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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of ~~The~~ Export-Import Bank's Fi~~scal~~ Y~~ear~~ 1981 Financial Operations And Related Issues

GAO is unable to express an opinion on the adequacy of the Export-Import Bank's reserves for contingencies and defaults in its fiscal year 1981 financial statements. This report discusses the basis of GAO's qualified opinion on the financial statements and how Eximbank's reserves have deteriorated in recent years.

Eximbank has entered into a unique and costly agreement with the Private Export Funding Corporation to support $1.1 billion of loans financed by the Corporation and guaranteed by Eximbank. Under this agreement Eximbank pays the interest spread between the cost of funds to the lender and the interest cost charged the borrowers. Eximbank will incur increased costs of $89.4 million for the $210 million disbursed on these loans as of September 1982.

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

B-197710

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

This is our report on the examination of the Export-Import Bank's financial operations, including the financial statements for fiscal years 1980 and 1981 and on related issues.

We qualified our opinion on the financial statements because we were unable to express an opinion on the adequacy of Eximbank's reserves for contingencies and defaults. Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 9101 et seq.), in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances. We previously examined and reported on the Export-Import Bank's financial statements for fiscal year 1980.

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.

Charles A. Bowsher
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF THE EXPORT-IMPORT BANK'S FISCAL YEAR 1981 FINANCIAL OPERATIONS AND RELATED ISSUES

D I G E S T

The Export-Import Bank of the United States (Eximbank) provides financing support for U.S. exports. It does not currently receive appropriated funds, but uses an initial $1 billion Treasury capitalization, retained earnings, and public borrowings to sustain its lending operations.

Traditionally, Eximbank has been self-sustaining. For the period 1934 to 1966 it was able to charge more interest on loans than it paid on borrowings. Although it has generally had a negative spread between the average interest rate on its loan portfolio and the average rate on outstanding debt since 1966, it has continued to show a profit through 1981 because earnings on its $2.2-billion reserve and $1-billion capital were sufficient to offset losses due to the negative spread.

Eximbank's self-sufficiency is now being jeopardized by continued concessionary lending. Eximbank's borrowing rate has consistently been higher than its lending rate for the past several years. Earnings on Eximbank's reserves are no longer able to offset the widening negative interest rate spread on outstanding debts and loan investments. As a result, Eximbank's first operating loss is projected for fiscal year 1982. (See p. 2.)

COMMENTS ON FINANCIAL STATEMENTS

In our report dated June 15, 1982, GAO qualified its opinion on Eximbank's financial statements because GAO was unable to express an opinion on the adequacy of Eximbank's reserves for contingencies and defaults in its fiscal year 1981 financial statements. Although the reserve at the end of fiscal year 1981 was sufficient to cover possible loan losses resulting from borrowers whose loans were delinquent or in default, it is uncertain whether the reserve is adequate to cover possible losses on loans and guarantees that have not yet matured. The amount reserved for contingencies and defaults has been the basis of GAO's qualified opinions on Eximbank's financial statements since fiscal year 1975. The capacity of Eximbank's reserve to absorb potential losses has been reduced in recent years because Eximbank's

--increased lending operations have not been accompanied by corresponding increases in income to its reserve for contingencies and defaults,

--risk of incurring possible future losses on delinquent loans and obligations arising from purchases and guarantees of loans made by private creditors has increased to a larger extent than the increase in its reserves,

--lending below the costs of funds has resulted in projected operating losses beginning in fiscal year 1982 which could impair the Bank's reserve for years to come. (See p. 4 and app. I.)

INTEREST RATES OF GUARANTEED LOANS SUBSIDIZED BY EXIMBANK

In September 1980, Eximbank formed an arrangement with the Private Export Funding Corporation (PEFCO) to discharge certain of its loan commitments. PEFCO is a Government-sponsored commercial corporation which raises funds to finance exports in the private market using unconditional Eximbank guarantees.

While such guarantees normally do not require an Eximbank financial outlay unless a borrower defaults, the PEFCO arrangement is unique in that it obligates Eximbank to reimburse PEFCO for the interest rate differential between PEFCO's cost of funds and the interest rate to the borrower. PEFCO made $210 million of disbursements on loans under this agreement during fiscal years 1981 and 1982. Increased costs to be incurred by Eximbank due to the interest rate differential for these disbursements are approximately $89.4 million. (See p. 13.)

GAO believes that the PEFCO agreement, requiring Eximbank to subsidize interest rates of guaranteed loans, is costly and that such agreements should be avoided in the future. (See p. 16.)

Eximbank is also experiencing a substantial increase in its borrowing requirement from the Treasury resulting from a procedure under the agreement which requires Eximbank to make disbursements for PEFCO's portion of loans under the agreement and provides for PEFCO to reimburse Eximbank several months later. (See p. 15.)

AGENCY COMMENTS AND GAO'S EVALUATION

Eximbank acknowledged that there is an additional cost associated with the loans that it guarantees under the PEFCO agreement. However, Eximbank stated that this cost, compared to the cost Eximbank would have incurred if it had made the loan, is the difference between PEFCO's cost of funds and Eximbank's borrowing costs to fund the credit as a direct loan. The difference between PEFCO's cost of funds and Eximbank borrowing costs has averaged about three quarters of one percent.

GAO believes that while Eximbank's comparison provides for a smaller increase in costs, it is not appropriate. GAO maintains that the additional cost to Eximbank for the loans that it guarantees under the agreement is the interest differential between the cost of PEFCO funds and the interest costs to the borrower. This interest differential was 8.1 percent for the first $100 million PEFCO disbursement and 6.18 percent for the second $110 million disbursement. (See p. 17.)

Eximbank did not agree with a proposal in a draft of this report that in the future it obtain the necessary funds from PEFCO in advance so that it would not have to make disbursements on PEFCO-financed loans from its own funds. It also did not agree with an alternative proposal that if there are cases in which such advance of funds are infeasible, Eximbank should request prompt reimbursements for disbursements it makes on PEFCC loans (See p. 18.)

Eximbank stated that the procedure in which it makes disbursements on PEFCO loans under the agreement and receives reimbursement several months later when such amounts reach $100 million minimizes the costs to Eximbank under the agreement. It borrows the money that it disburses for PEFCO in advance from the Treasury and pays a lower rate on the funds than PEFCO would have required had it made the disbursement immediately.

GAO agrees with Eximbank that, in this case, this procedure is less costly to Eximbank than to either obtain the necessary funds from PEFCO in advance in order to make disbursements on PEFCO loans, or to request more prompt reimbursement from PEFCO for disbursements by Eximbank on PEFCO loans under the agreement. Therefore, we deleted our proposals. (See p. 18.)

C O N T E N T S

ABBREVIATIONS

Eximbank	Export-Import Bank
GAO	U.S. General Accounting Office
PEFCO	Private Export Funding Corporation

CHAPTER 1

INTRODUCTION

This report is to inform the Congress of the results of our examination of the financial statements of the Export-Import Bank (Eximbank) for fiscal year 1981 which was performed pursuant to the Government Corporation Control Act, as amended (31 U.S.C. 9101 et seq.). Other matters concerning the financial condition of Eximbank are also addressed. Our opinion on the financial statements, issued June 15, 1982, is included as appendix I to the report.

The Eximbank, originally created in 1934, was made a wholly-owned U.S. Government corporation by the Export-Import Bank Act of 1945. Its purpose is to provide financial support to aid U.S. exports sales. Its financial programs include direct loans, financial guarantees to private lenders, and commercial and political risk insurance.

Traditionally, Eximbank has been self-sustaining. It does not receive appropriated funds but originally received $1 billion in capital from the Treasury and mainly uses Federal Financing Bank borrowings to sustain its lending operations. For the period 1934 to 1966 it was able to charge more interest on loans than it paid on borrowings. Although it has generally had a negative spread between the average interest rate on its loan portfolio and the average rate on outstanding debt since 1966, it has continued to show a profit through 1981 because it has been able to utilize its $2.2 billion reserve and $1 billion capital. Earnings on these amounts were sufficient to offset losses due to the negative spread.

Eximbank's self-sufficiency is now being jeopardized by continued concessionary lending in the face of historically high interest rates. Eximbank's borrowing rate has consistently been higher than its lending rate for the past several years. The average cost of Eximbank's debt exceed the rate earned on all outstanding loans by 2.9 percent at the end of fiscal year 1981 and had increased to 3.3 percent as of March 31, 1982. Earnings on Eximbank's reserves are no longer able to offset the widening negative interest rate spread on outstanding debt and loan investments resulting in Eximbank's first operating loss, projected for fiscal year 1982.

PRIOR REPORTS ON THE FINANCIAL CONDITION OF EXIMBANK

We annually examine Eximbank's financial statements and since 1975 our report on the statements have included a qualification on the adequacy of its reserve.

In three prior reports since 1975, we have emphasized that Eximbank's continuing expansion of operations without a corresponding increase in income has reduced the capacity of Eximbank's reserve to absorb potential losses. This continues to be the case.

In our October 17, 1975, report 1/ we concluded that until Eximbank's income is materially improved, its capacity to absorb potential losses will continue to shrink. However, we stated that 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. We pointed out that because Eximbank will have a continuing need to borrow, future interest rates will be a controlling factor in determining future income.

In our April 30, 1980, report 2/ we stated that Eximbank's average lending rate was 8.35 percent or 2 full points below its latest borrowing cost of 10.56 percent from the Federal Financing Bank in December 1979. We also expressed concern that:

> "Continued high borrowing costs, which depend on the market rates for Government securities, will adversely affect Eximbank's income and weaken its financial position if its lending rates remain stable or it tries to consistently match lower foreign rates. Eximbank estimates that if its average borrowing rate increases more than one-eighth of one percent per year and lending rates remain constant, it could be operating at a $65 million net loss by 1988. Since the Bank's accumulated income is also its reserve against loan defaults and claims, it cannot use accumulated income to subsidize its lending rates and to absorb such losses without jeopardizing the adequacy of its reserves."

In our June 24, 1981, report, 3/ we stated that the increased risk of losses from Eximbank's expanding loan portfolio continues to outpace current net income added to the reserve. We reported

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1/"Weakened Financial Condition of the Export-Import Bank of the United States," (ID-76-17.)

2/"Financial and Other Constraints Prevent Eximbank from Consistently Offering Competitive Financing for U.S. Exports," (ID-81-16.)

3/"To be Self-Sufficient or Competitive? Eximbank Needs Congressional Guidance," (ID-81-48.)

that the interest rate spread between Eximbank's lending and borrowing costs at December 31, 1980, was a negative 4 percent and that operating losses were projected to commence in fiscal year 1982 and continue throughout the decade unless lending rates are brought into line with current borrowing costs. We also projected that lending rates of approximately 2 percent or more below current borrowing will deplete the income reserve by the end of the decade.

We also reported in our June 1981 report that the difference between Eximbank's borrowing and lending rate may be further aggravated as a result of a September 1980 agreement between Eximbank and the Private Export Funding Corporation (PEFCO), a Government-sponsored commercial corporation which raises funds for export financing in the private market using unconditional Eximbank guarantees. Under this agreement Eximbank agrees to pay the difference between the borrower's interest payments and PEFCO's interest charges on $1.1 billion of loans financed by PEFCO and guaranteed by Eximbank. We estimated that this arrangement could result in increased costs to Eximbank of over $300 million.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our examination of Eximbank's financial statements for fiscal years 1981 and 1980 were made in accordance with generally accepted Government auditing standards and included such tests of accounting records, internal accounting controls, compliance with the terms and provisions of law and regulations, and other audit procedures as we considered necessary under the circumstances. In addition, we analyzed Eximbank's reserves for contingencies and defaults in order to determine its capacity to absorb potential loan losses. This included comparing the ratio of Eximbank's reserves to its outstanding commitments, analyzing the composition of the reserves and commitments and evaluating the potential effect that continued lending below the cost of borrowing can have on Eximbank's net income and reserves in future years.

We also focused our review on the disbursement procedures and costs incurred by Eximbank in executing its September 1980 agreement with PEFCO, the effect it has on Eximbank's borrowing requirements, and the effect it has on the negative spread between Eximbank's borrowing and lending interest rates. We interviewed Eximbank and PEFCO officials, reviewed the Eximbank-PEFCO agreement and related documents, and records of financial transactions made under the agreement.

We performed our audit work in Washington, D.C., between July 1981 and April 1982.

CHAPTER 2

COMMENTS ON FINANCIAL STATEMENTS

We are unable to express an opinion on the adequacy of the reserves for contingencies and defaults in Eximbank's fiscal year 1981 financial statements. Although the reserve at the end of fiscal year 1981 is sufficient to cover possible loan losses resulting from borrowers who were presently in financial difficulties, it is uncertain whether the reserve is adequate to cover possible losses on loans and guarantees that have not yet matured. The amount reserved for contingencies and defaults has been the basis of our qualified opinions on Eximbank's financial statements since fiscal year 1975.

The capacity of Eximbank's reserve to absorb potential losses has been reduced in recent years because Eximbank's

--increased lending operations have not been accompanied by corresponding increases in income to its reserve for contingencies and defaults,

--risk of incurring possible future losses on delinquent loans and obligations arising from purchases and guarantees of loans made by private creditors has increased to a larger extent than the increase in its reserves, and

--lending below the costs of funds has resulted in projected operating losses beginning in fiscal year 1982 which could impair Eximbank's reserve for years to come (Eximbank's projections of the size of such losses and how long they will occur is dependent on what interest rates will be and what policies it pursues).

MEASUREMENT OF RESERVE ADEQUACY DIFFICULT

Due to the uncertain nature of foreign economic and political considerations, the size of the reserve needed to cover future losses on loans, guarantees, and insurance cannot be realistically predicted. It is difficult to measure the adequacy of Eximbank's income reserve because there is no acceptable standard and no comparable U.S. lending institution. However, the following schedule shows how Eximbank's retained income reserve has deteriorated relative to outstanding commitments between 1971 to 1981.

Patio Comparison of Reserve to Outstanding Commitments
(Loans, Guarantees, and Insurance)

Fiscal year	Retained income reserve	Outstanding commitments	Comparison expressed as ratio
	- - - - - (millions)	- - -	
1971	$1,315	$ 7,128	1:5.4
1972	1,413	7,990	1:5.7
1973	1,503	9,275	1:6.2
1974	1,563	11,241	1:7.2
1975	1,624	13,118	1:8.1
1976	1,719	14,640	1:8.5
1977 (note a)	1,850	15,443	1:8.4
1978	1,954	15,443	1:7.9
1979	2,078	16,777	1:8.1
1980	2,187	19,861	1:9.1
1981	2,200	22,641	1:10.3

a/Includes transition quarter when end of fiscal year was changed from June 30 to September 30.

In our June 1981 report, we reported that despite this deterioration Eximbank has maintained that its ratio of reserve to outstanding commitments remains well below that of a comparably sized commercial bank. A May 1979 Eximbank study of capital adequacy showed that the largest U.S. private banks typically had ratios ranging between 1:15 to 1:18. The study concluded that Eximbank's reserve was fully adequate by private sector standards. We believe one reason why Eximbank has fared so well is its extremely low loan losses, which the study showed as amounting to only about 10 percent of the lowest losses experienced by any of the top 10 banks.

Its low loan losses may be explained in part however, by its management policy as to loan write-offs which is different than the policy followed by banks of the private sector.

Loans written-off only after outstanding balance determined uncollectible

Loans are written off and charged against income only after Eximbank officials determine that the outstanding balance is uncollectible. Such determinations have been rare. No loans were written off in fiscal years 1980 and 1981, and only $8 million in loans has been charged off against income since 1934. For example, no determinations of uncollectibility have been made for delinquent loans of $26.4 million made in 1946 to the then recognized government of China, and $36.3 million made to Cuba before 1961 when a prior government existed. In addition, Eximbank had accrued for record purposes, but ceased to place on its books, interest of $36.4 million for loans it deemed to be of doubtful collectibility but had not written off.

Commercial banks, which seek to maximize profits, would write off similar loans for tax reasons. We see no particular advantage for Eximbank to charge off loans of doubtful collectibility against the reserve, but the effect of not doing so tends to keep its reserve-to-commitment ratio lower than that of commercial banks.

Accounting treatment effects composition of reserves

The composition of Eximbank's reserve and outstanding commitments as of September 30, 1981, is shown below.

Composition of Reserve and Outstanding Commitments
(As of September 30, 1981)

	Millions
Retained income reserve	
Per financial statements	$2,200
Less uncollected interest and fees	583
Adjusted loss reserve, net of uncollected interest and fees	$1,617
Outstanding commitments	
Outstanding loans:	
Current, nonrescheduled	$13,954
Current, resecheduled	715
Delinquent loans	888
Purchased guarantees and insurance	245
	$15,802
Guarantees and insurance in force:	
Contingent liability, subject to claims	6,569
Outstanding purchase agreements	270
	6,839
Total (note a)	$22,641

a/Excludes undisbursed loans and associated contingencies for guarantees and insurance of $9.1 billion (see p. 8).

Eximbank's reserves net of uncollected interest and fees on September 30, 1981, amounted to $1.6 billion. Total outstanding commitments consisted of $22.6 billion in disbursed loans, guarantees, and insurance in force; $15.8 billion was for loans outstanding with the remaining $6.8 billion representing repayment assurance to private lenders and exporters requiring no Eximbank outlays except in the case of default or loss. Since guarantees and insurance, like loans, constitute a potential charge against the reserve, it is appropriate to include them in a comparison of the reserve to outstanding commitments. Differences in Eximbank's accounting treatment are reflected in its composition of reserves and outstanding commitment in the following ways.

Uncollected interest and fees

The income reserve included $582.5 million of earned but uncollected interest and fees receivable on loans and guarantees. Of this amount $313.1 million was attributed to current non-rescheduled loans, $96.1 million to current rescheduled loans, and $173.3 million to delinquent loans. (See p. 3; also note 5 of the financial statements.)

Delinquent loans

A delinquent loan is one for which any installment of principal or interest is past due 90 days or more. As of September 30, 1981, the outstanding principal amount of delinquent loans included in loans receivable was $887.7 million. This amount included $398.1 million past due installments of 90 days or more of which $305.5 million represented an acceleration of repayment of loans made to the Government of Iran. (See note 4, financial statements.)

Rescheduled loans

Eximbank sometimes reschedules the repayment date of some or all principal installments of a loan. It does so in cases where a borrower or country has encountered temporary financial difficulty and when it determines that providing such relief will aid collectibility and enable continued debt servicing. Since Eximbank's inception, loans totaling about $2.1 billion (or 4.1 percent of loans disbursed) have been rescheduled. The aggregate value of such outstanding rescheduled loans at September 30, 1981, amounted to $715.4 million. This represents an increase of $80.7 million over the prior year.

Purchased guarantees and insurance

Guarantee and insurance claims paid have only partially been charged against income, thus postponing possible future loss charges against the reserve. Since 1934, such chargeoffs have amounted to $76 million. With our concurrence, Eximbank modified its practice in 1977 of deducting payments on guarantee and insurance claims from net income when unusally large payments were required on defaulted commercial loans to Zaire. It now treats the amount that it pays to purchase loans under the guarantee agreement as a loan receivable asset in those cases justified by the amount and prospects of repayment. As of September 30, 1981, net loans purchased pursuant to Eximbank guarantee and insurance agreements amounted to $245.1 million. Still outstanding was $270.3 million in prospective additional purchases. (See note 6, financial statements.)

NET INCOME NOT KEEPING PACE WITH INCREASED RISK

In our June 1981 and prior reports, we have stated that current net income added to the reserve is not keeping pace with the increased risk of losses from Eximbank's expanding loan portfolio. This continued to be the case for fiscal year 1981 in that the reserve increased by only $12.1 million compared with increased outstanding commitments of $2.8 billion, yielding an annual ratio of 1:231. This is more than 22 times the overall ratio for fiscal year 1981 of 1:10.3. (See p. 5.)

There are indications that Eximbank's outstanding commitments will continue to increase rapidly. In addition to the $22.6 billion of outstanding commitments at September 31, 1981, there were $9.1 billion in approved but undisbursed loans and $6.5 billion in contingent liabilities for associated guarantees and insurance. Therefore, Eximbank's overall commitments and contingencies at the end of fiscal year 1981 totaled $38.4 billion.

The $9.1 billion of approved but undisbursed loans, which amount to 57.6 percent of those already outstanding, are expected to be disbursed over the next 3 to 5 years. In addition, Eximbank's commitment authority for fiscal year 1982 was set at $4.4 billion for loans and $9.2 billion for guarantees and insurance.

In contrast, net income added to the reserve remained stable between fiscal years 1977 and 1980 but declined drastically in fiscal year 1981 as shown below.

	Fiscal year				
	1977	1978	1979	1980	1981
	(millions)				
Net income	$137	$139	$159	$110	$12.1
Dividends paid	-35	-35	-35	-0-	-0-
Additions to reserves	$102	$104	$124	$110	$12.1

As shown in the table above, Eximbank omitted its customary dividend payment to the Treasury for fiscal years 1980 and 1981. As a result $110 million was added to the reserve in 1980 which was comparable to prior years. However, due to the drastic reduction in net income in fiscal year 1981 only 12.1 million was added to the reserve. Future losses are predicted beginning in fiscal year 1982 and, if this happens, then Eximbank's reserves will be further impaired.

The schedule below compares the reserve to possible losses arising from loan delinquencies as well as defaults to private creditors that had been identified for the past 5 fiscal years.

	Fiscal year				
	1977	1978	1979	1980	1981
	(millions)				
Retained income reserve					
Per financial statements	$1,850	$1,954	$2,078	$2,187	$2,200
Less uncollected interest and fees	-303	-316	-376	-468	-583
Adjusted loss reserve, net of uncollected interest and fees	$1,547	1,638	$1,702	$1,719	$1,617
Delinquent, purchased loans and outstanding loan agreements					
Delinquent loans	$ 328	$ 468	$ 620	$ 736	$ 888
Purchased guarantees and Insurance	18	50	106	191	245
Outstanding purchase agreements	$ 186	260	236	213	270
Totals	$ 532	$ 778	$ 962	$1,140	$1,403
Difference in net reserves and known possible losses	$1,015	$ 860	$ 740	$ 579	$ 214

The schedule shows that Eximbank's reserve was adequate for the 5-year period to cover possible losses arising from current loan delinquencies as well as defaults to private creditors that had been identified. However, the favorable difference between the reserve and known possible losses decreased drastically from $1.0 billion in 1977 to only $214 million in 1981. At September 30, 1977, the reserve, adjusted for uncollected interest, amounted to $1.5 billion compared with $532 million of delinquent ($328 million), purchased ($18 million), and prospective-purchase loans relating to existing agreements ($186 million). However, as a result of the disproportionate increase in reserves to possible losses, the adjusted reserve amounted to only $1.6 billion compared with $1.4 billion of delinquent ($888 million), purchased ($245 million), and prospective-purchase loans relating to existing agreements ($270 million) at the end of fiscal year 1981.

It cannot be predicted whether the delinquent, purchased, and prospective-purchase loans discussed above will eventually be paid or become losses. However, if these continue to increase at a faster pace than Eximbank's net income, Eximbank's reserve will soon be inadequate to cover these prospective losses.

CAPACITY TO ABSORB LOSSES FROM CURRENT INCOME REDUCED

Since fiscal year 1977, when Eximbank began recording purchases of guarantees and insurance claims paid as loan assets rather than as expenses against income, its capacity to finance such loan purchases out of current income collections has been reduced. If Eximbank cannot finance its loan purchase commitments from current income proceeds, it must apply its reserve funds or obtain additional borrowings to cover this shortage.

As explained on page 7, Eximbank credits interest on loans to income when it is earned, as opposed to when it is collected. In recent years, delinquent loan interest has become increasingly significant in relation to net income. Coincidental with this increase has been the rise in Eximbank's loan purchases, as shown below.

	Fiscal Year			
	1978	1979	1980	1981
	- - - - (millions) - - -			
Net income added to reserve	$104	$124	$110	$12.1
less: Increase of delinquent loan interest in reserve	-11	-25	-93	-28.3
difference	93	99	17	(16.2)
Loan purchases (net of repayments)	32	56	85	54

As the table indicates current net income after adjusting for uncollected delinquent loan interest was not sufficient to finance Eximbank's loan purchase commitments for fiscal years 1980 and 1981.

Operating losses projected for fiscal years 1982 to 1986

Eximbank's borrowing rate has been consistently higher than its lending rate for the past several years. Eximbank periodically calculates the potential impact of this continued negative interest rate spread on net income and the reserve. In our June 1981 report, we stated that Eximbank projections made in January 1981 showed a reduced profit or small loss for fiscal year 1981, a probable loss for fiscal year 1982 and possible exhaustion of Eximbank's reserve as early as fiscal year 1986.

As projected, Eximbank did show a greatly reduced profit for fiscal year 1981 of $12.1 million and a loss is predicted for fiscal year 1982. Eximbank has reported a loss of $49.6 million for the first half of the fiscal year ending March 31, 1982, and predicts that the loss for the year can be as high as $130 million.

The size of future losses and how long these losses will occur depends mainly on the spread between Eximbank's lending and borrowing costs. In our June 1981 report, we concluded that with a negative spread of 2 percent or more between lending and borrowing costs losses will commence in fiscal year 1982 and Eximbank's reserve will be depleted by the end of the decade.

Eximbank took steps to reduce its spread between borrowing and lending by raising its direct lending rate for non-aircraft transactions from 8.75 percent to 10.75 percent in July 1981, and again to 12 percent in November 1981. However, between September 1981 and March 1982, interest paid by Eximbank on funds from the Federal Financing Bank, its borrowing source for medium- and long-term needs fluctuated between 14 and 15.7 percent. As a result a negative difference in lending and borrowing cost of 2 to 4.8 percent existed during this period. We believe that while the 3.25 percent increase in Eximbank's lending rate has reduced the negative spread between lending and borrowing cost to a more favorable level, the spread has not been reduced sufficiently to preclude projected losses and the possible depletion of the reserve by the end of the decade.

As stated in our June 1981 report the difference between Eximbank's borrowing and lending rate may be further aggravated as a result of a September 1980 agreement between Eximbank and the Private Export Funding Corporation. This agreement provides that Eximbank and PEFCO will share in providing $1.35 billion of export financing at fixed rates of interest quoted by Eximbank to foreign borrowers. Under the agreement Eximbank guarantees to make up the difference between the borrowers' interest payments and PEFCO's interest charges on $1.1 billion of loans financed by PEFCO and guaranteed by Eximbank. All loan disbursements and repayments under the agreement are made through Eximbank.

Eximbank disbursed the first $100 million on PEFCO loans under the agreement over a 8-month period between February and October 1981. To reimburse Eximbank for disbursements made on its behalf, PEFCO borrowed and transferred $100 million to Eximbank on September 29, 1981. Since Eximbank has disbursed only $95.6 million on PEFCO loans as of that date, Eximbank gave PEFCO a note for 4.4 million for the unutilized balance. PEFCO held the note until its amount was fully disbursed by Eximbank on PEFCO loans on October 13, 1981. However, the $4.4 million unutilized balance is not shown as a notes payable on the balance sheet in its financial statements but is included in the liability account "other credits" on the balance sheet. (See note 8 of the financial statements.)

Also, the increased cost to be incurred by Eximbank on PEFCO disbursements under the agreement as of September 1982 is approximately $89.4 million. This matter is discussed in Chapter 3.

CONCLUSION

Eximbank's reserve for contingencies and defaults as shown in its fiscal year 1981 financial statements is sufficient to cover possible losses resulting from borrowers who were presently in financial difficulty. However, we qualified our opinion on the adequacy of the reserve because due to various contingencies it is uncertain whether the reserve is adequate to cover losses on loans and guarantees that will mature in future years.

It is difficult to measure the adequacy of Eximbank's reserve. Because of the uncertain nature of foreign, economic, and political conditions, the size of the reserve needed to cover future losses on loans, guarantees, and insurance cannot be realistically predicted. However, the capacity of the reserve to absorb potential future losses has steadily declined over the past several years and indications are that this trend will continue in future years.

The capacity of the reserve to absorb potential future losses has declined because net income from operations added to the reserve has not kept pace with the increased risk of losses from Eximbank's expanding loan portfolio and loan purchase commitments. A small net profit of only $12.1 million was added to the reserve in fiscal year 1981. In contrast, Eximbank's outstanding commitments increased by $2.8 billion or at a ratio of 1:231 when compared with net income. Eximbank has reported a loss of $49.6 million for the first half of fiscal year 1982 and predicts that the loss for the year can be as high as $130 million.

Eximbank's borrowing rate has consistently been higher than its lending rate for the past several years. Eximbank took action to reduce the negative spread between its borrowing and lending rate by raising its direct lending rate for non-aircraft transactions from 8.75 percent to 10.75 percent in July 1981, and again to 12 percent in November 1981. However, since that time and March 1982, Eximbank's borrowing costs have continued to remain at a high of 14 to 15.7 percent. If interest rates continue to remain high with a negative spread of 2 percent or more between lending and borrowing costs, Eximbank will continue to face projected losses and the depletion of its reserves by the end of the decade.

CHAPTER 3

SUBSIDIZING PRIVATE FINANCING IS COSTLY

In September 1980, Eximbank entered into a unique agreement with PEFCO to guarantee $1.1 billion of PEFCO-financed loans. While such agreements normally do not require an Eximbank outlay unless a borrower defaults, this arrangement is unique in that it obligates Eximbank to make up the difference between PEFCO's costs of funds and the interest rate at which the loans are committed.

As of September 1982, PEFCO has made $210 million of disbursements under this agreement. Increased costs to be incurred by Eximbank for this amount are approximately $89.4 million. The total increase costs to Eximbank under this agreement will depend on the trend in interest rates during the time the remaining $890 million of PEFCO loans under the agreement are disbursed.

Eximbank is also experiencing a substantial increase in its borrowing requirement from the Treasury resulting from a procedure under the agreement which requires Eximbank to make disbursements for PEFCO's portion of loans under the agreement and provides for PEFCO to reimburse Eximbank several months later.

INTEREST RATES OF GUARANTEED LOANS SUBSIDIZED BY EXIMBANK

The PEFCO agreement grows out of Eximbank's use of supplemental fiscal year 1980 direct loan ($251 million) and financial guarantee ($274.75 million) authority granted in August 1980 to discharge $1,350 million in preliminary loan commitments. The guarantee authority enabled Eximbank to support PEFCO-financed loans of $1,099 million for which no direct credit authority remained. The Eximbank guarantees, combined with Eximbank's direct loan share of $251 million, financed 16 loan transactions with a total value of $1,350 million. The loans carried fixed interest rates to the borrower ranging from 8 to 10.7 percent and repayment terms of from 8.5 to 19.5 years, averaging on a weighted basis about 9 percent interest and 14.6 years maturity (12 years for the portion financed by PEFCO). All loan disbursements and repayments are being made through Eximbank.

Eximbank guarantees normally do not require it to make a financial outlay unless a borrower defaults. The September arrangement is unique because Eximbank has agreed to reimburse PEFCO for the difference between the latter's interest charges and the rates at which the loans were committed. By doing this, Eximbank is in effect subsidizing the interest spread between PEFCO's cost of funds and the interest rate charged the borrower.

This is fundamentally the same as if it had made the loan directly instead of merely guaranteeing repayment of the loan by the borrower.

We stated in our June 1981 report 1/ that the increased costs to be incurred by Eximbank through the use of this arrangement with PEFCO cannot be determined until the loans are disbursed and the interest rates that PEFCO will pay to acquire funds to make the loan disbursements are known. However, for illustrative purposes and to show the potential increase in budgetary costs, we estimated that the increased costs based on PEFCO interest rate charges at that time to be about $313.2 million. Since that time and September 1982 PEFCO has disbursed $210 million under the agreement, and the increased costs to Eximbank resulting from these disbursement can now be more accurately calculated. This calculation shows that the actual increased costs for these disbursements exceed our prior estimates.

TOTAL INCREASED COSTS MAY EXCEED PRIOR ESTIMATE

The increased cost to be incurred by Eximbank under the PEFCO agreement can be viewed as the difference in the interest rate charged by PEFCO for its portion of loans under the agreement and the interest rate at which these loans were guaranteed to the borrowers by Eximbank. Our estimate, shown in our June 1981 report that Eximbank will incur increased costs of $313.2 million under the agreement, was based on the then current cost of borrowing by PEFCO of 13.75 percent. On this basis we calculated that Eximbank would subsidize an interest differential of 4.75 percent between PEFCO's cost of funds (13.75 percent) and the 9-percent average interest rates that the loans were made to the borrowers.

PEFCO made its first $210 million disbursement under the agreement in two payments. The actual interest cost to PEFCO for its first $100 million disbursed under the agreement was 16.7 percent, and the average interest rate charged the borrower on the loans for which this disbursement was made was 8.6 percent, an interest rate differential of 8.1 percent. This rate is 70 percent higher than the interest rate differential of 4.75 percent used to calculate our estimated increased cost to Eximbank under the agreement in our June 1981 report. As a result the actual increased costs to Eximbank for the first $100 million loan disbursements under the agreement is $20.1 million more than our previous estimate, as calculated below.

1/"To be Self-Sufficient or Competitive? Eximbank Needs Congressional Guidance," (ID-81-48.)

	Estimated	Actual
Amount disbursed	$100 million	$100 million
Interest differential	x .0475	x .081
	$4.75 million	$8.1 million
Average number of years PEFCO loans outstanding	x 6.0	x 6.0 (1/2 of 12 years)
Increased cost to Eximbank	$28.5 million	$48.6 million

The actual interest cost to PEFCO for its second payment of $110 million disbursed under the agreement in May 1982 was 14.68 percent, and the average interest rate charged the borrowers on the loans for which this disbursement was made was 8.5 percent. This means that Eximbank is subsidizing an interest rate differential of 6.18 percent (14.68 percent minus 8.5 percent), for this disbursement which is 30 percent higher than the 4.75 percent differential used to compute our prior estimate. Using the same method as demonstrated above for the first payment, we calculated that the increased cost to Eximbank for this $110 million disbursement under the agreement was $40.8 million or $9.5 million more than our previous estimate.

Therefore, the actual increased costs to Eximbank for the first $210 million disbursements under the agreement was $89.4 million ($48.6 million for the first $100 million and $40.8 million for the next $110 million of PEFCO disbursements). This increased cost exceeds our previous estimates by $29.6 million ($20.1 million for the first $100 million and 9.5 million for next $110 million of PEFCO disbursements). However, whether the total actual increased cost to Eximbank under the agreement will exceed our prior estimate of $312 million will depend on the trend in interest rates while the remaining $890 million under the agreement is disbursed.

ADDITIONAL BORROWING REQUIREMENTS FOR PEFCO LOAN DISBURSEMENTS

The loan agreement requires that all PEFCO loan disbursements as well as repayments by the borrower be made through Eximbank. It provides for Eximbank to make disbursements on PEFCO loans upon request by the borrower and to request reimbursement from PEFCO when such disbursements equal, or are projected to equal, $100-million which can occur several months later. Under this procedure Eximbank can incur a substantial increase in its borrowing requirements because it must make loan disbursement for PEFCO from its own funds which it must borrow and pay interest cost.

Eximbank disbursed $95.6 million on PEFCO loans under the agreement over a several month period between February and September 1981, before it received reimbursement from PEFCO (see note 8 of the financial statements in app. I). Between October 1981 and May 1982, Eximbank disbursed an additional $110 million on PEFCO loans before it was reimbursed by PEFCO. By making these disbursements from its own funds, Eximbank placed a further burden on its borrowing requirements until the disbursed amounts were reimbursed by PEFCO. Eximbank borrows funds for its short-term needs from the Treasury at the prevailing 90-day Treasury bill rate.

Although the procedure used by Eximbank to make disbursements on PEFCO-financed loans is in accord with the agreement, it demonstrates another unique aspect of this agreement. Normally, loan guarantees are desirable in providing export loan assistance because they do not require Eximbank to make a financial outlay unless a borrower defaults, i.e., all loan disbursements are made by the lender. In the above case, however, Eximbank used its own funds to make disbursements on PEFCO loans that it guaranteed which substantially increases its borrowing requirements.

CONCLUSIONS

In our June 1981 report, we reported that Eximbank would incur additional costs of $313.2 million as a result of its unique September 1980 agreement with PEFCO to support $1.1 billion of PEFCO loans. These increased costs will be incurred because under the agreement Eximbank will not only guarantee these loans but will reimburse PEFCO for the interest differential between the latter's costs of funds and the interest cost to the borrower.

Since then, the first $210 million disbursements under the agreement have been made, and due to rising interest rates, the actual increased cost to Eximbank to subsidize the interest differential for these disbursements is $89.4 million or $29.6-million more than we previously estimated. Whether the total increased costs to Eximbank under this agreement will reach or exceed our prior estimate of $313.2 million will depend on the trend in interest rates during the time the remaining $890 million under the agreement are disbursed. Regardless, we believe that the PEFCO agreement is costly and that such agreements should be avoided in the future.

Eximbank is also experiencing a substantial increase in its borrowing requirements resulting from the procedure in which it makes loan disbursements for PEFCO under the agreement. The agreement requires Eximbank to make all loan disbursements and provides for PEFCO to reimburse Eximbank for disbursements made on its portion of the loans at a later date. Following this procedure Eximbank uses its own funds which it borrows from the Treasury to make loan disbursements for PEFCO. In fiscal years 1981 and 1982, Eximbank made disbursements of $95.1 million and $110 million, respectively, on PEFCO loans under the agreement over 7-month periods before reimbursement was obtained.

Although the above procedure is in accord with the agreement and does not result in increased costs to Eximbank, it demonstrates another unique aspect of this agreement in that Eximbank does not normally make financial outlays on loans that it guarantees, unless a borrower defaults. However, in this case Eximbank makes disbursements on the PEFCO loans that it guarantees from its own funds, which substantially increases its borrowing requirements.

AGENCY COMMENTS AND OUR EVALUATION

Eximbank furnished us written comments on a draft of this report and a copy of these comments are included as appendix II.

While acknowledging that there is an additional cost associated with the loans that it guarantees under the PEFCO agreement, Eximbank stated that this cost, compared to the cost Eximbank would have incurred if it had made the loan, is the difference between PEFCO's cost of funds and Eximbank's borrowing costs to fund the credit as a direct loan. The difference between PEFCO's cost of funds and Eximbank borrowing costs has averaged about three quarters of one percent. Eximbank further stated that the fact that using its guarantee authority in this manner would increase costs to Eximbank more than making a direct loan was explained to the Congress prior to the passage of the supplemental loan and guarantee authority.

While Eximbank's comparison provides for a smaller increase in costs, it is not appropriate. We maintain that the additional cost to Eximbank for the loans that it guarantees under the agreement is the interest differential between the cost of PEFCO funds and the interest costs to the borrower (8.1 percent for the first $100 million disbursements and 6.18 percent for the second $110 million disbursement). Although Eximbank did discuss the additional costs of using guarantee authority to subsidize PEFCO loans in this manner at congressional hearings, the purpose of this chapter is to show the extent of such costs to Eximbank, and the impact the agreement has on the Bank's borrowing requirements.

In our draft, we stated that Eximbank is incurring a substantial amount of imputed interest cost resulting from the procedure of making disbursements on PEFCO-financed loans under the agreement and receiving reimbursement from PEFCO several months later when such disbursements reach $100 million dollars. Under this procedure Eximbank uses its own funds that it borrows from the Treasury and incurs interest costs to make loan disbursements for PEFCO. We stated that there are stipulations in the agreement which provide that Eximbank may request PEFCO to prefund loan disbursements made by Eximbank on its behalf. Accordingly, we proposed that in the future Eximbank obtain the necessary funds from PEFCO in advance under this provision of the agreement so that it would not have to make disbursements on PEFCO-financed loans under the agreement from its own funds. We proposed that if there are cases in which such advance of funds are not feasible, Eximbank should request prompt reimbursement from PEFCO for disbursements it makes on PEFCO loans.

Eximbank did not agree with our proposals. It stated that the procedure in which Eximbank makes disbursements for PEFCO on its share of loans under the agreement and receives reimbursement several months later when such amounts reach $100 million minimizes the costs to Eximbank under the agreement. To advance the funds initially for PEFCO, Eximbank borrows from the Treasury and pays a lower interest rate on the funds than PEFCO would have required had it made the disbursement immediately. Thus, for the time prior to the PEFCO reimbursement, Eximbank is incurring less costs than it would under an immediate reimbursement procedure.

As we stated previously, it is not a normal practice for Eximbank to use its own funds to make disbursements on loans that it guarantees, and such practice results in an increase in its borrowing requirements. However, we agree with Eximbank that, in this case, this procedure is less costly to Eximbank than to either obtain the necessary funds from PEFCO in advance in order to make disbursements on PEFCO loans, or to request more prompt reimbursement from PEFCO for disbursements made by Eximbank on PEFCO loans under the agreement. Therefore, we deleted our proposals.

We still believe that the PEFCO agreement, by requiring Eximbank to subsidize interest rates of guaranteed loans, is costly and that such agreements should be avoided in the future.

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

June 15, 1982

B-114823

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

We have examined the statements of financial condition of the Export-Import Bank of the United States as of September 30, 1981 and 1980, and the statements of income and analysis of 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. 841-870) and in accordance with generally accepted Government auditing standards, and accordingly included such tests of the accounting records, internal accounting controls, compliance with the terms and provisions of law and regulations, and other audit procedures as we considered necessary under the circumstances.

The Bank states its 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 1981, the risk of incurring possible future losses increased to a larger extent. This increased risk is due primarily to loan purchases, outstanding purchase agreements, and principal and interest delinquencies. The adequacy of the reserve cannot be realistically assessed because of the uncertain nature of future foreign economic and political conditions. (See Statement of Financial Condition and notes 4, 6, and 8.)

Any losses the Bank may incur on purchases of defaulted commercial loans covered by Bank guarantees or insurance and rescheduled under countrywide debt consolidations also are chargeable against the reserve. In fiscal year 1981 the Bank purchased loans totaling $52.2 million. Cumulative loan purchases since fiscal year 1977 have been $275.6 million, while cumulative repayments have been $30.5 million. Under existing agreements, the Bank may be called upon to purchase additional loans totaling as much as $270.3 million. (See note 6.)

In addition, the reserve is subject to impairment because the Bank's current funding rates are higher than its lending rates. As a result the Bank's average cost of borrowed funds as of September 30, 1981, exceeded its interest income from outstanding loans by about 2.9 percent. This represents a 1.2 percent increase over the 1.7 percent interest rate differential as of September 30, 1980.

GAO/ID-82-34

B-114823

Based on data we obtained subsequent to the balance sheet date the differential had increased to about 3.3 percent as of March 31, 1982, and if this trend continues the Bank will suffer a loss in fiscal year 1982 and possibly future years that would have the direct effect of reducing the amount of the reserve. Because of the various contingencies, 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, 1981 and 1980, 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 basis consistent with that of the preceding year. Our evaluation and tests of the Bank's system of internal accounting controls disclosed no material weaknesses. Also, our tests showed that the Bank was in compliance with terms and provisions of laws and regulations that could have materially affected its financial statements.

Charles A. Bowsher

Comptroller General
of the United States

APPENDIX I

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

	September 30, 1981		September 30, 1980	
ASSETS				
Cash in U.S Treasury and Commercial Bank..............		$ 700,000		$ 200,000
Loans Receivable (Notes 4, 5, 6, 8 and 9):				
Current Loans - includes rescheduled loans of $715.4 million at 9-30-81 and $634.' million at 9-30-80............	$14,914,700,000		$13,029,200,000	
Delinquent Loans...............	887,700,000	15,802,400,000	735,900,000	13,765,100,000
Accrued Interest and Fees Receivable (Note 4):				
Current Interest and Fees......	313,100,000		263,900,000	
Delinquent Interest............	89,300,000	402,400,000	59,900,000	323,800,000
Other Assets:				
Foreign Credit Insurance Association Receivable........	1,200,000		1,300,000	
Application Fees Receivable....	1,300,000		-0-	
Other Receivables and Miscellaneous Assets..........	1,200,000	3,700,000	400,000	1,700,000
Total Assets....................		$16,209,200,000		$14,090,800,000

	September 30, 1981		September 30,
LIABILITIES, RESERVE, AND CAPITAL			
Borrowings (Notes 2 and 3):			
Notes Payable to Federal Financing Bank....................	$12,409,300,000		$10,066,900,0
Notes Payable to U.S. Treasury.....	19,000,000		79,000,0
Notes Payable to U.S. Institutiors.	118,000,000		251,200,0
Certificates of Beneficial Interest Payable..................	77,800,000		160,100,0
Participation Certificates Payable.........................	250,000,000		250,000,0
		$12,874,100,000	
Other Liabilities:			
Accrued Interest Payable...........	113,200,000		81,900,0
Other Credits.....................	10,800,000		4,100,0
		124,000,000	
Deferred Fee Income................		11,600,000	
Reserve for Contingencies and Defaults (Notes 3,4,5,7 and 8): accumulated from income - includes delinquent interest and delinquent capitalized interest of $173.3 million at 9-30-81 and $165.0 million at 9-30-80		2,199,500,000	
Capital Stock Held by U.S. Treasury (Note 3)...........................		1,000,000,000	
Total Liabilities, Reserve, and Capital........................		$16,209,200,000	

Notes to Financial Statements on pages 1 through 8 are an integral part of this statement.

COMPARATIVE STATEMENT OF INCOME AND ANALYSIS OF RESERVE FOR CONTINGENCIES AND DEFAULTS

	Fiscal Year Ended September 30, 1981	Fiscal Year Ended September 30, 1980
Revenues:		
Interest on Loans	$ 1,121,900,000	$ 927,700,000
Insurance Premiums and Guarantee Fees	36,600,000	30,000,000
Commitment and Application Fees	35,400,000	31,400,000
Other Income	1,500,000	200,000
Total Revenues	1,195,400,000	989,300,000
Expenses:		
Interest on U.S. Government Borrowings	1,128,200,000	793,200,000
Interest on Participation Certificate Borrowings	12,800,000	12,800,000
Interest on Certificates of Beneficial Interest Borrowings	10,500,000	15,700,000
Interest on U.S. Institutional Borrowings	11,900,000	22,700,000
Administrative Expenses	13,800,000	13,900,000
Claims Paid, net of recoveries (Note 7)	3,300,000	16,100,000
Other Expenses, principally Interest on Letters of Credit	2,800,000	5,200,000
Total Expenses	1,183,300,000	879,600,000
Net Income (Note 3)	$ 12,100,000	$ 109,700,000
Analysis of Reserve for Contingencies and Defaults:		
Balance at Beginning of Fiscal Year	$ 2,187,400,000	$2,077,700,000
Addition to Reserve	12,100,000	109,700,000
Balance at End of Fiscal Year	$ 2,199,500,000	$2,187,400,000

Notes to Financial Statements on pages 1 through 8 are an integral part of this statement.

APPENDIX I

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

	Fiscal Year Ended September 30, 1981	Fiscal Year Ended September 30, 1980
Funds Provided:		
Net Income	$ 12,100,000	$ 109,700,000
Borrowings from the Federal Financing Bank (Note 2)	3,953,000,000	3,704,100,000
Borrowings from U.S. Treasury	2,184,200,000	2,160,400,000
Repayments of Loans Receivable	1,470,600,000	1,377,100,000
Repayments of Loans Purchased Pursuant to Guarantee and Insurance Agreements	4,300,000	4,700,000
Sales of Certificates of Beneficial Interest	200,000	-0-
Accrued Interest Payable	31,200,000	9,300,000
Other - Net	6,900,000	(400,000)
Total Funds Provided	$7,662,500,000	$7,364,900,000
Funds Applied:		
Loan Disbursements (includes Capitalized Interest FY 1981, $38.7 million; and FY 1980, $55.7 million)	$3,454,100,000	$3,197,500,000
Loans Purchased Pursuant to Guarantee and Insurance Agreements (includes Capitalized Interest FY 1981, $5.9 million)	58,100,000	90,400,000
Accrued Interest and Fees Receivable	79,900,000	48,200,000
Repayments of Federal Financing Bank Borrowings	1,610,600,000	1,590,100,000
Repayments of U.S. Treasury Borrowings	2,244,200,000	2,131,400,000
Repayments of Private Export Funding Corporation Borrowing	-0-	50,000,000
Repayments of U.S. Institutions Borrowings	133,200,000	145,500,000
Redemptions of Certificates of Beneficial Interest	82,400,000	76,800,000
Payment of Dividend to U.S. Treasury (FY 1979)	-0-	35,000,000
Total Funds Applied	$7,662,500,000	$7,364,900,000

Notes to Financial Statements on pages 1 through 8 are an integral part of this statement.

APPENDIX I

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 nonaccruing. Claims, except for purchases of assets (see footnote 6), 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. The figures in the financial statements on pages 21 through 24 are rounded to the nearest one hundred thousand dollars.

The commitment authority of Eximbank under the Export-Import Bank Act to lend, guarantee, and insure is limited to $40 billion outstanding at any one time. Loans are charged against the $40 billion limitation at 100 percent of their authorized amount. Guarantees and insurance are charged against the $40 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 $25 billion outstanding at any one time. Thus, Eximbank's contractual commitments outstanding at any one time could reach $58.75 billion, consisting of $25 billion of guarantees and insurance outstanding, resulting in a $6.25 billion charge against the $40 billion limitation, and $33.75 billion (additional commitments) charged at 100 percent against the limitation.

-2-

At September 30, 1981, the committed and uncommitted authority to lend, guarantee, and insure was:

Category		($ Millions) Charge
Loans		$24,949.4
Guarantees	$ 6,702.7	
Insurance	6,754.1	
	$13,456.8 @25%	3,364.2
Committed		28,313.6
Uncommitted		11,686.4
Total Statutory Authority		$40,000.0

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, for the quarter ending September 30, 1981, was 15.91 percent.

In previous years, Eximbank borrowed to meet its medium-term needs through the issuance of debentures and participation certificates. One certificate for $250 million with an interest rate of 5.10 percent is still outstanding and matures in 1982.

Since May 1975, Eximbank has borrowed from the Federal Financing Bank (FFB) for its medium- and long-term needs. During the year ending September 30, 1981, Eximbank borrowed the following from the FFB:

Date	Amount	($ Millions) Rate	Final Maturity
12/01/80	$ 715.0	13.003%	12/01/90
12/01/80	247.0	12.645	12/01/90
3/02/81	264.0	13.333	3/01/91
3/02/81	820.0	13.570	3/01/91
6/01/81	715.0	13.715	6/01/91
6/01/81	285.0	13.401	6/01/91
9/01/81	604.0	15.701	9/01/91
9/01/81	303.0	15.245	9/01/91

As Eximbank is usually a net borrower of funds, net short-term borrowings from the U.S. Treasury are 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.

Note 3: United States Government Investment in Eximbank
The investment of the U.S. Government in Eximbank consists of the following:

	($ Millions) September 30, 1981	September 30, 1980
Capital stock held by U.S. Treasury	$ 1,000.0	$ 1,000.0
Reserve for Contingencies and Defaults	2,199.5	2,187.4
Notes Payable to Federal Financing Bank	12,409.3	10,066.9
Total	$15,608.8	$13,254.3

No dividend was declared from FY 1981 net income.

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).

Delinquent interest of $89.3 million has accrued and is carried as a receivable. Of this amount $4.3 million is delinquent interest on loans purchased (see footnote 6). The difference between the $89.3 million figure and the $130.6 million shown in the table represents mainly interest on loans which are non-accruing for financial statement purposes.

The delinquent loans to China were made in 1946 to the then recognized government of China. The delinquent loans to Cuba pertain to loans made before 1961, when a prior government existed.

In FY 1981, Eximbank rescheduled principal and interest installments of $97.5 million (see footnote 5). At the time of the reschedulings, $21.7 million ($11.7 million principal and $10.0 million interest) was past due 90-days or more.

Since December 21, 1979, Eximbank has accelerated certain loans totaling $305.5 million and guarantees of $4.8 million which had been made to or guaranteed by the government of Iran. These loans were accelerated in FY 1980 on the basis of defaults on scheduled repayments to Eximbank or loans with cross-default clauses.

In an action subsequent to the date of the financial statements, in February 1982, Laker Airways Limited (Laker) went into receivership. At that date, Eximbank's total outstanding exposure on loans to Laker for five DC-10-30 aircraft totaled $147.2 million ($86.0 million direct loans and $61.2 million of guaranteed loans).

(NOTE 4 Continued)

The Eximbank exposure was secured by chattel mortgages on the five DC-10-30 aircraft. Eximbank has taken possession of the aircraft. At this time it is not possible to accurately estimate the sale value of the aircraft. However, it is possible that a loss will be incurred by Eximbank from this transaction.

Country	Total Outstanding Principal	($ Thousands) Delinquent Installments September 30, 1981 Principal	Interest	Total	($ Thousands) Delinquent Installments September 30, 1980 Principal	Interest	Total
Brazil	$ 29,259.5	$ 823.9	$ 202.9	1,026.8	$ 2,834.3	$ 439.4	$ 3,273.7
Cen. Afr. Rep.	2,825.9	1,803.0	906.6	2,709.6	1,121.0	736.4	1,857.4
China	26,386.0	26,386.0	25,790.3 *	52,176.3	26,386.0	24,997.3	51,383.3
Cuba	36,266.6	36,266.6	42,921.0	79,187.6	36,266.6	40,932.4	77,199.0
Iran	305,718.3	305,718.3	42,327.3	343,045.6	305,718.3	10,636.4	316,354.7
Jamaica	3,349.2	1,544.5	502.7	2,047.2	565.8	302.3	868.1
Liberia	1,314.1	1,314.1	.6	1,314.7	1,917.9	36.7	1,954.6
Mexico	1,571.0	1,126.4	650.4	1,776.8	1,082.2	619.7	1,701.9
Nicaragua	13,844.7	2,415.1	2,104.8	4,519.9	610.8	1,024.9	1,635.7
Uganda	1,818.6	1,818.6	273.8	2,092.4	1,653.8	382.4	2,036.2
Zaire	360,856.7	14,994.2	11,381.4	26,375.6	2,715.6	5,537.9	8,253.5
Other	104,454.9	3,922.5	3,528.3	7,450.8	16,778.4	10,657.0	27,435.4
Total	$887,665.5	$398,133.2	$130,590.1	$528,723.3	$397,650.7	$96,302.8	$493,953.5

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

*Eximbank actually ceased to accrue interest on its books in 1960. At that time, interest amounted to $9,325,442.59.

APPENDIX I

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, 1981, except for 17 loans with an aggregate outstanding principal balance of $300.5 million as to which principal and interest installments amounting to $29.3 million are 90-days or more past due. These 17 loans are included in the delinquent classification on the Statement of Financial Condition. In FY 1981, Eximbank rescheduled principal and interest installments totaling $97.5 million. Included in this total is $18.2 million ($12.3 million principal and $5.9 million interest) of rescheduled loan purchases. The outstanding principal balance under the FY 1981 reschedulings is $134.0 million.

Some reschedulings include capitalized interest, which has been previously credited to the Reserve for Contingencies and Defaults. At September 30,1981, the Reserve of $2,199.5 million includes $180.1 million of such outstanding capitalized interest of which $84.0 million is 90-days or more past due. The Reserve also includes past due interest on delinquent loans totaling $89.3 million.

Note 6: Loans Purchased Pursuant to Eximbank Guarantee Agreements
Claim payments under Eximbank's medium- and short-term guarantee and insurance programs are treated as purchases of assets and recorded as loans receivable when, in the opinion of the Board, the prospects of repayment and other factors, including materiality and country-wide debt consolidation considerations, justifies such treatment.

The $15,802.4 million of loans receivable at September 30, 1981 includes $245.1 million of purchased loans and the $13,765.1 million at September 30, 1980 includes $191.3 million. As of September 30, 1981, delinquent loan purchases totaled $9.8 million ($5.5 million principal and $4.3 million interest). At September 30, 1981, cumulative purchases of loan installments totaled $275.6 million and cumulative repayments totaled $30.5 million. In accordance with the terms of existing guarantee and insurance agreements, Eximbank may be called upon to purchase some or all of the remaining $270.3 million of installments relating to these loans.

Loan purchases as of FY 1981, and FY 1980 are summarized in the table below. Repayments in FY 1981 totaled $16.6 million and $4.6 million in FY 1980.

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Country	($ Thousands) FY 1981 Loan Purchases	FY 1980 Loan Purchases
Madagascar	$ 1,808.4	$ -0-
Mauritania	1,222.4	436.3
Nicaragua	1,904.4	1,149.5
Sudan	365.3	2,997.7
Togo	817.6	889.3
Turkey	16,407.0	19,824.7
Zaire	29,649.9	65,088.3
Total	$ 52,175.0	$ 90,385.8

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Note 7: Losses, Claims and Reserve for Contingencies and Defaults
Losses, claim payments and recoveries for FY 1981 and FY 1980 are:

	($ Thousands) FY 1981	FY 1980
Loans written off	$ -0-	$ -0-
Guarantee claims paid	3,758.3	8,082.1
Guarantee recoveries	(3,034.6)	(2,889.0)
Insurance claims paid	5,844.8	16,158.4
Insurance recoveries	(3,268.3)	(5,208.1)
Claims Paid, net of recoveries	$3,300.2	$16,143.4

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 $2,199.5 million which is 13.9 percent of outstanding loans and 5.7 percent of world commitments. This Reserve, coupled with Eximbank's $1.0 billion Capital, amounts to 20.2 percent of outstanding loans and 8.3 percent of world commitments.

Note 8: Commitments and Contingent Liabilities
Eximbank's worldwide commitments, shown below, include contingent liabilities totaling $13,456.8 million at September 30, 1981, and $11,749.0 million at September 30, 1980.

	($ Millions) FY 1981	FY 1980
Outstanding Loans	$15,802.4	$13,765.1
Undisbursed Loans	9,147.0	7,647.5
Guarantees Contingent Liability	6,702.7	6,178.2
FCIA Insurance Contingent Liability	6,754.1	5,570.8
Total	$38,406.2	$33,161.6

In FY 1980, Eximbank and the Private Export Funding Corporation (PEFCO) agreed to share in providing a total of $1,350.0 million of U.S. export financing for 16 export credits at current fixed rates of interest quoted by Eximbank to foreign borrowers. Eximbank's share of the total is $251 million and PEFCO's share is $1,099.0 million. Under the arrangement, Eximbank will meet any shortfall or retain any excess between the borrowers' interest payments and PEFCO's interest charges.

During FY 1981 disbursements totaling $123.4 million were made in connection with credits under the arrangement. PEFCO's share of the total is $95.6 million and Eximbank's is $27.8 million. To reimburse Eximbank for the disbursements made for their account, PEFCO borrowed and transferred $100.0 million to Eximbank. The unutilized balance of $4.4 million at September 30, 1981 was held in a liability account by Eximbank until it was fully applied on October 13, 1981, when PEFCO's share under the arrangement totaled $100.0 million. In accordance with the arrangement, the interest rate charged by PEFCO on their share of the disbursements was determined by their borrowing cost at the time of borrowing and for this $100 million was 16.7 percent. The average interest rate to the foreign borrowers on the $123.4 million of disbursements is 8.575 percent. The average cost of Eximbank's Treasury borrowings for the last quarter of FY 1981 was 15.91 percent.

Note 9: Maturity Schedule of Outstanding Loans Receivable

As of September 30, 1981, about 62.7 percent of the outstanding loans receivable balance of $15,802.4 million is projected to be due over the next five years and the remaining 37.3 percent is estimated to be due thereafter, as indicated below:

Fiscal Years of Maturities	Amount ($ Millions)	Percent of Total
1982	$ 1,791.1	11.4%
1983	1,963.1	12.4
1984	1,992.1	12.6
1985	1,948.7	12.3
1986	2,212.4	14.0
	9,907.4	62.7
1987-2002	5,895.0	37.3
	$15,802.4	100.0%

In addition to the $15,802.4 million of outstanding loans there are undisbursed loans totaling $9,147.0 million most of which are expected to be disbursed over the next 3-5 years.

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

June 18, 1982

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

Mr. Frank Zappacosta
Assistant Director
International Division
United States General Accounting Office
Trade and Finance - Room 4148
441 G Street, N.W.
Washington, D. C. 20548

Dear Mr. Zappacosta:

Eximbank's management is responsible for the integrity of the financial data included in the Bank's Annual Report whether audited or unaudited. The financial statements have been prepared in accordance with generally accepted accounting principles consistently applied in all material respects and reflect some estimates where necessary. Where acceptable alternative accounting principles exist management has used its best judgment including, when material, prior consultation with the independent auditors in selecting those principles that, in the circumstances, reflect fairly the results of operations and changes in the financial position of Eximbank.

Eximbank maintains a system of internal accounting controls designed to provide reasonable assurance at reasonable cost that assets are safeguarded, that transactions are processed in accordance with management's authorization and are properly recorded, and that the accounting records are reliable for preparing financial statements and other financial information.

In an action subsequent to the financial statement reporting date, Eximbank discovered that a relatively small amount of funds belonging to the Bank may not have been properly handled. The Bank's management immediately notified both its external auditors and the Federal Bureau of Investigation of our suspicion. Subsequent investigation leads us to believe that the amounts involved were insignificant in relation to the financial statements and would have no effect on the statements as presented. Additionally, an internal review of the situation leads us to believe that the Bank's accounting controls were adequate, with the exception of a single area where the incident occurred. Action was taken immediately to address and correct the situation. An independent investigation is currently being conducted by the appropriate authorities.

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We believe that the Bank's policies and procedures, including its system of internal accounting control, provide reasonable assurances that the financial statements are prepared in accordance with generally accepted accounting principles.

Sincerely yours,

James K. Hess
Acting Treasurer-Controller

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

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

September 17, 1982

Mr. Frank C. Conahan
Director
U.S. General Accounting Office
441 G Street, N.W.
Washington, D. C. 20548

Dear Mr. Conahan:

Thank you for the opportunity to comment on GAO's draft report on the examination of Eximbank's financial statements for FY 1981.

The draft report discusses the Bank's special arrangement with PEFCO to participate in financing a specific $1.1 billion of export loans. This arrangement, entered into with PEFCO in September 1980, was the result of a particular set of budget circumstances. In 1980, Congress passed supplemental direct loan authority of $251 million and guarantee authority of $274.75 million for Eximbank. This authority, with guarantees charged at the usual 25% of the related contractual liability, enabled Eximbank to authorize $1,350 million in export financing support -- $1,099 million of PEFCO loan guarantees and $251 million in direct credits from Exim.

The arrangement between Exim and PEFCO provides for Exim to make all disbursements for both the Exim and PEFCO share of the loans and to be reimbursed by PEFCO once a quarter, but only when at least $100 million has been disbursed. This procedure was adopted both for ease of administration of the credits and to enable PEFCO to be in a position to issue debt to fund their credits with maturities approximating the maturities of the specific loans disbursed. Additionally, this procedure minimizes the cost to Exim under the arrangement, since to advance the funds initially for PEFCO, Exim borrows from the Treasury and pays a lower rate on the funds than PEFCO would have required had it made the disbursement immediately.

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The GAO analysis identifies two elements of additional cost as a result of the PEFCO arrangement. The first are costs resulting from the difference between the cost of PEFCO funds and the interest rate charged to the borrower. Assuming that PEFCO's cost of funds is above the rate charged to the borrower, then there is a cost associated with this situation. However, the additional cost, compared to the cost Exim would have incurred if the Bank had made the loan, is the difference between PEFCO's cost of funds and the rate Exim would have paid to borrow the money to fund the credit had it been a direct Exim loan. The difference between PEFCO's cost of funds and an equivalent Exim borrowing cost has varied from time to time but has averaged about three quarters of one percent. The fact that using guarantee authority in this manner would increase costs to Exim more than making a direct credit was explained to the Congress prior to their passage of the supplemental loan and guarantee authority.

The second cost element cited by GAO is the interest cost related to Eximbank's making loan disbursements from its own funds with PEFCO's reimbursement occuring some time later. Eximbank does not agree that this practice results in increased costs to the Bank; in fact it is less costly to the Bank then asking PEFCO to reimburse immediately since the rate PEFCO would receive would be a higher rate than the Bank pays to Treasury. Thus, for the time prior to the PEFCO reimbursement, Exim is incurring less costs than it would under an immediate reimbursement procedure.

Consequently, we do not agree that Exim should either obtain the funds from PEFCO in advance or routinely request reimbursement for less than $100 million. To do so would both increase costs to Exim and would substantially impact PEFCO's ability to properly fund its operations.

Sincerely,

James K. Hess
Acting Treasurer-Controller

(487075)

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