



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

109263

Handwritten initials

B-114823

APRIL 30, 1979

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

Attached is our report on the [examination of financial statements
of the Export-Import Bank of the United States for fiscal year 1978] as
required by the Corporation Control Act (31 U.S.C. 841 et seq.).

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

James B. Atchey
Comptroller General
of the United States

Attachment



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ID-79-19A

COMPTROLLER GENERAL OF THE UNITED STATES

Washington, D.C. 20548



B-114823

February 16, 1979

To the Board of Directors
Export-Import Bank of the United States

We have examined the statement of financial condition of the Export-Import Bank of the United States as of September 30, 1978, and the statements of income and analysis of reserve for contingencies and defaults and of changes in financial position for the year then ended. Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841, et seq.) 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. We previously examined and reported on the Bank's financial statements for fiscal year 1977.

In computing net income, the Bank normally treats payments on guarantee and insurance claims as expenses. It modified this practice in 1977 when unusually large payments were required on defaulted commercial loans to Zaire. The Bank believed these loans would eventually be repaid and instead of expensing the guarantee payments, treated them as the cost of purchased loans now held as assets. In 1978, the Bank further modified its asset purchase standards to include payments made under the Export Credit and Insurance programs. This involved the purchase of guaranteed and insured loans rescheduled under a countrywide debt consolidation for the Government of Turkey. (See notes 1 and 6.) We concur with the accounting treatment of these payments.

The Bank states its net income before providing a reserve for losses that may be sustained on loans, guarantees, and insurance. However, it retains accumulated net income after dividends as a reserve for such losses. Although the reserve increased in fiscal year 1978, the risk of incurring possible future losses increased to a larger extent. This is due primarily to increases in loan purchases and outstanding purchase agreements and principal and interest delinquencies. (See Statement of Financial Condition and notes 4, 6 and 8.) Also, the effect of the recent developments in Iran upon the Bank's \$589 million exposure in that country is not determinable at this time. As a result, we are unable to express an opinion on the adequacy of the reserve.

In our opinion, except for the amount reserved for contingencies and defaults, the accompanying financial statements present fairly the financial position of the Export-Import Bank at September 30, 1978, and September 30, 1977, and the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

A handwritten signature in cursive script that reads "James B. Staats".

Comptroller General
of the United States.

ID-79-19
(48693)

**Comparative
Statement of
Financial
Condition**

Assets	September 30, 1978	September 30, 1977
Cash in U.S. Treasury	\$ -0*	\$ 300,000
Investment in U.S. Securities	7,700,000	12,600,000
 Loans Receivable (Notes 4, 5 and 9):		
Current Loans — includes rescheduled loans of \$617.6 million at 9-30-78 and \$624.7 million at 9-30-77	\$11,032,000,000	\$11,192,700,000
Delinquent Loans	<u>468,400,000</u>	<u>327,600,000</u>
	11,500,400,000	11,520,300,000
 Loans Purchased Pursuant to Eximbank Guarantee and Insurance Agreements (Note 6)	49,800,000	18,100,000
 Accrued Interest and Fees Receivable (Note 4):		
Current Interest and Fees	213,600,000	198,900,000
Delinquent Interest	<u>31,700,000</u>	<u>28,700,000</u>
	245,300,000	227,600,000
 Other Assets:		
Deferred Debenture and Participation Certificate Expenses	300,000	1,000,000
Foreign Credit Insurance Association Receivable	3,300,000	2,200,000
Other Receivables	100,000	200,000
Miscellaneous Assets	<u>200,000</u>	<u>300,000</u>
	3,900,000	3,700,000
 Total Assets	<u>\$11,807,100,000</u>	<u>\$11,782,600,000</u>

* Balance at 9/30/78: \$21,636

Notes to Financial Statements on pp. 6 through 9 are
an integral part of this statement.

Liabilities, Reserve, and Capital	September 30, 1978	September 30, 1977
Borrowings (Notes 2 and 3):		
Notes Payable to U.S. Treasury	\$ -0-	\$ 3,300,000
Notes Payable to Federal Financing Bank	6,568,300,000	5,923,500,000
Notes Payable to Private Export Funding Corporation	100,000,000	100,000,000
Notes Payable to U.S. Institutions	436,300,000	453,900,000
Debentures Payable	1,043,100,000	1,643,100,000
Certificates of Beneficial Interest Payable	311,200,000	411,200,000
Participation Certificates Payable	<u>250,000,000</u>	<u>250,000,000</u>
	\$ 8,708,900,000	\$ 8,785,000,000
Other Liabilities:		
Accrued Interest Payable	96,000,000	98,400,000
Dividend Payable to U.S. Treasury	35,000,000	35,000,000
Other Credits	<u>4,700,000</u>	<u>6,700,000</u>
	135,700,000	140,100,000
Deferred Fee Income	8,500,000	7,600,000
Reserve for Contingencies and Defaults (Notes 3, 4, 5 and 7): accumulated from income—includes delinquent interest and delinquent capitalized interest of \$46.9 million at 9-30-78 and \$35.8 million at 9-30-77	1,954,000,000	1,849,900,000
Capital Stock Held by U.S. Treasury (Note 3)	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Total Liabilities, Reserve, and Capital	<u>\$11,807,100,000</u>	<u>\$11,782,600,000</u>

**Comparative
Statement of
Income and
Analysis of
Reserve for
Contingencies
and Defaults**

	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1977
Revenues:		
Interest on Loans	\$ 760,300,000	\$ 754,200,000
Insurance Premiums and Guarantee Fees	27,800,000	25,200,000
Commitment Fees and Other Income	<u>19,600,000</u>	<u>16,100,000</u>
Total Revenues	<u>807,700,000</u>	<u>775,500,000</u>
Expenses:		
Interest on U.S. Government Borrowings	458,400,000	401,400,000
Interest on Debenture and Participation Certificate Borrowings	113,400,000	152,300,000
Interest on Certificates of Beneficial Interest Borrowings	25,400,000	28,700,000
Interest on U.S. Institutional Borrowings	30,700,000	29,800,000
Other Expense, principally Interest and Amortization of Financing Costs	9,200,000	11,200,000
Administrative Expenses	12,600,000	11,300,000
Claims Paid, net of recoveries (Note 7)	<u>18,900,000</u>	<u>3,400,000</u>
Total Expenses	<u>668,600,000</u>	<u>638,100,000</u>
Net Income	139,100,000	137,400,000
Less: Addition to Reserve for Contingencies and Defaults	<u>104,100,000</u>	<u>102,400,000</u>
Dividend to U.S. Treasury (Note 3)	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>
Analysis of Reserve for Contingencies and Defaults:		
Balance at Beginning of Fiscal Year	\$1,849,900,000	\$1,747,500,000
Addition to Reserve	<u>104,100,000</u>	<u>102,400,000</u>
Balance at End of Fiscal Year	<u>\$1,954,000,000</u>	<u>\$1,849,900,000</u>

Notes to Financial Statements on pp. 6 through 9 are an integral part of this statement.

**Comparative
Statement
of Changes
in Financial
Position**

	Fiscal Year Ended September 30, 1978	Fiscal Year Ended September 30, 1977
Funds Provided:		
Net Income	\$ 139,100,000	\$ 137,400,000
Borrowings from the Federal Financing Bank (Note 2)	734,800,000	3,917,500,000
Borrowings from U.S. Institutions	-0-	86,700,000
Repayments and other Credits to Loans Receivable	1,242,900,000	1,343,400,000
Repayments of Loans Purchased Pursuant to Guarantee and Insurance Agreements	1,200,000	-0-
Sales of Certificates of Beneficial Interest	25,300,000	47,100,000
Total Funds Provided	<u>\$2,141,300,000</u>	<u>\$5,532,100,000</u>
Funds Applied:		
Disbursements and Other Additions to Loans, includes Capitalized Interest 9-30-78. \$24,883,415; FY 1977, \$21,275,290	\$1,222,900,000	\$1,771,100,000
Loans Purchased Pursuant to EIB Guarantee and Insurance Agreements	32,800,000	18,100,000
Investment in U.S. Securities	(4,900,000)	12,600,000
Accrued Interest and Fees Receivable	17,700,000	(6,200,000)
Accrued Interest Payable	2,500,000	4,900,000
Repayments of Federal Financing Bank Borrowings	90,000,000	2,762,200,000
Repayments of Private Export Funding Corporation Borrowing	-0-	50,000,000
Repayments of U.S. Institutions Borrowings	17,500,000	-0-
Net Reduction of Borrowings from U.S. Treasury	3,300,000	69,700,000
Redemptions of Certificates of Beneficial Interest	123,300,000	116,800,000
Redemptions of Debentures	600,000,000	700,000,000
Payment of Dividend to U.S. Treasury (FY 1977)	35,000,000	-0-
Other	1,200,000	32,900,000
Total Funds Applied	<u>\$2,141,300,000</u>	<u>\$5,532,100,000</u>

Notes to Financial Statements on pp. 6 through 9 are an integral part of this statement.

Notes to Financial Statements

Note 1: Enabling Legislation and Basic Accounting Principles

Eximbank is an independent corporate agency of the United States. The primary legislation governing its operations consists of the Export-Import Bank Act of 1945, as amended through November 10, 1978, and the Government Corporation Control Act.

Eximbank's accounting records are maintained on an accrual basis with the exception of write-offs of loans and payment of claims on guarantees and insurance policies. Loans are written off and charged to income when Eximbank determines that the outstanding principal balance is uncollectable. 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 non-accruing. Claims, except as noted in the paragraph below, are charged to income in the year paid. Later recoveries of amounts written off or of amounts which have been paid as claims are treated as income in the year received.

In FY 1978 the Board adopted the policy of treating payments under the medium- and short-term Exporter Credit and Insurance programs as a purchase of an interest in an asset and recording such purchase as a loan receivable in those cases where a country-wide debt consolidation is considered and the materiality and prospects of repayment justify such treatment. Except for the "country-wide debt consolidation" consideration, the factors influencing such treatment are the same as those outlined under the purchase of financial guarantees, approved in FY 1977 (see footnote 6 for further details).

The commitment authority of Eximbank under the Export-Import Bank Act to lend, guarantee, and insure was limited to \$25 billion outstanding at any one time as of September 30, 1978. Under the Act loans are charged against the \$25 billion limitation at 100 percent of their authorized amount. Guarantees and insurance are charged against the \$25 billion limitation at not less than 25 percent of Eximbank's contractual liability, with the proviso that the aggregate amount of guarantees and insurance so charged may not exceed \$20 billion outstanding at any one time. Thus, Eximbank's contractual commitments outstanding at any one time could reach \$40 billion, consisting of \$20 billion of guarantees and insurance outstanding, resulting in a \$5 billion charge against the \$25 billion limitation, and \$20 billion (additional commitments) charged at 100 percent against the limitation.

The loan, guarantee and insurance authority limit was raised from \$25 billion to \$40 billion and the fractional charge of guarantees and insurance amount was increased from \$20 billion to \$25 billion on November 10, 1978. Thus, the contractual commitments outstanding at any one time can now reach \$58.75 billion.

At September 30, 1978, the committed and uncommitted authority to lend, guarantee, and insure was:

Category	(\$Millions)	
		Charge
Loans		\$16,985.3
Guarantees	\$5,357.2	
Insurance	4,049.2	
	\$9,406.4 @ 25%	2,351.6
Committed		19,336.9
Uncommitted		5,663.1
Total Statutory Authority		<u>\$25,000.0</u>

Note 2: Borrowings from the U.S. Treasury and the Federal Financing Bank

Eximbank does not receive any appropriated funds. It 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 avails itself of this authority for its short-term needs on a daily basis at a 91-day Treasury bill rate. Excess cash is used to reduce these borrowings on a daily basis. The

average rate for such short-term borrowings, during the period ending September 30, 1978, was 7.06 percent.

In previous years, Eximbank borrowed to meet its medium-term needs through the issuance of debentures and participation certificates, of which \$1.3 billion are still outstanding with maturities extending to 1982, at an average interest rate of 6.51 percent.

Eximbank is now borrowing from the Federal Financing Bank (FFB) for its medium and long-term needs. During the period ending September 30, 1978, Eximbank borrowed the following from the FFB:

Date	(\$Millions)		Final Maturity
	Amount	Rate	
3/01/78	\$260.0	8.024%	12/01/87
6/01/78	38.8	8.422	6/01/88
9/01/78	218.0	8.562	3/01/80
9/01/78	218.0	8.496	9/01/88

As Eximbank is usually a net borrower of funds, it is planned that net short-term borrowings from the U.S. Treasury will be repaid quarterly by borrowing from the FFB on a medium- and long-term basis at a U.S. Government agency borrowing rate appropriate to the term of the borrowing.

On June 30, 1978, certain concessionary borrowings from the U.S. Treasury totalling \$3.3 million were paid in full. These borrowings were tied directly to the rate, term, and outstanding balances of certain concessionary loans that Eximbank made in the national interest.

Note 3: United States Government Investment in Eximbank

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

	(\$Millions)	
	Sept. 30, 1978	Sept. 30, 1977
Capital Stock Held by U.S. Treasury	\$1,000.0	\$1,000.0
Reserve for Contingencies and Defaults	1,954.0	1,849.9
Dividend Payable to U.S. Treasury	35.0	35.0
Notes Payable to Federal Financing Bank	6,568.3	5,923.5
Notes Payable to U.S. Treasury	-0-	3.3
Total	\$9,557.3	\$8,811.7

A dividend to the U.S. Treasury of \$35 million, as of September 30, 1978, was declared November 21, 1978.

Note 4: Delinquent Loans

Loans with any installments of principal or interest past due 90 days or more are classified as delinquent on the Statement of Financial Condition. The outstanding principal amount of delinquent loans is summarized on a comparative basis (see table below).

Country	(\$ Thousands)						
	Total Outstanding Principal	Delinquent Installments September 30, 1978			Delinquent Installments September 30, 1977		
		Principal	Principal	Interest	Total	Principal	Interest
Brazil	\$ 50,632.5	\$ 1,251.5	\$ 599.6	\$ 1,851.1	\$ -0-	\$ -0-	\$ -0-
China	26,386.0	26,386.0	23,409.0	49,795.0	26,386.0	22,613.8	48,999.8
Cuba	36,266.6	36,266.6	36,948.7	73,215.3	36,266.6	34,960.1	71,226.7
Mexico	15,447.6	1,088.1	508.2	1,596.3	1,902.8	401.3	2,304.1
Nigeria	-0-	-0-	-0-	-0-	1,374.0	260.8	1,634.8
Zaire	206,762.3	2,619.7	5,030.6	7,650.3	2,839.6	4,625.6	7,465.2
Other	132,882.8	2,702.5	1,550.9	4,253.4	1,636.9	1,176.7	2,813.6
Total	\$468,377.8	\$70,314.4	\$68,047.0	\$138,361.4	\$70,405.9	\$64,038.3	\$134,444.2

The countries listed above are not necessarily the obligor of the delinquent loans. Some of the loans are to private parties in those countries.

Delinquent interest of \$31.7 million has accrued and is carried as a receivable. The difference between this figure and the \$68.0 million shown represents mainly interest on loans which are non-accruing for financial statement purposes.

The delinquent loans to China were made before 1947, when a prior government existed. The delinquent loans to Cuba pertain to loans made before 1961, when a prior government existed.

The Bank, along with certain other major creditors, engaged in renegotiating on May 20, 1978, the repayment terms for installments of principal and interest falling due from Turkey. At the time of rescheduling, \$.6 million of principal and interest was past due 90-days or more. The rescheduling covers principal and interest from January 1, 1977 through June 30, 1979.

Note 5: Rescheduled Loans

From time to time Eximbank must extend the repayment date of some or all principal installments of a loan to a new 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 collectability and enable the obligor ultimately to service the debt.

All loan maturities which were previously rescheduled in this manner are current at September 30, 1978, except for 18 loans with an aggregate outstanding principal balance of \$241.7 million as to which principal and interest installments amounting to \$10.9 million are 90-days or more past due. These 18 loans are included in the delinquent classification on the Statement of Financial Condition. In FY 1978 Eximbank rescheduled principal installments totaling \$54.3 million on loans having an outstanding principal balance of \$345.0 million.

Some reschedulings include capitalized interest, which has been previously credited to the Reserve for Contingencies and Defaults. At September 30, 1978, the Reserve of \$1,954.0 million includes \$70.4 million of such outstanding capitalized interest of which \$15.2 million is 90-days or more past due. The Reserve also includes past due interest on delinquent loans totalling \$31.7 million.

Note 6: Loans Purchased Pursuant to Eximbank Guarantee Agreements

On June 15, 1978, the Board in conjunction with a country-wide debt consolidation involving major foreign creditors approved the purchase of certain public and private loans assumed or guaranteed by the Government of Turkey (G.O.T.). These purchases totaled \$16.1 million (\$15.1 million principal and \$1.0 million interest). At September 30, 1978, Eximbank had outstanding \$68.0 million of medium- and short-term guarantees and insurance which Eximbank may be called upon by the G.O.T. to purchase in accordance with the terms of the rescheduling.

During FY 1978, a total of \$16.7 million of Zaire loans were purchased under the asset purchase standards approved in April 1977 and August 1978. The total outstanding purchases under this rescheduling totaled \$33.7 million. At September 30, 1978, a total of \$192.0 million of guarantees and insurance to Zaire remained outstanding, some or all of which Eximbank may be requested to purchase. During this same period Zaire arrearages 90-days and over totaled \$7.6 million (\$2.6 million principal and \$5.0 million interest).

Note 7: Losses, Claims and Reserve for Contingencies and Defaults

Losses, claim payments and recoveries for the FY 1978 and FY 1977 are:

	(\$ Thousands)	
	FY 1978	FY 1977
Loans written off	\$ 4,824.0	\$ -0-
Guarantee claims paid	14,201.7	4,182.7
Guarantee recoveries	(3,818.0)	(3,963.3)
Insurance claims paid	6,187.3	5,879.7
Insurance recoveries	<u>(2,505.7)</u>	<u>(2,674.0)</u>
Claims paid, net of recoveries	<u>\$18,889.3</u>	<u>\$ 3,425.1</u>

The risk to Eximbank from potential losses and claims is not susceptible to accurate measurement because of the unpredictable nature of future worldwide economic and political conditions. Eximbank's entire Reserve is available to cover such losses, claims and contingencies. Eximbank has a Reserve for Contingencies and Defaults of \$1,954.0 million which is 17.0 percent of outstanding loans and 7.4 percent of world commitments. This Reserve, coupled with Eximbank's \$1.0 billion Capital, amounts to 26 percent of outstanding loans and more than 11 percent of world commitments.

Note 8: Commitments and Contingent Liabilities

Eximbank's worldwide commitments, shown below, include contingent liabilities totaling \$9,406.4 million at September 30, 1978, and \$9,770.9 million at September 30, 1977.

	(\$ Millions)	
	Sept. 30, 1978	Sept. 30, 1977
Outstanding Loans	\$11,550.2	\$11,538.5
Undisbursed Loans	5,435.1	4,015.1
Guarantees Contingent Liability	5,357.2	5,803.1
FCIA Insurance Contingent Liability	<u>4,049.2</u>	<u>3,967.8</u>
Total	<u>\$26,391.7</u>	<u>\$25,324.5</u>

Note 9: Maturity Schedule of Outstanding Loans Receivable

As of September 30, 1978, about 60 percent of the outstanding loans receivable balance of \$11,550.2 million is projected to be due over the next five years and the remaining 40 percent is estimated to be due thereafter, as indicated below:

Fiscal Years of Maturities	Amount (\$ Millions)	Percent of Total
1979	\$ 1,144.2	9.9
1980	1,310.3	11.4
1981	1,382.9	12.0
1982	1,483.0	12.8
1983	<u>1,609.1</u>	<u>13.9</u>
	6,929.5	60.0
1984-2000	<u>4,620.7</u>	<u>40.0</u>
	<u>\$11,550.2</u>	<u>100.0</u>

In addition to the \$11,550.2 million of outstanding loans there are undisbursed loans totaling \$5,435.1 million most of which are expected to be disbursed over the next 3-5 years.