REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Weakened Financial Condition Of The Export-Import Bank Of The United States

Eximbank is in financial difficulty.

- --Its risk of incurring possible losses has increased significantly and will continue to increase.
- --Its income is declining, and prospects for material improvement in the near future are not encouraging.
- --As a consequence, it may not be able to absorb future losses without impairing permanent capital.

Eximbank recognizes the potential problem and has taken steps to improve its future income. In the meantime, it has reduced dividends normally paid to the U.S. Treasury.

GAO recommends that additional steps be taken and believes that until they are completed Eximbank's status as a self-sustaining organization will be in doubt.

ID-76-17

OCT. 17, 1975

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114823

To the President of the Senate and the
Speaker of the House of Representatives

This report discusses the financial condition of the Export-Import Bank of the United States.

The Bank's financial condition has materially changed during recent years and major corrective actions are needed. The Government Corporation Control Act requires that we report on matters of this kind.

We are sending copies of this report to the Director, Office of Management and Budget; Secretary of the Treasury; and President and Chairman, Export-Import Bank.

Elmer B. Staats

Comptroller General
of the United States

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D I G E S T

Eximbank has expanded its operations without expanding its income. Its risk of incurring possible losses on loans, guarantees, and insurance has doubled during the last 6 years, while its reserve accumulated from income to cover such losses has remained relatively stable.

Income actually has declined during each of the last 3 years. The disparity between changes in risk and income might prove to be a subsidy of current exports, to be paid from past capital accumulations and, possibly, from future appropriations. (See ch. 2.)

Eximbank's risk will continue to increase, and its prospects for improving income materially in the near future are not encouraging. The problem is that Eximbank must borrow funds to finance its expanded operations, and it has been paying more interest for borrowed funds than it has been earning on the loans for which funds are borrowed.

It is an especially serious problem because Eximbank has been financing long-term loans with short-term borrowings; consequently it will have to pay undeterminable interest costs to reborrow funds already disbursed on loans earning income at a fixed rate.

Eximbank has taken steps to increase its income (see app. I), but additional measures are needed to help improve its financial condition as soon as possible (See ch. 3.)

GAO recommends that Eximbank

--raise its interest rate on direct loans made to finance sales for which little or no foreign competition exists to the rate charged by commercial lenders and

--adopt as its goal complete correlation of borrowing and lending repayment periods, and begin to work toward reaching that goal as soon as practicable, consistent with best available judgments regarding future changes in interest rates.

Eximbank has neither disagreed with these recommendations nor made a commitment to adopt them completely. (See app. I.)

Its overriding concern appears to be a desire to promote exports to the best of its ability, whereas GAO believes Eximbank should do everything possible either to promote exports on a self-sustaining basis or, if that can't be done, to more clearly indentify the extent to which public subsidization of its operations is required.

Because of Eximbank's increasing risk and declining income as well as the unpredictability of future losses, GAO is not able to express an opinion on the adequacy of Eximbank's reserve for contingencies and defaults. GAO has expressed a qualified opinion, however, on Eximbank's financial statements. (See ch. 4.)

Eximbank's financial statements for fiscal years 1975 and 1974 are included in this report beginning on page 15.

CHAPTER 1

INTRODUCTION

The Export-Import Bank of the United States (Eximbank) was created in 1934 and was made a wholly-owned U.S. Government corporation by the Export-Import Bank Act of 1945 (12 U.S.C. 635 *et seq*. (1970), as amended). Its principal activities have been to aid in financing and to facilitate exports from the United States to foreign countries.

Eximbank makes direct loans to foreign buyers, usually in conjunction with loans made by others, to finance the export of U.S. goods and services sold on credit terms. Under its discount loan program, Eximbank makes loans to domestic commercial banks that hold export debt obligations. It also guarantees the repayment of export loans made by others and insures amounts owed by foreign buyers to U.S. exporters.

Eximbank's authorizing legislation was recently amended by the Export-Import Bank Amendments of 1974 (Public Law 93-646 (Jan. 4, 1975)). This act extended the life of Eximbank to June 30, 1978; increased the limitation on the aggregate amount of loans, guarantees, and insurance outstanding at any one time; and made other changes affecting its operations.

Eximbank's activities are conducted primarily through its office in Washington, D.C. At June 30, 1975, Eximbank had 445 employees, an increase of 46 during the year then ended. A list of the principal officials is included as appendix II.

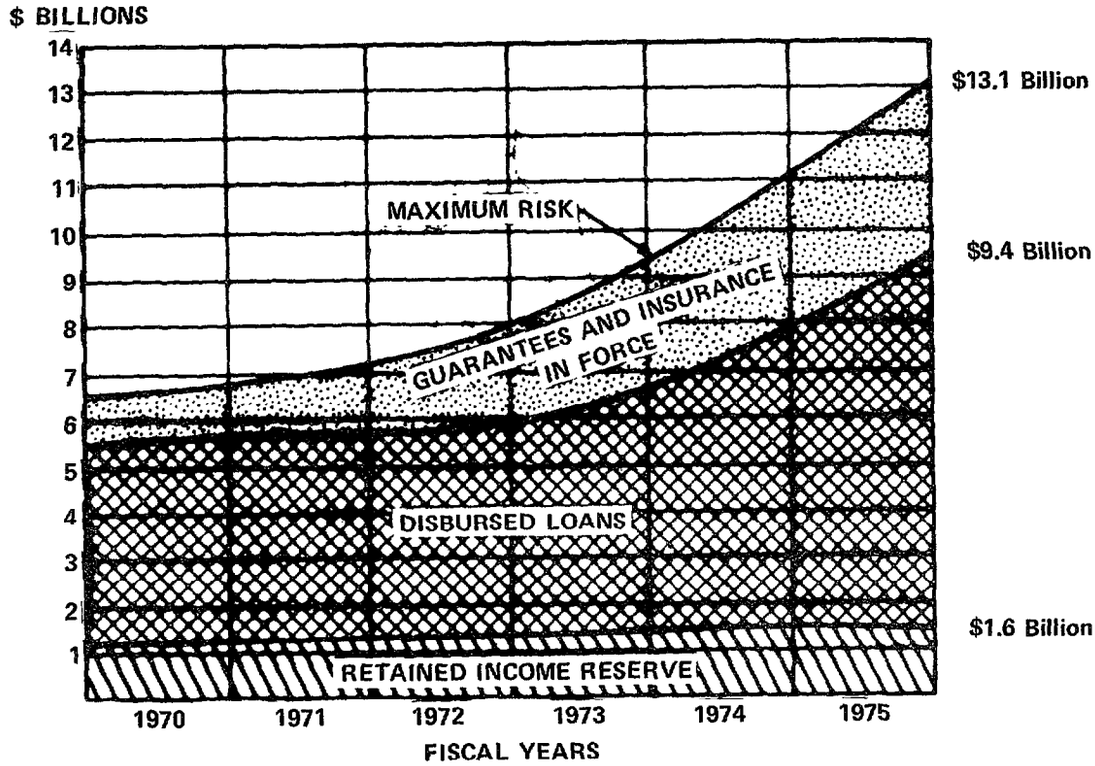
Eximbank has reviewed and commented on this report, and the essence of its comments has been incorporated, where appropriate. Complete comments have been included as appendix I.

CHAPTER 2

REDUCED CAPACITY FOR ABSORBING POTENTIAL LOSSES

During the 6 years ending June 30, 1975, Eximbank authorized more export financing than it had authorized during its previous 35-year life, which has significantly increased its risk of incurring losses. Eximbank earmarks all its retained income as a reserve for losses that might be subsequently incurred. The expansion of operations, however, has not been accompanied by a corresponding expansion of income; consequently, the reserve for potential losses has not kept pace with the increased exposure. The extent to which Eximbank's capacity to absorb potential losses has been reduced during these years is indicated on the following graph.

INCREASING RISK VS. STABLE RESERVE



Eximbank continued to earn income during these 6 years, but, in relation to the increase in risk, income declined from 39.3 percent in 1970 to 4.3 percent in 1975. Income declined also in absolute terms during fiscal years 1973-75, as shown below.

	Increase in risk				
	Loans	Guarantees and insurance	Total	Net income (note a)	Percent of income to increase
	(millions)				
1970	$ 292.3	$ -10.4	$ 281.9	$110.7	39.3
1971	-49.1	339.0	289.9	119.5	41.2
1972	291.5	554.9	846.4	147.9	17.5
1973	629.6	648.5	1,278.1	139.7	10.9
1974	1,315.9	632.8	1,948.7	110.3	5.7
1975	1,507.2	358.6	1,865.8	80.5	4.3
Total	$3,987.4	$2,523.4	$6,510.8	$708.6	

a/All net income, less dividends paid to the Treasury, was added to the reserve for possible losses on loans, guarantees, and insurance. Dividends were $50 million for each of the first 5 years and $20 million for 1975.

Eximbank's risk of incurring losses on its loans, guarantees, and insurance will continue to increase because at June 30, 1975, it had authorized $12.6 billion of financing that had not yet been implemented. This backlog consisted of $7 billion of undisbursed loan authorizations and $5.6 billion of authorized guarantees and insurance not yet in force. In addition, the January 4, 1975, amendments to Eximbank's legislative authority permit a further expansion of its operations. It therefore seems clear that, until its income is materially improved, Eximbank's capacity to absorb potential losses will continue to shrink.

The prospects for materially improving income in the near future are not encouraging. The decline in income has been caused by the need to borrow funds to make loan disbursements and by paying more interest on these funds than the loans earned. During fiscal year 1974, for example, Eximbank borrowed $1.5 billion at interest rates averaging 8.1 percent to make disbursements on loans earning primarily 6 percent. Eximbank had increased the interest rate on its new loans by the end of fiscal year 1974; however, most of the authorized but undisbursed loans at June 30 had been authorized at 6 percent. Because Eximbank will have a continuing need to borrow, future interest rates will be a controlling factor

in determining future income. (See ch. 3 for discussion of prospects for improving income.)

Another element that cannot be predicted is the size of the reserve needed to cover future losses on loans, guarantees, and insurance. Eximbank has not experienced large losses on the financing authorized during its earlier years, but it has had loan-collection problems, as evidenced by the need to reschedule delinquent loans. At June 30, 1975, older loans totaling $907.5 million had been rescheduled or were delinquent. Whether these loans will eventually become losses or whether Eximbank's substantially expanded program wil have the same problem cannot be predicted. The financial problem many debtor countries face in meeting increased energy costs is one of the new factors that could influence future losses.

EXIMBANK POSITION

Eximbank agrees that its capacity to absorb losses has been reduced but believes that its retained income reserve continues to be substantial in relation to its loss experience. It recognizes also that, if its risks continue to increase disproportionately to reserve increases, a time could come when the reserve would not be sufficient to absorb a higher level of losses which could develop in the future. Eximbank believes, however, that steps already taken will result in a more rapid reserve increase while still going as far as a self-sustaining financial institution can to keep American exporters competitive with their foreign counterparts. (See app. I for Eximbank's complete position.)

CONCLUSIONS

Although future losses on Eximbank loans, guarantees, and insurance cannot be predicted, their size will undoubtedly be more related to the size of the total risk than to its loss experience. We therefore regard any addition to the risk without a comparable addition to the reserve for losses as a weakening of Eximbank's financial condition. Failure to increase the reserve proportionately to the increase in risk might prove to be a subsidy of current exports, to be paid from past accumulations of capital and, possibly, from future appropriations.

We believe that Eximbank should consider additional measures to stop the shrinking of its capacity for absorbing potential losses. Our observations on needed corrective action and an assessment of steps already taken by Eximbank are included in chapter 3.

CHAPTER 3

PROSPECTS FOR IMPROVING INCOME

Disbursements on loans and implementation of guarantee and insurance contracts already authorized at June 30, 1975, coupled with planned further expansion of operations will cause a continued increase in Eximbank's risk. More importantly, the part of the increase represented by loans will require a corresponding increase in borrowings. The size of future borrowings is important because, as noted previously, Eximbank has been paying more interest on borrowed funds than it has been earning on the loans for which the funds are borrowed, and the resulting decline in income has been reducing its capacity to absorb potential losses.

We estimate that, during the next 4 years, Eximbank operations will require new borrowings of at least $12.5 billion. Our estimate is based on a reborrowing requirement applicable to borrowings outstanding at June 30, 1975, and repayable during the period, plus projected additional annual borrowings equal to those of fiscal year 1975, as shown below:

	(billions)
Reborrowing requirement applicable to outstanding borrowings at June 30, 1975	$ 6.5
Additional borrowings, projected at 1.5 billion a year	6.0
Total new borrowings	$12.5

Borrowings of this magnitude will significantly affect income if their interest costs exceed (1) interest earned on loans for which the funds are borrowed or (2) interest costs of previously borrowed funds for which reborrowing is required. An overall interest deficit of 1 percent on borrowings of $12.5 billion, for example, would reduce income by $125 million annually. Such a loss on future borrowings would be greater than Eximbank's current net income.

Eximbank continued to incur an interest deficit on its new borrowings during the first two quarters of fiscal year 1975. Most loan disbursements during that period were made at 6 percent interest, whereas funds to make the disbursements were borrowed from the Treasury at rates averaging 9.32 and 7.80 percent.

The interest deficit on new borrowings was temporarily eliminated by the end of the third quarter of fiscal year 1975, when the applicable Treasury rate dropped to 6 percent. In April 1975 the rate further declined to 5.88 percent, but in May 1975 Eximbank repaid the Treasury by borrowing $4 billion from the Federal Financing Bank at 7.125 percent. Eximbank plans to continue borrowing from the Federal Financing Bank. Thus, as long as the 7.125 percent interest rate prevails, Eximbank will continue to incur an interest deficit on borrowings for disbursements at 6 percent. Consequently, it must rely on higher loan earnings to eliminate the deficit.

Eliminating the interest deficit, moreover, will not prevent further shrinking of Eximbank's capacity to absorb possible losses. To stop the shrinking, Eximbank must increase its retained income reserve in the same proportion that it increases its risk of incurring losses.

To increase its income, Eximbank:

--In February 1974, increased the interest rate on direct loans to 7 percent and subsequently began to charge variable rates, some as high as 8.5 percent.

--In February 1975, announced its intention to charge as high as 9 percent on some direct loans, although the predominant high rate subsequently charged has been 8.5 percent.

--In September 1975, announced that lending-interest rates would range from 8.25 to 9.5 percent, depending on the total term of the loan, with the 8.25 percent applying to loans having total terms of less than 6 years and the 9.5 percent applying to loans having total terms of more than 14 years.

--Increased fees charged for guarantees and for financing commitments.

--Is attempting to shift more of its financing from direct loans to guarantees, although it does not expect new direct-loan authorizations to decrease.

Although these actions should help, their success in adequately improving income will depend primarily on the prevailing rates of interest charged for loans as well as on future interest costs of borrowed funds when disbursements on current loan authorizations are made.

Eximbank has no direct control over future borrowing interest rates, but fluctuations could be better managed if borrowing and lending repayment periods were correlated. Current borrowing repayment periods are relatively short compared with repayment periods of loans made with borrowed funds. For example, about half of the outstanding borrowings at June 30, 1974, were Treasury borrowings repayable in 1 year and about half were repayable within 5 years, whereas the repayment periods of outstanding loans averaged 7.2 years. When Eximbank shifted its Treasury borrowings to the Federal Financing Bank in fiscal year 1975, the new debt was repayable in 12 equal quarterly installments. This repayment schedule is the equivalent of borrowing the entire amount for 1.6 years, which is a longer period than previously applied to Treasury borrowings but is much shorter than the lending repayment period. We were informed that, as Eximbank reborrows from the Federal Financing Bank, the repayment periods will be lengthened to at least 3 years.

The practice of financing long-term loans with short-term borrowings insures that reborrowing will be necessary prior to loan maturity dates, with the result that Eximbank cannot predict the ultimate cost of funds already borrowed and disbursed on loans earning income at fixed rates. By correlating borrowing and lending repayment periods, Eximbank could develop a firmer basis for establishing lending rates needed to produce a desired level of income.

Another course of action available to Eximbank would be to reduce its participation in export financing and to examine more closely the need for its financing to ensure the export. A lower level of loan activity would especially help, by limiting both the risk and the borrowing requirement. Unfortunately, clear guidelines do not always exist for determining whether Eximbank support is needed to promote exports.

A case in point is the financing provided for sales of commercial aircraft to foreign airlines, which has accounted for almost one-fourth of Eximbank's loans.1/ Although U.S. aircraft manufacturers rely heavily on these sales, their aircraft dominate the Western market. Therefore, the need for at least some Eximbank aircraft financing at below-market interest rates can be legitimately questioned even though there may be a need for the financing itself. Eximbank believes that its support of aircraft sales is needed and plans to continue providing it. It has, however, applied some of the higher rates charged on loans during recent months (mostly 8.5 percent) to aircraft sales.

1/See GAO report, "Export of U.S.-Manufactured Aircraft--Financing and Competitiveness" (ID-75-41, Mar. 12, 1975).

The principle of charging the highest interest rates on loans for which the need is the most questionable appears to be sound. At the same time, if the interest rates on these transactions were high enough to provide a clear advantage to Eximbank, it would be profitable for Eximbank to continue making the loans.

An interest rate equal to that charged by commercial lenders, for example, would eliminate the subsidy element on sales for which little or no foreign competition exists. This would permit Eximbank's continued support on financially beneficial terms when it was needed for other purposes, such as providing extended repayment periods. The higher interest rates charged by Eximbank in recent months, as well as the increased rates announced in September 1975, were below the rates charged by participating commercial lenders.

Eximbank has for some time favored keeping its loan interest rates as low as possible. In 1969, for example, when borrowing interest rates were rising, Eximbank rejected the idea of raising its interest rate because it believed that (1) a higher rate would be less competitive and therefore inconsistent with plans for export expansion, (2) to charge a rate on new loans equivalent to the cost of new money was unnecessary when maximum profits were not being sought, and (3) more income was not needed to permit operations to continue.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on this report, Eximbank expressed a view similar in part to that expressed in 1969. Its current view is that lending interest rates should be increased when the cost of money increases but must also be kept as low as possible to keep American exporters competitive with their foreign counterparts. Eximbank pointed out that its authorizing legislation requires that it consider the cost of money and the competition.

We agree that both factors should be considered in setting loan interest rates; however, the competition factor does not apply to sales for which little or no foreign competition exists. A below-market interest rate does not benefit an American exporter when he is selling a product that foreign competitors cannot offer. Instead, the foreign buyer is the sole beneficiary, a benefit which Eximbank has no mandate to provide.

It should be noted also that Eximbank's current recognition of the need to consider the cost of money could be a relatively limited concession as long as the cost of its

money continues to be unknown. Eximbank does not now know what the cost of its currently borrowed money will be, and it will never have this knowledge until it correlates its borrowing and lending repayment periods. Eximbank has stated its intention of continuing to work toward that goal but has indicated some disbelief in the necessity and the desirability of achieving it completely. To the extent that this goal is not achieved, Eximbank's status as a self-sustaining organization will be in doubt.

Despite the reservations indicated above, Eximbank has expressed genuine concern about performing its function on a sound basis. It has stated its intention to advise the Congress on a continuing basis about its retained income reserve and emphasized the need for flexibility and delicate judgment in the years ahead. Its overriding concern appears to be a desire to promote exports to the best of its ability.

CONCLUSIONS

We recognize that Eximbank's purpose is to promote exports and we believe it should do everything possible to do so on a self-sustaining basis. If that cannot be achieved, Eximbank should more clearly identify the extent to which public subsidization of its operations is required.

In the short-term, Eximbank's capacity to absorb possible losses will necessarily continue to shrink. Current conditions are primarily the result of Eximbank's prolonged retention of a 6-percent interest rate on direct loans coupled with the unforeseen severity of recent rises in borrowing interest rates. Eximbank's recently increased loan interest rates will not materially affect income until 1977, at which time the rates may or may not be high enough to reverse the trend.

The inability to determine future interest costs of short-term funds already borrowed for existing long-term loans is a weakness in Eximbank's financial management system which prevents reliable determinations of lending interest rates needed to produce a desired level of income. It is an especially serious weakness at this time because of unusually high interest costs for longer term borrowing and uncertainty about future interest rates. These conditions may cause Eximbank to be understandably reluctant to immediately shift from short-term to long-term borrowing. Until the shift is made, however, we believe Eximbank will be taking a risk that interest rates may continue to rise.

We endorse Eximbank's current use of variable loan interest rates, but we believe a more flexible maximum rate should be established and applied to sales not requiring concessional interest rates to buyers but for which capital may be required; i.e., large sales for which little or no foreign competition exists. A maximum rate equivalent to the rate charged by commercial lenders on any given transaction would appear to be appropriate for this purpose.

RECOMMENDATIONS

To help improve Eximbank's financial condition as soon as possible, we recommend that Eximbank

--raise its interest rate on direct loans made to finance sales for which little or no foreign competition exists to the rate charged by commercial lenders and

--adopt as its goal complete correlation of borrowing and lending repayment periods, and begin to work toward reaching that goal as soon as practicable, consistent with best available judgments regarding future changes in interest rates.

CHAPTER 4

OPINION ON FINANCIAL STATEMENTS

We have examined Eximbank's comparative statement of financial condition as of June 30, 1975 and 1974 and the related comparative statements of income and reserve for contingencies and defaults and of changes in financial position for the years then ended. Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841) and in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Note 2 to the financial statements explains that Eximbank has certain borrowings from the U.S. Treasury at interest rates lower than the prevailing rates at the time the funds were borrowed. Had the Treasury charged Eximbank interest at rates approximating the full cost of funds, Eximbank's interest expense would have been increased by approximately $2.9 million and $4.9 million in fiscal years 1975 and 1974, respectively, and the net income from operations for these years would have been correspondingly reduced.

Chapters 2 and 3 of this report discuss problems associated with Eximbank's increasing risk and declining income. Because of these conditions and the unpredictability of future losses (see note 5 to the financial statements), we are not able to express an opinion on the adequacy of Eximbank's reserve for contingencies and defaults.

The contingent liability reported by Eximbank as loans sold with recourse (see note 6 to the financial statements) includes participations in specific loans in support of which Eximbank issued instruments called certificates of beneficial interest. The buyers of these instruments are not free to dispose of them except as permitted by Eximbank, which also assumes full risk of default. We believe such instruments should be considered as financing transactions which, if so handled on Eximbank's statement of finanical condition, would increase total assets and liabilities by $471 million and $513 million as of June 30, 1975 and 1974, respectively.

In our opinion, except for the amount reserved for contingencies and defaults and the manner in which certificates of beneficial interest are accounted for, as described above,

the accompanying financial statements present fairly the financial position of Eximbank at June 30, 1975 and 1974, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

FINANCIAL STATEMENTS

 SCHEDULE 1

EXPORT-IMPORT BANK OF THE UNITED STATES

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

	June 30, 1975		June 30, 1974	
ASSETS				
Cash:				
U.S. Treasury.....	$ 8,300,000		$ 11,000,000	
Domestic Commercial Banks.....	12,500,000	$ 20,800,000	10,000,000	$ 21,000,000
Loans Receivable (Note 4):				
Original Loans.....	8,501,400,000		6,901,200,000	
Rescheduled Loans..	794,600,000		928,500,000	
Current Loans.....	9,296,000,000		7,829,700,000	
Delinquent Loans...	112,900,000	9,408,900,000	72,000,000	7,901,700,000
Accrued Interest and Fees Receivable (Note 4):				
Current Interest and Fees.....	143,000,000		110,700,000	
Delinquent Interest	16,600,000	159,600,000	13,900,000	124,600,000
Other Assets:				
Deferred Debenture and "P.C." Expenses.....	3,300,000		4,500,000	
Foreign Credit Insurance Association Receivable..	1,800,000		600,000	
Other Receivables..	500,000		4,000,000	
Miscellaneous Assets.....	400,000	6,000,000	200,000	9,300,000
Total Assets...		$9,595,300,000		$8,056,600,000

Notes to Financial Statements on pages 18 through 25 are an integral part of this statement.

SCHEDULE 1

	June 30, 1975		June 30, 1974	
LIABILITIES, RESERVE, AND CAPITAL				
Borrowings (Notes 2 &3):				
Notes Payable to U.S. Treasury....	$ 207,100,000		$2,456,900,000	
Notes Payable to Federal Financing Bank.....	4,049,400,000		-	
Debentures Payable.	2,343,100,000		2,643,100,000	
Participation Certificates "P.C." Payable.....	250,000,000	$6,849,600,000	250,000,000	$5,350,000,000
Other Liabilities:				
Guaranteed Letters of Credit Payable	16,500,000		27,000,000	
Accrued Interest Payable.....	76,600,000		60,300,000	
Dividend Payable to U.S. Treasury....	20,000,000		50,000,000	
Other Credits.....	3,600,000	116,700,000	2,200,000	139,500,000
Deferred Fee Income....		5,500,000		4,100,000
Reserve for Contingencies and Defaults, accumulated from income--includes delinquent interest and delinquent capitalized interest of $18.6 million at 6-30-75 and $14.3 million at 6-30-74 (Notes 3, 4, & 5).....		1,623,500,000		1,563,000,000
Capital, stock held by U.S. Treasury (Note 3)		1,000,000,000		1,000,000,000
Total Liabilities, Reserve, and Capital.....		$9,595,300,000		$8,056,600,000

EXPORT-IMPORT BANK OF THE UNITED STATES

COMPARATIVE STATEMENT OF INCOME AND RESERVE FOR CONTINGENCIES AND DEFAULTS

	Fiscal Year Ended	
	June 30, 1975	June 30, 1974
Revenues:		
Interest on Loans.....	$ 512,200,000	$ 422,600,000
Insurance Premiums and Guarantee Fees.....	12,100,000	8,900,000
Commitment Fees and Other Income.....	21,500,000	18,600,000
Total Revenues.....	545,800,000	450,100,000
Expenses:		
Interest on U.S. Government Borrowings.....	267,900,000	157,100,000
Interest on Debenture and "P.C." Borrowings.....	180,000,000	165,500,000
Other Expense, principally Interest and Amortization of Financing Costs.....	5,500,000	2,900,000
Administrative Expenses	10,100,000	8,700,000
Claims Paid, net of recoveries (Note 5).....	1,800,000	5,600,000
Total Expenses.....	465,300,000	339,800,000
Net Income	80,500,000	110,300,000
Less: Dividend to U.S. Treasury (Note 3).....	20,000,000	50,000,000
Addition to Reserve for Contingencies and Defaults.....	60,500,000	60,300,000
Reserve for Contingencies and Defaults at July 1.....	1,563,000,000	1,502,700,000
Reserve for Contingencies and Defaults at June 30.....	$1,623,500,000	$1,563,000,000

Notes to Financial Statements on pages 18 through 25 are an integral part of this statement.

EXPORT-IMPORT BANK OF THE UNITED STATES

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

	Fiscal Year Ended	
	June 30, 1975	June 30, 1974
Funds Provided:		
Net Income	$ 80,500,000	$ 110,300,000
Borrowings from the U.S. Treasury and the Federal Financing Bank, net of repayments (Note 2)	1,799,600,000	569,200,000
Sales of Debentures	-	1,000,000,000
Repayments and Other Credits to Loans Receivable	1,291,000,000	1,197,000,000
Accrued Interest Payable	16,300,000	21,300,000
Sales of Individual Loan Maturities	20,500,000	25,500,000
Total Funds Provided	$3,207,900,000	$2,923,300,000
Funds Applied:		
Disbursements and Other Additions to Loans, includes Capitalized Interest--1975, $4,191,572; 1974, $51,067,064	$2,818,700,000	$2,538,400,000
Accrued Interest and Fees Receivable	35,000,000	(3,300,000)
Redemptions of Debentures and "P.C."	300,000,000	327,000,000
Payment of Dividend to U.S. Treasury (FY 1974 and FY 1973)	50,000,000	50,000,000
Other--Net	4,200,000	11,200,000
Total Funds Applied	$3,207,900,000	$2,923,300,000

Notes to Financial Statements on pages 18 through 25 are an integral part of this statement.

NOTES TO FINANCIAL STATMENTS

Note 1

Enabling Legislation and Basic Accounting Principles

Eximbank is an independent corporate agency within the Executive Branch of the Federal Government; the primary legislation governing its operations is the Export-Import Bank Act of 1945, as amended through January 4, 1975, and the Government Corporation Control Act.

Eximbank's accounting records are maintained on an accrual basis with the exception of loan write-offs and the payment of claims on guarantees and insurance policies. Loan losses are charged to income when Eximbank determines that the loan is uncollectable. Claims are charged to income in the year paid. Interest on delinquent loans receivable is accrued until such time as Eximbank determines on a case-by-case basis that a particular delinquent loan should be nonaccruing. Statements for FY 1974 have been reclassified to conform with FY 1975 statement classifications.

The commitment authority of Eximbank under the Export-Import Bank Act to lend, guarantee, or insure is limited to $25 billion of such liabilities outstanding at any one time. Loans are charged, under the Act, at 100 percent of their authorized amount against the $25 billion limitation; guarantees and insurance are charged, under the Act, at 25 percent of their contractural liability against the $25 billion limitation with proviso that the aggregrate amount of the guarantees and insurance so charged may not exceed $20 billion. Thus, Eximbank's contractural commitments outstanding at any one time could go as high as $40 billion consisting of $20 billion of guarantees and insurance outstanding resulting in a $5 billion charge to the $25 billion limitation and $20 billion in additional commitments charged at 100% to the limitation.

At June 30, 1975, the committed and uncommitted authority to lend, guarantee, and insure is:

($ Millions)

			$25 billion limitation
Loans.....			$16,877.5
Guarantees.....	$5,323.1		
Insurance.....	3,675.3		
	8,998.4	@25%	2,249.6
Committed.....			19,127.1
Uncommitted.....			5,872.9
Total Statutory Authority			$25,000.0

Note 2

Borrowing from the U.S. Treasury
and the Federal Financing Bank

Eximbank does not receive any appropriated funds or tax revenues. Eximbank has authority, under its Act, to borrow directly from the U.S. Treasury and to have outstanding at any one time up to $6 billion of such borrowings. Eximbank borrows from the Treasury for its short-term needs on a daily basis at a 90-day Treasury bill rate. Excess cash on a daily basis is used to reduce these borrowings. The average short-term rate for FY 1975 was 7.96%.

In previous years, Eximbank borrowed its medium-term needs through the issuance of debentures and participation certificates, of which $2.6 billion is still outstanding with maturities out to 1982, at an average rate of 6.58%. With the advent of the Federal Financing Bank, Eximbank will borrow from it for medium-term needs. The first borrowing was May 28, 1975, for $4,049 million at 7.125% repayable quarterly over three years and was used to repay principal and interest on all of Eximbank's outstanding short-term borrowings from the U.S. Treasury. As Eximbank is a net borrower of funds, future U.S. Treasury short-term borrowings will be rolled-over quarterly by borrowing from the Federal Financing Bank on a medium-term basis at a U.S. Government agency borrowing rate appropriate to the term of the borrowing.

In addition to the Bank's short-term U.S. Treasury borrowings, Eximbank has certain borrowings ($95 million at June 30, 1975) from the U.S. Treasury at rates lower than the rate prevailing at the time the funds were borrowed. These borrowings from the U.S. Treasury were tied-in directly to the rate, term, and outstanding balances of certain concessionary loans that Eximbank made in the national interest. The last of these loans was authorized in 1970.

Note 3

United States Government Investment in Eximbank

The investment of the U.S. Government in Eximbank consists of the following:

	($ Millions)	
	June 30, 1975	June 30, 1974
Capital, stock held by U.S. Treasury	$1,000.0	$1,000.0
Reserve for Contingencies and Defaults	1,623.5	1,563.0
Dividend Payable to U.S. Treasury	20.0	50.0
Notes Payable to Federal Financing Bank	4,049.4	-0-
Notes Payable to U.S. Treasury	207.1	2,456.9
Total	$6,900.0	$5,069.9

The dividend to the U.S. Treasury of $20 million was declared on August 14, 1975, as of June 30, 1975, and was paid on September 2, 1975.

Note 4

Loans Receivable

The maturity schedule of loans outstanding is:

($ Millions)

June 30, 1975			June 30, 1974		
Fiscal Years of Maturities	Amount	Percent of Total	Fiscal Years of Maturities	Amount	Percent of Total
1976	$1,239.1	13.2%	1975	$1,194.4	15.2%
1977	894.0	9.5	1976	922.5	11.6
1978	995.2	10.6	1977	893.5	11.3
1979	1,015.5	10.8	1978	940.4	11.9
1980	959.8	10.2	1979	884.9	11.2
	$5,103.6	54.3		$4,835.7	61.2
1981-99	4,305.3	45.7	1980-99	3,066.0	38.8
	$9,408.9	100.0%		$7,901.7	100.0%

$7.0 billion of loans have been authorized and committed at June 30, 1975, by Eximbank which have not yet been disbursed. Undisbursed loans are drawn down by obligors as the need arises to make payment to U.S. suppliers; timing of the draw down is determined by delivery and construction schedules which frequently encounter delays. However, Eximbank uses the following estimates to project its overall cash disbursements on loans: 10% is disbursed during the year of authorization, 30% the following year, 20% during the 3rd year, 15% the 4th year, 13% the 5th year, and a residual 12% of the authorizations are cancelled. Eximbank will continue to be a net borrower of funds in the foreseeable future.

Loans receivable, which comprise 98% of all assets of Eximbank are classified as original, rescheduled, and delinquent. Current loans are the sum of original and rescheduled loans. Original loans are those whose repayment schedule has not had to be changed as a result of financial problems. Rescheduled loans have maturities which have been extended to a new maturity schedule because the obligor or country has encountered temporary financial difficulty and the Directors of Eximbank have determined that providing relief in this manner will aid collectibility and enable the obligor to service the debt timely. Delinquent loans are classified as such if the maturities are more than 90 days past due.

($ Millions)

	FY 1975		FY 1974	
Original loans	$8,501.4	90.4%	$6,901.2	87.4%
Rescheduled loans	794.6	8.4	928.5	11.7
Current loans	9,296.0	98.8	7,829.7	99.1
Delinquent loans	112.9	1.2	72.0	.9
Total	$9,408.9	100.0%	$7,901.7	100.0%

All loan maturities which were previously rescheduled are current at June 30, 1975, except five loans with an outstanding balance of $20.6 million which are past due and are included in the delinquent classification.

Eximbank in FY 1975 rescheduled loan installments totaling $6.0 million on loans having an outstanding principal balance of $10.2 million. In addition, agreement has been reached and approved by the Board of Eximbank to reschedule the calendar year 1975 maturities totaling $52.6 million for loans to Chile. This agreement will be signed in early FY 1976 and, for statement purposes, the outstanding balances of the Chile loans are shown in the rescheduled totals.

In addition, some reschedulings include capitalized interest, which has been previously credited to the Reserve for Contingencies and Defaults. At June 30, 1975, the Reserve of $1,623.5 million includes $71.1 million of such outstanding capitalized interest of which $2.0 million is delinquent. The Reserve also includes past due interest and interest on delinquent loans totaling $16.6 million.

The delinquent loans, excluding China and Cuba, consist of $2.8 million of principal and $2.2 million of interest due under 27 various loans. The total outstanding balance of these 27 delinquent loans is $50.2 million.

The government of the Republic of China, now located on Taiwan, is not at this time being called upon to make payments on that portion of loans made prior to 1947 when the seat of that government was on the mainland and which relate to assets no longer under the control of that government. The outstanding balance of these loans is $26.4 million. Defaults on loans to Cuba with an outstanding balance of $36.3 million pertain to loans made prior to 1961, when a prior government existed.

Note 5

Losses, Claims and Reserve for Contingencies and Defaults

Eximbank charged off one loan totaling $6,291 in FY 1975. Losses, claim payments, and recoveries for each fiscal year are:

	($ Thousands)	
	FY 1975	FY 1974
Loan charged off	$ 6.3	$ -
Guarantee claims paid	2,553.0	4,227.4
Guarantee recoveries	(4,275.7)	(489.8)
Insurance claims paid	5,516.3	2,645.3
Insurance recoveries	(2,042.6)	(785.8)
Claims Paid, net of recovies	$1,757.3	$5,597.1

The possible risk to Eximbank from losses and claims is not susceptible to accurate measurement because of the unpredictable nature of future economic and political conditions throughout the world. Eximbank's entire Reserve is available to cover such losses, claims, and contingencies. Eximbank has a Reserve for Contingencies and Defaults amounting to $1.6 billion which is 17.3% of outstanding loans and 6.3% of world commitments. This Reserve coupled with the $1.0 billion capital of Eximbank is more than 10% of world commitments.

Note 6

Commitments and Contingent Liabilities

Eximbank's world wide commitments, as shown below, include contingencies totaling $9,257.0 million at June 30, 1975, and $8,067.7 million at June 30, 1974.

		($ Millions)	
		June 30, 1975	June 30, 1974
Outstanding Loans		$ 9,408.9	$ 7,901.7
Undisbursed Loans		7,043.6	7,331.7
Loans Sold with Recourse	"C"	487.6	530.8
Guarantees	"C"	5,260.6	4,515.4
FCIA Insurance	"C"	3,508.8	3,021.5
Total		$25,709.5	$23,301.1

"C" - Contingency

APPENDIXES

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

PRESIDENT
AND
CHAIRMAN

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

August 18, 1975

United States General Accounting Office
441 G Street N.W.
Washington, D. C. 20548

Attention: Mr. Frank M. Zappacosta
Assistant Director
International Division

Dear Sirs:

Thank you for submitting for our review the draft of your report to Congress on Need to Improve Financing Practices of the Export-Import Bank of the United States. Historically, until the past few years, the interest rate which the Bank has charged on its loans has been consistently higher than the rate at which it has borrowed funds. As a result, the Bank has managed to accumulate over $1.6 billion of retained earnings while paying $906 million in dividends to the U.S. Treasury. In the late 1960's, when the U.S. balance of trade began deteriorating, the decision was made to expand the Bank's activities more rapidly, with the obvious and recognized result that Exim's exposure would increase faster than additions to the Bank's reserve. In 1971, Congress added to the Bank's statutory mandate an explicit directive to offer financing competitive with that offered by official export credit agencies of other countries.

Net loan write-offs and guarantee and insurance claims paid since the inception of the Bank to June 30, 1969, have been only $3.7 million and $4.7 million, respectively; and even with the expansion of the Bank's activities, in the past six years only $6 thousand of loans have been written off and $26.2 million of net claims paid.

Thus, while we concur with the GAO view that Eximbank's capacity to absorb losses has been reduced over the last five years, we nevertheless believe our retained income reserve continues to be substantial in relation to our loss experience. We also recognize that if the Bank's exposure should continue to increase disproportionately to increases in the reserve, a time could come when the reserve would not be sufficient to absorb a higher level of losses which could develop at some time in the future. However, over the past year the Bank has taken significant steps, described below, which will result in a more rapid increase in our reserve while still going as far as a self-sustaining financial institution can to keep American exporters competitive with their competitors overseas.

Eximbank has increased its interest rate from 6% to a band ranging from 7% to 9%, with virtually all of the transactions in the last six months, which were not based on previously issued preliminary commitments, carrying an interest rate of 8% or 8-1/2% per annum. We have increased our guarantee fee from 1/2% to a range of 3/4% to 1-1/2%, with almost all of them being at 1%; and we have added a commitment fee for our guarantee of 1/8 of 1%.

You have made three specific recommendations. The first is that Eximbank should charge the same interest rate as commercial lenders would charge in sales for which little or no foreign competition exists. We have already brought our interest rates closer to commercial rates and do generally set the interest rate in the higher ranges when there is little or no foreign competition. Section 2(b)(1)(B) requires the Board of Directors to take into consideration the "average cost of money to the Bank as well as the Bank's mandate to support United States exports at rates and on terms and conditions which are competitive with exports of other countries * * *." We will continue to exercise our best judgment as to the appropriate interest rate considering the financial health of the Bank as well as our task of facilitating exports on as broad a basis as possible.

Your second recommendation is that the Bank correlate its borrowing and lending repayment periods as soon as practicable. We are doing that. While we do not believe it is necessary or even desirable to borrow on exactly the same terms as the average repayment period of our loans, we have already taken steps to lengthen the maturities on our debt. In May of this year, the Bank refinanced $4 billion of its short-term Treasury debt with the Federal Financing Bank, payable quarterly over the next three years. We intend to roll over each quarterly installment at maturities which are as long as practicable and, as stated in your recommendation, "consistent with best available judgments with respect to future changes in interest rates."

Finally, you recommend that the Bank advise Congress on a continuing basis about the Bank's retained income reserve. We will certainly keep both the General Accounting Office and the Congress fully informed on this.

Permit me one further observation. The trends identified by your report are inherent to a self-sustaining institution, like the Bank, called upon to provide financing competitive with that provided other countries which appropriate money every year to subsidize below market interest rates for as much as 85% of the price of their exports as well as costly inflation insurance and other export stimulants. Confronted with this task, the Bank, in recent years, has borrowed short term to minimize its interest costs and meet financing competition lending at 6% or less. Over the last 16 months, the Bank has moved its interest rates up ahead of its competitors

and, when money rates moved down, it refunded its outstanding short-term borrowing over a 3-year period in a program to shift to longer maturities as interest levels offer opportunities to borrow at rates which preserve the Bank's ability to continue to finance exports at competitive rates. We are aware that this will become progressively more difficult as a rising level of U.S. exports increases the ratio of the Bank's borrowings to its capital and reserves. To achieve the most desirable balance between interest rates paid and charged while staying both as competitive and soundly funded as possible will call for both flexibility and delicate judgment. The Bank's directors will welcome your advice and that of the Congress.

Sincerely yours,

William J. Casey

PRINCIPAL OFFICIALS OF THE EXPORT-IMPORT BANK OF THE UNITED STATES

	Position	Date of appointment
BOARD MEMBERS:		
William J. Casey	President and Chairman	Mar. 14, 1974
Walter C. Sauer	First Vice President and Vice Chairman	Sept. 28, 1962
Mitchell P. Kobelinski	Director	July 17, 1973
R. Alex McCullough	Director	May 21, 1969
John C. Clark	Director	June 3, 1969
OFFICERS:		
David O. Beim	Executive Vice President	July 23, 1975
Mathew E. Tutino	Executive Vice President	July 30, 1975
Warren W. Glick	General Counsel	July 12, 1975
Stephan M. Minikes	Senior Vice President Research and Communication	July 7, 1975
Delio E. Gianturco	Senior Vice President Exporter Credits, Guarantees, and Insurance	Aug. 22, 1971
William S. Mason, Jr.	Senior Vice President and Treasurer Controller	Feb. 3, 1975

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