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REPORT TO THE CONGRESS



Examination Of Financial Statements Of The Export-Import Bank Of The United States Fiscal Year 1973

B-114823

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

711060

NOV. 13, 1973



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

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

1-170 We have examined the statement of financial condition of the Export-Import Bank of the United States (Eximbank), a Government-owned corporation, as of June 30, 1973, and the related statement of income and expense and retained income reserve and the statement of changes in financial position for the year then ended. This examination, pursuant to the Government Corporation Control Act (31 U.S.C. 841), was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Section 2(c) (1) of the Export-Import Bank Act of 1945, as amended, calls for the establishment of fractional reserves of not less than 25 percent of Eximbank's contractual liability on outstanding guarantees and insurance. Our views and Eximbank's views on this section are set forth in note 1 to the financial statements.


The contingent liabilities reported by Eximbank as loan maturities sold subject to contingent repurchase commitments include 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 fully the risk of default. Accordingly, we believe that such instruments should be considered as borrowing or financing transactions which, if so handled on Eximbank's financial statements, would increase Eximbank's total assets and liabilities by about \$518 million as of June 30, 1973.

In our opinion, except for the omitted assets and liabilities described in the paragraph, directly above, the accompanying financial statements present fairly the financial position of the Export-Import Bank of the United States

at June 30, 1973, and the results of its operations and the changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

The accompanying financial statements (schs. 1, 2, and 3) are those contained in Eximbank's annual report.

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

A handwritten signature in black ink, reading "James B. Stacks". The signature is written in a cursive style with a large initial "J".

Comptroller General
of the United States

COMPARATIVE STATEMENT OF FINANCIAL CONDITION FISCAL YEARS 1973-1972

ASSETS	<u>June 30, 1973</u>	<u>June 30, 1972</u>
Cash:		
In banks, in transit, and on hand	\$ 7,220,362	\$ 9,437,520
With U.S. Treasury	<u>210,004</u>	<u>207,433</u>
	\$ 7,430,366	\$ 9,644,953
Loans Receivable:		
Outstanding loans and undisbursed authorizations	12,364,696,717	10,523,884,643
Less undisbursed balance of authorized loans	<u>5,778,851,183</u>	<u>4,567,655,552</u>
Outstanding loans receivable	6,585,845,534	5,956,229,091
Accrued Interest and Fees Receivable on Loans and Guarantees	127,927,314	89,085,254
Other Assets:		
Due from Foreign Credit Insurance Association	649,119	363,360
Due from Borrowers	-0-	6,733,480
Miscellaneous	<u>233,763</u>	<u>26,884</u>
	882,882	7,123,724
Furniture and Equipment:		
Less accumulated depreciation (1973, \$330,542; 1972, \$306,252)	201,548	203,543
Deferred Charges:		
Unamortized balance of financial expense	3,273,721	2,809,178
Total assets	<u>\$6,725,561,365</u>	<u>\$6,065,095,743</u>
LIABILITIES, CAPITAL, AND RESERVE		
	<u>June 30, 1973</u>	<u>June 30, 1972</u>
Liabilities:		
Portfolio Participation Certificates payable	\$ 577,014,005	\$ 618,654,917
Debentures payable	1,643,115,000	1,200,000,000
Notes payable to U.S. Treasury	1,887,664,594	1,743,431,053
Dividend payable	50,000,000	50,000,000
Guaranteed letters of credit payable	10,757,489	7,298,295
Accrued interest payable	39,057,664	20,857,555
Deferred Income	4,575,447	5,829,802
Other	<u>10,713,866</u>	<u>6,097,888</u>
Total liabilities	\$4,222,898,065	\$3,652,169,510
Capital and Reserve:		
Capital stock held by U.S. Treasury	1,000,000,000	1,000,000,000
Retained income reserve for contin- gencies and defaults	<u>1,502,663,300</u>	<u>1,412,926,233</u>
Total capital and reserve	2,502,663,300	2,412,926,233
Total Liabilities, Capital, and Reserve	<u>\$6,725,561,365</u>	<u>\$6,065,095,743</u>

The Notes to the Financial Statements on page 3 are an integral part of this statement. See Note 3 for composition of the U.S. Government's investment in Eximbank.

SCHEDULES 2 and 3

COMPARATIVE STATEMENT OF INCOME AND EXPENSE AND RETAINED INCOME RESERVE

	Fiscal Year Ended	
	<u>June 30, 1973</u>	<u>June 30, 1972</u>
Revenues:		
Interest and fees on loans	\$ 368,322,314	\$ 341,320,002
Insurance premiums and guarantee fees	7,644,714	4,730,338
Other income	1,202	336
Total Revenues	<u>375,968,230</u>	<u>346,050,676</u>
Expenses:		
Interest and other financial expense	215,227,569	185,527,760
Administrative and other expenses	8,519,130	8,229,397
Total Expenses	<u>223,746,699</u>	<u>193,757,157</u>
Operating Income	152,221,531	152,293,519
Claims paid—net of recoveries	<u>12,484,464</u>	<u>4,431,374</u>
Net Income	139,737,067	147,862,145
Less: Dividend declared on capital stock	<u>50,000,000</u>	<u>50,000,000</u>
Addition to Retained Income Reserve	89,737,067	97,862,145
Retained Income Reserve:		
Balance at beginning of fiscal year	1,412,926,233	1,315,064,088
Balance at End of Fiscal Year	<u>\$1,502,663,300</u>	<u>\$1,412,926,233</u>

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>June 30, 1973</u>	<u>June 30, 1972</u>
Funds Provided:		
Net income from operations	\$ 139,737,067	\$ 147,862,145
Add depreciation expense for the year	45,738	40,160
Funds provided by operations	<u>139,782,805</u>	<u>147,902,305</u>
Sales of debentures	843,115,000	800,000,000
Repayments and other credits to loans receivable	1,128,698,073	978,931,559
Sales of individual loan maturities	144,479,282	238,782,875
Borrowings from U.S. Treasury—Net	144,233,541	959,965,316
Other—Net	(5,873,991)	39,874,909
Total Funds Provided	<u>\$2,394,434,710</u>	<u>\$3,165,456,964</u>
Funds Applied:		
Payment of dividend to U.S. Treasury	\$ 50,000,000	\$ 50,000,000
Disbursements and other additions to loans, including capitalized interest— 1973, \$3,246,395; 1972, \$10,584,798	1,902,793,798	1,509,216,175
Repayments on Portfolio Participation Certificates	41,640,912	606,240,789
Redemptions of debentures	400,000,000	-0-
Redemptions of short-term notes	-0-	1,000,000,000
Total Funds Applied	<u>\$2,394,434,710</u>	<u>\$3,165,456,964</u>

The Notes to the Financial Statements on page 3 are an integral part of this statement.

Notes for the Financial Statements June 30, 1973

Note 1 Enabling Legislation and Basic Accounting Principles

Eximbank is an autonomous agency within the Executive Branch of the Federal Government; its operations are governed primarily by the Export-Import Bank Act of 1945, as amended, and also, by the Government Corporation Control Act.

Section 2(c) (1) of the Export-Import Bank Act of 1945, as amended, calls for the establishment of "fractional reserves" of not less than 25 percent of the Bank's contractual liability on outstanding guarantees and insurance. The General Accounting Office believes this Section requires a specific reserve, which reserve at June 30, 1973 would have been \$1.7 billion. GAO further believes that Eximbank's retained income reserve of \$1.5 billion plus its authority to borrow up to \$6 billion from the U.S. Treasury satisfies this requirement.

The Bank, however, believes that Section 2(c) (1) does not require setting up a specific 25 percent reserve but only requires that the Bank charge its overall lending, guarantee and insurance authority for no less than 25 percent of its contractual liability on outstanding guarantees and insurance.

Eximbank's accounting records are maintained on an accrual basis with the exception of losses on defaulted loans and the payment of claims against Eximbank's outstanding guarantees or insurance policies, which claims are recorded on the cash basis, i.e., at the time they are actually paid. (As discussed in Note 5, Eximbank considers its entire retained earnings of \$1.5 billion to be a reserve against possible losses from claims or defaults.)

Note 2 Basic Authority to Lend, Guarantee, or Insure and to Borrow from the U.S. Treasury

Eximbank's authority to borrow from the U.S. Treasury is limited to \$6 billion outstanding at any one time, and the authority to lend, guarantee, or insure is limited to \$20 billion. Of this latter amount,

up to \$10 billion of outstanding guarantees and insurance may be charged against said \$20 billion lending authority at 25% of the contractual liability assumed. Thus, Eximbank's total exposure could go as high as \$27.5 billion.

At June 30, 1973, the uncommitted authority to lend, guarantee, and insure was as follows:

	Charged against \$10 billion limitation	Charged against \$20 billion limitation
Loans	\$ 28,227,699	\$12,879,415,278
Guarantees	4,040,031,032	1,010,007,758
Insurance	2,986,271,208	746,567,802
Total Committed	7,054,529,939	14,635,990,838
Uncommitted	2,945,470,061	5,364,009,162
Total Authority	\$10,000,000,000	\$20,000,000,000

Note 3 U.S. Government Investment in Eximbank

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

	June 30, 1973	June 30, 1972
Notes payable to U.S. Treasury	\$1,887,664,594	\$1,743,431,053
Capital stock held by U.S. Treasury	1,000,000,000	1,000,000,000
Dividend payable	50,000,000	50,000,000
Retained income reserve (Note 5)	1,502,663,300	1,412,926,233
Total Investment	\$4,440,327,894	\$4,206,357,286

A dividend of \$50 million was declared on June 28, 1973, and was paid on August 28, 1973.

Note 4 Loans Receivable

All but \$140 million of Eximbank's total assets at June 30, 1973, that is 98%, consisted of outstanding balances receivable on loans authorized over the years, which are summarized as follows:

(Dollar Amounts in Millions)

	No. of loans	Number of countries	Amount originally authorized	Amount outstanding 6-30-73	Weighted Average term originally authorized	Weighted Average term outstanding 6-30-73
Regular loans	951	96	\$13,714.7	\$6,064.1	13.7	6.9
CFF and relending loans	783	38	251.4	133.4	7.6	3.8
Discount loans	593	64	443.1	388.3	3.7	3.0
	<u>2,327</u>	<u>104*</u>	<u>\$14,409.2</u>	<u>\$6,585.8</u>	<u>13.2</u>	<u>6.6</u>

*Duplications between programs eliminated.

About 64% of these outstanding loans receivable as of June 30, 1973, are due within the next five years, as indicated below:

MATURITY SCHEDULE OF OUTSTANDING LOANS RECEIVABLE (\$ Millions)

June 30, 1973			June 30, 1972		
Fiscal Years of Maturities	Amount	Percent of Total	Fiscal Years of Maturities	Amount	Percent of Total
1974	\$1,037.2	15.8	1973	\$1,039.9	17.4
1975	860.0	13.0	1974	881.5	14.8
1976	812.5	12.3	1975	817.4	13.7
1977	769.0	11.7	1976	745.0	12.5
1978	708.0	10.8	1977	591.8	9.9
	4,186.7	63.6		4,075.6	68.3
1979- 99	2,399.1	36.4	1978 99	1,880.6	31.7
	<u>\$6,585.8</u>	<u>100.0</u>		<u>\$5,956.2</u>	<u>100.0</u>

In addition to these outstanding balances of \$6.6 billion, \$5.8 billion of loans have been authorized and committed by Eximbank which have not yet been disbursed. Draw-downs under said commitments are almost solely the prerogative of the borrower and their timing is frequently different from that originally anticipated because of late deliveries, construction delays, etc. Accordingly, estimates by time period of such disbursements need to be updated on a continuing basis and for this reason Eximbank does not include herein any such estimates; however, a typical project loan is disbursed, on the average, over a 2-1/2 to 3 year period. Thus, as the bank's lending activity continues to grow, it will continue to be a net-borrower of funds.

Note 5

Contingencies, Claims and Defaults

Because of the unpredictable nature of future economic and political conditions throughout the world, the possible risk of loss on Eximbank's loans, guarantees, and insurance is not susceptible to ac-

curate measurement. Thus, Eximbank's entire retained net income is reserved for contingencies such as defaults under the loan programs and claims under the guarantee and insurance programs.

This reserve of \$1.5 billion exceeds (1) the total outstanding balances of both principal and interest on delinquent loans (see below), plus (2) Eximbank's total remaining exposure in any countries experiencing across-the-board problems in meeting their U.S. dollar obligations.

Accordingly, Eximbank's management believes it is adequately reserved against contingencies.

DELINQUENT LOANS. Loans with delinquent installments of 30 days or more at June 30, 1973 are summarized in millions of dollars as follows:

Country	Number of loans	Oldest past due installment	Total outstanding principal	Delinquent installments		
				Principal	Interest	Total
Cuba	5	1958	\$36.3	\$28.7	\$25.3	\$54.0
Chile	27	1971	301.3	74.4	28.0	102.4
Sierra Leone	1	1971	10.2	-0-	1.7	1.7
Mexico	2	1970	1.2	1.0	.1	1.1
Other	8	1966	22.7	.6	.5	1.1
Totals	43		\$371.7	\$104.7	\$55.6	\$160.3

In addition, by agreement, the Republic of China is not at this time being called upon to make payments on that portion of four loans made to the Republic of China prior to 1947, when the seat of the government was on the mainland, which relate to assets no longer under the government's control. The total outstanding principal of this portion of these loans was \$26.4 million at June 30, 1973; on that date \$42.7 million (\$23.4 million principal plus \$19.3 million interest) was matured and outstanding, the oldest past due installment having matured in 1949.

Eximbank did not write-off any loans in FY 1973 or in FY 1972. Since inception, Eximbank has written-off only \$3.7 million of loans, i.e., 2/100ths of 1% of cumulative loan disbursements.

CLAIMS. In fiscal 1973, Eximbank paid claims under its guarantee and insurance programs of \$12.5

million, a 182% increase over the \$4.4 million paid in FY 1972. Most of these claims resulted from commercial banks loans made in previous years, with Eximbank's guarantee, in support of medium- and short-term exports to Chile.

Since inception, Eximbank has paid guarantee and insurance claims, net of subsequent recoveries, of only \$23.5 million, 2/10ths of 1% of cumulative shipments covered under such programs.

Note 6 Funding of Operations

Eximbank does not receive any appropriated funds or other tax revenues. Instead, Eximbank funds its operations by borrowing as needed from the U.S. Treasury on a daily basis (much like a commercial bank buys or sells money in the Federal Funds market) and then repays these Treasury borrowings from receipts from its operations and the proceeds of private market borrowings (issued throughout the year, more or less quarterly) so that the net draw on the U.S. Treasury for the fiscal year as a whole is virtually zero.

The rate charged Eximbank by the Treasury for such daily borrowings is set each week based upon the rate Treasury has to pay that week on 182-day bills. During FY 1973 this rate to Eximbank ranged from 4.45% to 7.68% and averaged 5.90%. (See also note 7.)

(The amount of about \$1-3/4 billion due Treasury at June 30, 1973 — and June 30, 1972, — is essentially the balance that was owed as of August 17, 1971 when certain legislation removed Eximbank's operations from the U.S. budget; for several years prior to that time, the Eximbank funded its operations almost entirely by Treasury borrowings.)

Eximbank's inflow of funds from the private market is generally provided by the sale of debentures which are marketed by underwriting syndicates selected via competitive bids. Funds from private sources during FY 1973 were as follows:

	Date of Issue	Maturity Date	Amount	Coupon Rate	Cost to Eximbank
Debentures:					
1977-A	8-2-72	8-2-77	\$400,000,000	6.25	6.30
1979-B*	8-7-72	1-1-79	143,115,000	5.81	5.81
1978-A	11-1-72	2-1-78	300,000,000	6.45	6.49
Subtotal			843,115,000		
Sales of loans (CBI's)			144,479,282		
Total			\$987,594,282		

*Private Placement

Note 7 Interest Charges on Certain Borrowings from Treasury

The interest and other financial expenses reported by Eximbank include interest charges on certain borrowings (\$332 million at June 30, 1973) from the U.S. Treasury at rates lower than the rate prevailing at the time the funds were borrowed.

These low-interest borrowings from the Treasury are tied-in directly to the rate, term, and outstanding balances of certain concessionary loans the Bank had made in the national interest. Because the interest rates on these loans are less than the Treasury's cost of borrowing, the Treasury is absorbing the difference. Had the Treasury charged Eximbank interest rates approximating the full cost of funds, the Bank's interest and other financial expenses would have been increased by about \$7.9 and \$9.9 million in fiscal years 1973 and 1972, respectively, and the net income from operations for these years would have been correspondingly reduced.

Note 8 Commitments and Contingent Liabilities

The contingent liabilities of Eximbank are summarized below in millions of dollars as of June 30:

	1973	1972
Loan maturities sold subject to contingent repurchase commitments	\$ 540.5	\$ 426.4
Guarantees	4,035.4	3,054.0
FCIA Insurance	2,835.8	2,477.8
Total contingent liabilities	\$7,411.7	\$5,958.2

In addition to the above contingent liabilities, Eximbank had outstanding as of June 30, 1973, \$5.8 billion of authorized loan commitments which had not yet been disbursed (\$4.6 billion at June 30, 1972).

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

AT SEPTEMBER 30, 1973

	<u>Position</u>	<u>Date of appointment</u>
BOARD MEMBERS:		
Henry Kearns (note a)	President and Chairman	3-20-69
Walter C. Sauer	First Vice Presi- dent and Vice Chairman	9-28-62
Mitchell P. Kobelinski	Director	7-17-73
R. Alex McCullough	Director	5-21-69
John C. Clark	Director	6- 3-69
OFFICERS:		
Warren W. Glick	Acting Executive Vice President	9-10-73
John E. Corette, III	General Counsel	5- 1-69
J. Patrick Dugan	Senior Vice Presi- dent and Treasurer Controller	6- 2-69
Warren W. Glick	Senior Vice President-- Financing	9-21-69
Delio E. Gianturco	Senior Vice President-- Exporter Credits, Guarantees, and Insurance	8-22-71
Rosemary A. Mazon	Senior Vice President--Public Affairs and Export Expansion	6- 1-72
Joseph H. Regan	Secretary	12-14-65

^aResignation submitted but not yet effective.

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