 698 bank-held insurance policies as directly benefiting small business.[13] We reported that while many of these transactions directly benefit small business, they may not all directly benefit small business, as evidenced by the fact that Ex-Im's own estimate showed that about 20 percent of the value of bank-held insurance policies directly benefited small business during 2004.

GAO recommended that Ex-Im more accurately determine and clearly report the number of transactions that directly benefit small business; however Ex-Im officials disagreed with this recommendation and have not changed their methodology. Ex-Im officials stated that they reviewed their process and believe that it is appropriate. A senior official also noted that since the methodology has been used for a number of years, the bank can confidently report trends. The bank also believes that their methodology provides a conservative estimate.

Conclusions

Since GAO's last report on small business financing in March 2006, Ex-Im has made a number of changes. It also surpassed the target of allocating 20 percent of its financing to small business for both 2006 and 2007. While this is partly due to a drop in the overall level of financing provided to other customers by the bank, Ex-Im has shown increases in the level of business with small firms over several years. In addition, Ex-Im has made changes in its data systems which allow Congress to have a greater level of confidence in its reporting on small business and other matters, and it has instituted new internal controls to further increase accuracy in categorizing firms' small business status. Managing its resources going forward to respond to ongoing Congressional interest in the composition of Ex-Im's financing will, undoubtedly, entail new challenges for the bank. We look forward to working with Ex-Im further on issues related to evaluation of its small business financing efforts, including those directed at businesses owned by disadvantaged individuals and minorities, as mandated by the Congress with the strong support of this Committee.

[13]Similarly, in 2007, Ex-Im reported that that 2,390 (or 86 percent) of its authorized transactions directly supported small businesses, including five credit guarantee facilities and 374 bank-held insurance policies.

Madam Chairwoman, this concludes my prepared remarks. I would be pleased to respond to any questions you or other members of the committee may have at this time.

Contacts and Acknowledgments

Should you have any questions about this testimony, please contact Loren Yager at (202) 512-4347 or YagerL@gao.gov. Celia Thomas, Miriam A. Carroll and Jason Bair also made major contributions to this testimony.

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TESTIMONY OF STEVEN A. THIRY
ON BEHALF OF
AMT – THE ASSOCIATION FOR MANUFACTURING TECHNOLOGY
ON
OVERSIGHT OF THE U.S. EXPORT-IMPORT BANK'S IMPLEMENTATION OF ITS SMALL BUSINESS MANDATE

Before the
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS

JANUARY 17, 2008

Madame Chairwoman and members of the Committee, thank you for holding this hearing today and for giving me the opportunity to be here and participate.

My name is Steven A. Thiry. I am Vice President of Business Development at AMT - The Association For Manufacturing Technology.

Before I speak, and pursuant to House Rule XI, I am obliged to report that AMT received $225,100 from the Commerce Department's Market Development Cooperator Program for a technical center in China – $207,254 of which was disbursed in 2005 and $17,846 in 2006.

AMT is a trade association whose membership represents nearly 400 manufacturing technology providers located throughout the United States, almost the entire universe of machine tool builders who manufacture in our country. Most of these companies are small – an estimated 78 percent of them have less than 50 employees, most family owned. But what they contribute is huge.

They are the ones who build the machines that make things work. In fact, everything in this hearing room except the people, of course, was either made by a machine tool or made by a machine made by a machine tool.

We are an essential part of America's manufacturing base, providing a wide range of industries the manufacturing technology they need to produce – from cutting, grinding, forming and assembly machines to inspection and measuring machines and automated manufacturing systems.

Over the past few decades, these companies have faced significantly increased competition from abroad and seen a decline in their domestic market. As a result, they have turned to the export market to help keep their companies alive and growing – which, in turn, has safeguarded jobs here in the United States.

Increasingly, the ability to compete in the global markets is determined by factors beyond the products offered and the manufacturer's ability to service and support those products at the customer's point of use. Foreign competitors from countries such as Taiwan, Italy and Brazil

often can package their products and services with government subsidized financing that substantially improves their competitive position. This support becomes an even greater differentiator when the purchasing company is a smaller business. As such, smaller businesses in foreign markets often must pay substantially greater credit insurance and interest rates and undergo a difficult and uncertain application process in order to acquire American technology.

Another important factor to consider when evaluating the type and effectiveness of small business loan support is that all small businesses are not created equal. The U.S. government defines a small business as having less than 500 employees. It is very important to remember that the organizational structure as well as the specialization of skill in businesses ranging in size from 10 to 500 varies dramatically. A business with 300 to 500 employees is likely to have a far more experienced and sophisticated accounting and financial organization than one with 20 to 50 employees. In fact, the Chief Financial Officer of a 20 to 50 employee company is quite likely to be the Chief Operating Officer and owner as well. Wearing these multiple hats greatly limits the time he or she can dedicate to learning the ins and outs of getting an Ex-Im application through the approval process.

You might ask, why be concerned about these small, small businesses?

Building a long-term, viable export business takes more than capturing large project orders from a few big customers. It requires the development of a broad base of healthy and growing customers.

Among our member companies, we find these small businesses, because of their size, are proving more nimble in responding to changing market needs and increasingly are a greater factor in expanding the American export customer base. Examples of this include Master WorkHolding, Inc., in Morganton, N.C., which increased its exports from less than 20% to over 70% of its total business in just three years and expanded its payroll from 23 to 33 employees. This growth was enabled by Working Capital Guarantees provided by BB&T Bank through their delegated authority from the Ex-Im Bank. In this process, BB&T very effectively handled the application process, and as stated by Mike Powell, the owner of Master WorkHolding, Inc., "I could not have done this if I had had to take the time to figure out the application process myself. I would have lost the orders."

Participating in the AMT Shanghai Technology and Service Center - an export-enabling operation started with the support of a Market Development Cooperator Program grant - are 56 AMT members, of which over half have less than 70 employees. This Technology and Service Center directly contributed to over $23 million in U.S. exports in its first two years of operation.

Given these factors, what could be done in the future to improve the Ex-Im Bank support to small business?

Supporting the application process for smaller companies with limited expertise and resources places different demands on Ex-Im Bank staff regardless of the loan value and the ultimate buyer. Being effective requires that the Ex-Im staff know and understand the constraints under which smaller businesses must operate to survive. Simply put, it is not like working with a

larger business that has a sophisticated finance department. It is far more challenging. The Ex-Im Bank must have adequate staff specifically assigned and dedicated to working with these companies. This cannot happen without adequate funding support from Congress for the administrative functions of Ex-Im.

Speed is of the essence. With shrinking product life cycles, today's business environment is one where first to market, first to produce and first to deliver carries a greater competitive advantage than ever. An application approval process that exceeds the time allotted by the buyer for selecting a product and releasing the order effectively eliminates the Ex-Im backed financing, and, by default, the American exporter, from competing, even where the American products may offer superior performance. Simplifying and accelerating the application and approval process needs to be a priority to improve future support. Providing delegated authority for medium term loans to lending institutions with resources and experience in targeted export markets is a program that offers tremendous potential for improvement, and I want to emphasize that this is strongly supported by AMT. We urge rapid authorization of delegated authority for medium term loans.

Finally, it is our strongest recommendation that the current U.S. content requirements be reviewed. American manufacturers compete in a world market. Increasingly, customers in export markets seek to reduce the number of vendors and orders they transact in an effort to reduce their operating costs. This often forces American exporters to bundle their U.S.-produced products with products manufactured outside of the United States.

When financing support is offered only in proportion to American content, it puts the American exporter at a substantial disadvantage to foreign competition who can and will finance the entire project. Although intended to ensure financing support is only given to American-produced products, the ultimate effect of this proportional support is the reduction of the sale of U.S.-produced product.

Every member of AMT manufactures products in the United States. Each is fiercely competitive and determined to ensure that American manufacturing technology remains preeminent. They continue to invest time and money in their family businesses to grow their share of the world marketplace. They need your help to level the field on which they must compete.

Madame Chairwoman and members of the Committee, thank you again for giving me the opportunity to be here and participate.

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