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EXPORT-IMPORT BANK

Status of Actions to Address GAO Recommendations since the Bank's 2012 Reauthorization

Statement of Kimberly Gianopoulos,
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Accessible Version

GAO Highlights

Highlights of [GAO-15-557T](#), a testimony before the Subcommittee on Health Care, Benefits, and Administrative Rules and the Subcommittee on Monetary Policy and Trade, House of Representatives

Why GAO Did This Study

As the export credit agency of the United States, Ex-Im helps U.S. firms export goods and services by providing financing assistance, including direct loans, loan guarantees, and insurance. Following the 2007 to 2009 financial crisis, Ex-Im's authorizations and financial exposure both increased rapidly. To strengthen Ex-Im, Congress mandated several reform measures in the Export-Import Bank Reauthorization Act of 2012 and also required certain reviews and reports by GAO and others. Since March 2013, GAO has issued four reports mandated by the act ([GAO-13-303](#), [GAO-13-446](#), [GAO-13-620](#), and [GAO-14-574](#)). In addition, in August and July 2014, GAO reported on Ex-Im's financing of exports with potential dual military and civilian uses and provided information on aircraft financing by Ex-Im and other countries' export credit agencies, respectively ([GAO-14-719](#) and [GAO-14-642R](#)).

This testimony summarizes the findings and recommendations in those six recent reports, and provides updated information on the status of Ex-Im's actions taken to address GAO's recommendations. To update the status of its recommendations, GAO reviewed Ex-Im's modified and updated procedures and documentation and interviewed Ex-Im officials.

GAO is not making any new recommendations in this testimony.

View [GAO-15-557T](#). For more information, contact Kimberly Gianopoulos at (202) 512-8612 or gianopoulosk@gao.gov.

April 15, 2015

EXPORT-IMPORT BANK

STATUS OF ACTIONS TO ADDRESS GAO RECOMMENDATIONS SINCE THE BANK'S 2012 REAUTHORIZATION

What GAO Found

In six reports on the U.S. Export-Import Bank (Ex-Im) issued since March 2013, GAO presented findings and made 16 recommendations to improve Ex-Im's operations, summarized in this testimony in three broad areas: (1) risk management, (2) underwriting and fraud prevention, and (3) forecasting its exposure and reporting on its estimates of its impact on U.S. jobs.

Six of GAO's recommendations focus on improving Ex-Im's management of risks related to its overall portfolio. For example, in March and May 2013, GAO recommended addressing weaknesses in Ex-Im's model for estimating losses, data retained to analyze default risks, reporting of portfolio stress testing, and analysis of staff resources. Ex-Im has implemented all 6 of these recommendations.

In September 2014, GAO found that Ex-Im had implemented many key aspects of its underwriting process but identified weaknesses in the design, implementation and documentation of some procedures. For example, GAO found that Ex-Im did not have mechanisms to verify compliance with certain loan guarantee eligibility procedures and had not documented its overall processes related to fraud. Ex-Im has implemented 4 of the 6 recommendations in this report. It has not fully implemented 2 recommendations concerning assessing collateral on certain transactions and verifying that applicants are not delinquent on federal debt. GAO's August 2014 report on Ex-Im's transactions involving exports with potential dual military and civilian uses also found documentation weaknesses and made one recommendation. GAO is reviewing the status of Ex-Im's actions in the context of GAO's ongoing dual use review.

Finally, in May 2013, GAO found weaknesses in how Ex-Im forecasts its aggregate outstanding amount of financing (exposure) and how it reports estimates of its impact on U.S. jobs. GAO recommended that Ex-Im (1) adjust its exposure forecast model to incorporate previous experience and (2) assess and report the model's sensitivity to key assumptions. GAO also recommended that Ex-Im improve reporting on the assumptions and limitations in its methodology and data for calculating the number of jobs it supports through its financing. Ex-Im has implemented GAO's 3 recommendations.

Statement of Kimberly Gianopoulos

Chairmen Jordan and Huizenga, Ranking Members Cartwright and Moore, and Members of the Subcommittees:

I am pleased to be here today to discuss our prior work on the U.S. Export-Import Bank (Ex-Im), the export credit agency (ECA) of the United States. Ex-Im helps U.S. firms export goods and services by providing export financing assistance, including direct loans, loan guarantees, and insurance. To strengthen Ex-Im's governance and risk management processes Congress included several reform measures as part of the Export-Import Bank Reauthorization Act of 2012 (2012 Reauthorization Act), as well as several mandates requiring reviews and reports from Ex-Im, the Department of the Treasury, and GAO.¹ Ex-Im is currently authorized through June 30, 2015.² As Congress considers reauthorization, our testimony offers an opportunity to discuss the issues raised by our recent reviews and Ex-Im's response.

Since March 2013, we have issued six reports on Ex-Im, four of which the 2012 Reauthorization Act mandated that we prepare.³ In addition, we reported on Ex-Im's financing of dual-use exports under a recurring mandate,⁴ and provided information on Ex-Im's support for aircraft financing.⁵ (For a list of related recommendations, see Appendix I.)

¹Pub. L. No. 112-122, §§ 4, 5, 6, 11, 13, 126 Stat. 350, 352 (May 30, 2012).

²Continuing Appropriations Resolution, Pub. L. No. 113-164, § 147, 128 Stat. 1867, 1874 (Sept. 19, 2014).

³See GAO, *Export-Import Bank: Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes*, [GAO-14-574](#) (Washington, D.C.: Sept. 9, 2014), *Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources*, [GAO-13-620](#) (Washington, D.C.: May 30, 2013), *Export-Import Bank: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency*, [GAO-13-446](#) (Washington, D.C.: May 23, 2013), and *Export-Import Bank: Recent Growth Underscores Need for Continued Improvements in Risk Management*, [GAO-13-303](#) (Washington, D.C.: Mar. 28, 2013).

⁴Ex-Im is generally prohibited by law from financing any credit sale of defense articles and services for any country. However, in an exception to this rule, Ex-Im was granted authority to facilitate the financing of U.S. exports of defense articles and services, provided that it determines that these items are nonlethal and primarily meant for civilian end use. Such items are known as dual-use exports. See *Export-Import Bank: Monitoring of Dual-Use Exports Should Be Improved*, [GAO-14-719](#) (Washington, D.C.: Aug. 28, 2014).

⁵See GAO, *Export-Import Bank: Information on Export Credit Agency Financing Support for Wide-Body Jets*, [GAO-14-642R](#) (Washington, D.C.: July 8, 2014).

My statement today will summarize our findings and recommendations from these reports. It also includes selected updates on the status of Ex-Im's actions to address those recommendations.

To prepare these six reports, we relied on several analytical methods, including reviewing Ex-Im's financial data, policies, procedures, and calculations, and comparing them to best practices. We also interviewed Ex-Im and other government officials as well as private sector representatives. Detailed information on the scope and methodology for our prior work summarized in this testimony can be found in the reports cited. To update the status of the recommendations, we obtained and analyzed information and discussed Ex-Im actions with relevant officials. We conducted the work on which this testimony is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Ex-Im is an independent agency operating under the Export-Import Bank Act of 1945, as amended.⁶ Its mission is to support the export of U.S. goods and services, thereby supporting U.S. jobs. Ex-Im's charter states that it should not compete with the private sector. Rather, Ex-Im's role is to assume the credit and other risks that the private sector is unable or unwilling to accept, while still maintaining a reasonable assurance of repayment. When private-sector lenders reduced the availability of their financing after the 2007 to 2009 financial crisis, demand for Ex-Im products correspondingly increased. According to Ex-Im data, the amount of financing Ex-Im authorized increased from \$12.2 billion in fiscal year 2006 to \$35.8 billion in fiscal year 2012, before declining to \$27.3 billion in fiscal year 2013 and \$20.5 billion in fiscal year 2014. Though smaller than the fiscal year 2012 peak, Ex-Im's fiscal year 2014 total authorizations are a 68 percent increase in nominal terms over its total authorizations in fiscal year 2006. Over the same period, Ex-Im's financial exposure (outstanding financial commitments) increased from \$57.8 billion to \$112 billion, or by 94 percent in nominal terms. According to U.S. budget

⁶12 U.S.C. § 635 *et seq.*

documents, Ex-Im's number of full-time equivalent employees grew from 380 to 397 from fiscal year 2006 through fiscal year 2014, an increase of about 4.5 percent.

Ex-Im offers export financing through direct loans, loan guarantees, and insurance. Ex-Im's loan guarantees cover the repayment risk on the foreign buyer's loan obligations incurred to purchase U.S. exports. Loan guarantees are classified as short, medium, or long term. Although the number of Ex-Im's short-term (working capital) guarantees greatly exceeds the number of its medium- and long-term loan guarantees, long-term loan guarantees account for the greatest dollar value of Ex-Im loan guarantees.

Ex-Im is one of several ECAs worldwide that provide export financing support. Other countries' ECAs range from government agencies to private companies contracted by governments. Most, including Ex-Im, are expected to supplement, not compete with, the private market. An international agreement, the Organisation for Economic Co-operation and Development (OECD)⁷ Arrangement on Officially Supported Export Credits, governs various aspects of U.S. and other member countries' ECAs, but increasing activity of nonmembers threatens its ability to provide a level playing field for exporters. Several agreements have been made that decrease subsidies and increase transparency among ECAs. However, these agreements apply to participant ECAs, and important emerging countries, including China, are not part of the OECD arrangement.⁸

Ex-Im faces multiple risks when it extends export credit financing, including:

- Credit risk: the risk that an obligor may not have sufficient funds to service its debt or be willing to service its debt even if sufficient funds are available.

⁷The OECD is an intergovernmental organization of 34 industrialized countries, operating by consensus, that fosters dialogue among members to discuss, develop, and refine economic and social policies and provides an arena for establishing multilateral agreements.

⁸See GAO, *U.S. Export-Import Bank: Actions Needed to Promote Competitiveness and International Cooperation*, [GAO-12-294](#) (Washington, D.C.: Feb. 7, 2012).

- Political risk: the risk of nonrepayment resulting from expropriation of the obligor's property, war, or inconvertibility of the obligor's currency into U.S. dollars.
- Market risk: the risk of loss from declining prices or volatility of prices in the financial markets.
- Concentration risk: risk stemming from the composition of a credit portfolio, for example through an uneven distribution of credits within a portfolio.
- Foreign-currency risk: the risk of loss as a result of appreciation or depreciation in the value of a foreign currency in relation to the U.S. dollar in Ex-Im transactions denominated in that foreign currency.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events.

During underwriting, Ex-Im reviews a transaction and assigns it a risk rating based on its assessment of the creditworthiness of the obligors and to establish whether there is a reasonable assurance of repayment. Ex-Im also manages risks through (1) monitoring and restructuring—updating risk ratings and restructuring individual transactions with credit weaknesses to help prevent defaults and increase recoveries and (2) recovery of claims—collecting on the assets of the obligors or the collateral for a transaction that defaults.

While demand for its services generally drives Ex-Im's business, Congress has mandated that Ex-Im support specific objectives and operate within certain parameters. For example, since the 1980s, Congress has required that Ex-Im make available a percentage of its total export financing each year for small business. In 2002, this requirement increased from 10 percent to 20 percent of total authorizations. Congress further instructed that Ex-Im promote the expansion of its financial commitments in sub-Saharan Africa. In annual appropriation acts, Congress has directed that "not less than 10 percent of the aggregate loan, guarantee, and insurance authority available to [Ex-Im]...should be used for renewable energy technologies or end-use energy efficiency technologies"—which we refer to as the renewable energy mandate. Congress has also imposed a limit, currently \$140 billion, on Ex-Im's total aggregate outstanding amount of financing, referred to as the exposure limit. In addition, Ex-Im must provide financing on a competitive basis with other export credit agencies, minimize competition in government-supported export financing, and submit annual reports to Congress on its actions.

Status of Ex-Im's Actions to Address GAO Recommendations since Its 2012 Reauthorization

In six reports on Ex-Im issued since March 2013, we presented findings and made 16 recommendations to improve Ex-Im's operations, summarized in this testimony in three broad areas: (1) portfolio risk management, (2) underwriting and fraud prevention processes, and (3) exposure forecasting and reporting on estimates of its impact on U.S. jobs.

Ex-Im's Portfolio Risk Management

Our recent work has produced several findings and recommendations about how Ex-Im manages risks related to the overall size and composition of its portfolio. Our March 2013 report on risk management and our May 2013 report on exposure, risk, and resources made a total of six recommendations in this area. Ex-Im agreed with all of these recommendations and has taken action to implement them.

Loss Estimation

Ex-Im calculates credit subsidy costs and loss reserves and allowances with a loss estimation model that uses historical data and takes credit, political, and other risks into account.⁹ Consistent with industry practices, Ex-Im added qualitative factors to the model in 2012—including a factor to account for changes in global economic conditions—to adjust for circumstances that may cause estimated credit losses to differ from historical experience. However, in March 2013, we concluded that the short-term forecast Ex-Im used to account for global economic changes might not be appropriate for adjusting estimated defaults for longer-term products and could lead to underestimation of credit subsidy costs and loss reserves and allowances.¹⁰ We recommended that Ex-Im assess whether it was using the best available data for adjusting its loss estimates. In November 2013, Ex-Im incorporated a longer-term forecast

⁹Ex-Im uses the model to build the agency's credit subsidy estimates in the President's budget and for calculating loss reserves and allowances reported in its annual financial statements.

¹⁰[GAO-13-303](#). We based our recommendation on guidance from the Federal Accounting Standards Advisory Board for federal credit agencies, which states that agencies should develop cash flow projections for their transactions based upon the best available data. See Federal Accounting Standards Advisory Board, Federal Financial Accounting and Auditing Technical Release 6: *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act* (January 2004).

of global economic change into its loss estimation model. As a result, we consider this recommendation implemented and closed.

Vintage Analysis

In our March 2013 report, we also found that Ex-Im was not maintaining the data it needed to compare the performance of newer transactions with older transactions at comparable points in time, a type of analysis recommended by federal banking regulators.¹¹ This analysis, known as vintage analysis, can help evaluate the credit quality of recent transactions by comparing their early performance with the early performance of older transactions. As such, it can provide early warning of potential performance problems in newer business. Ex-Im's default rate declined steadily from about 1.6 percent as of September 30, 2006, to 0.29 percent as of September 30, 2012, and, more recently, Ex-Im reported a further decline to 0.17 percent as of the end of December 2014.¹² However, we concluded that this downward trend should be viewed with caution because Ex-Im's portfolio contained a large volume of recent transactions that had not reached their peak default periods. We recommended that Ex-Im retain point-in-time performance data to compare the performance of newer and older business and enhance loss modeling. Ex-Im began retaining such data in 2013. We therefore consider this recommendation implemented and closed.

Stress Testing

The Ex-Im Inspector General (IG) recommended¹³ that Ex-Im develop a systematic approach to stress testing its portfolio.¹⁴ In our March 2013 report, we concurred with the IG's recommendation and concluded that Ex-Im's reporting of testing scenarios and results would aid congressional

¹¹[GAO-13-303](#). Ex-Im is not bound by federal banking regulator guidance, but it faces risk-management challenges similar to those of regulated private financial institutions.

¹²Ex-Im calculates the default rate as the sum of net claims paid to date on loan guarantees and insurance transactions and unpaid past due installments to date on direct loans divided by disbursements. Ex-Im developed this calculation of the default rate in response to a provision in the Export-Import Bank Reauthorization Act of 2012, which requires Ex-Im to report default rates to Congress at least quarterly. (Pub. L. No. 122-122, § 6, 126 Stat. 350, 353 (2012)).

¹³Office of the Inspector General, Export-Import Bank of the United States, *Report on Portfolio Risk and Loss Reserve Allocation Policies*, OIG-INS-12-02 (Washington, D.C.: September 2012).

¹⁴A stress test is a "what-if" scenario that is not a prediction or expected outcome of the economy. Stress testing is one tool to measure the vulnerability of portfolios to unexpected losses—that is, losses associated with extreme yet plausible events.

oversight and be consistent with federal internal control standards for effective external communication.¹⁵ We also found that Ex-Im had begun to implement stress testing and recommended that Ex-Im report its stress test scenarios and results to Congress. Ex-Im began reporting its scenarios and results in quarterly reports to Congress on default rates, beginning with the report for the fourth quarter of 2013. In that report, Ex-Im described the stress test scenarios and provided some information about results. Hence, we consider this recommendation implemented and closed.

Subportfolio Reporting

In our May 2013 report, we found that Ex-Im had not routinely reported the performance or risk ratings of its subportfolios for the congressional mandates on small business, sub-Saharan Africa, and renewable energy, though these transactions generally were more risky than Ex-Im's overall portfolio.¹⁶ We recommended that Ex-Im routinely report to Congress the financial performance of subportfolios supporting congressional mandates. Ex-Im began reporting this information in its default rate report to Congress for the quarter ending June 30, 2013. As a result, we consider this recommendation implemented and closed.

Workload Benchmarks

In our March 2013 report, we found that Ex-Im faced potential operational risks because the growth in its business volume had strained the capacity of its workforce.¹⁷ While Ex-Im had also determined that it needed more staff, it had not formally determined the level of business it could properly manage. Without benchmarks to determine when workload levels have created too much risk, Ex-Im's ability to manage its increased business volume might be limited. We therefore recommended that Ex-Im develop benchmarks to monitor and manage workload levels. Subsequently, Ex-Im contracted with a firm to develop a workload modeling tool and benchmarks. As of January 2015, Ex-Im had used the tool to develop benchmarks for Ex-Im divisions engaged in transaction underwriting, support, and monitoring. Ex-Im has hired, or is in the process of hiring, the additional number of staff recommended by the benchmark analysis. Ex-Im is also reviewing the organization of its monitoring group and comparing it to industry best practices to determine if the group should be

¹⁵ [GAO-13-303](#).

¹⁶ [GAO-13-620](#).

¹⁷ [GAO-13-303](#).

reorganized to improve efficiency. Additionally, Ex-Im has agreed to implement, and in some cases has begun implementing, suggestions by the contractor to mitigate risks of future workload increases. As a result, we consider this recommendation implemented and closed.

Resources for Congressional Mandates

In our May 2013 report, we found that Ex-Im expected that administrative resource constraints might prevent it from meeting its congressionally mandated target for small business export financing.¹⁸ The target is fixed to a percentage of the dollar value of Ex-Im's total authorizations. Although Ex-Im has dedicated resources to support the mandate, as Ex-Im authorizations have grown, the corresponding growth in the value of the target has outpaced Ex-Im's increasing support. According to Ex-Im officials, processing small business transactions and bringing in new small business customers is resource-intensive. We concluded that it was important for Ex-Im to communicate to Congress the effect of percentage-based mandates on its operations, as well as the potential impacts such mandates might have on Ex-Im's resources and operations. We recommended that Ex-Im provide Congress with additional information on the resources associated with meeting its percentage-based mandates. Ex-Im agreed and told us it planned to provide information on resources associated with meeting such mandates in its fiscal year 2016 budget submission. Ex-Im's fiscal year 2016 Congressional Budget Justification includes both information on the resources associated with these mandates and Ex-Im's plans to hire additional staff to help meet them. As a result, we consider this recommendation implemented and closed.

Wide-Body Jets

While our July 2014 report on ECA financing support for wide-body jets made no recommendations, it reported information about Ex-Im's aircraft finance portfolio, as well as the financing by other ECAs of these aircraft.¹⁹ Aircraft represent a large share of Ex-Im's new authorizations and exposure. With respect to wide-body jets, a market in which U.S.-based Boeing and European-based Airbus compete globally, we found that in fiscal years 2004 through 2012 Ex-Im's financing support for Boeing wide-body jet exports generally increased, with some decline in authorizations in fiscal year 2013. As of March 31, 2014, Ex-Im's financial exposure in wide-body jets was about \$32 billion, about 28 percent of Ex-Im's total financial exposure. From 2008 through 2013, Ex-Im supported

¹⁸GAO-13-620.

¹⁹GAO-14-642R.

deliveries of 789 Boeing large commercial aircraft, while European ECAs supported deliveries of 821 Airbus large commercial aircraft. Buyers of large commercial aircraft have also used a number of non-ECA financing options for procuring wide-body jets. From 2008 through 2013, Ex-Im and European ECAs supported 26 percent of large commercial aircraft deliveries.²⁰

Ex-Im's Underwriting and Overall Fraud Processes

Our most recent mandated report, in September 2014, found that Ex-Im had implemented many key aspects of its underwriting process but identified weaknesses in certain procedures.²¹ In this report, we made six recommendations to Ex-Im to enhance its loan guarantee underwriting process and further document aspects of its underwriting and processes to detect, prevent, and investigate fraud. Our August 2014 report on Ex-Im's monitoring of dual-use exports also found weaknesses in Ex-Im's procedures.

Underwriting

Our review of a statistical sample of loan guarantees indicated that Ex-Im had implemented many key aspects of the underwriting process as required by its Loan, Guarantee, and Insurance Manual. However, the manual did not (1) include certain procedures or sufficiently detailed instructions to verify compliance with Ex-Im's requirements and consistency with federal guidance, such as a procedure to verify that applicants did not have delinquent federal debt; (2) include instructions for loan officers to use credit reports and for the inclusion of all required documents and analyses in the loan file prior to approval; and (3) call for assessments of collateral, as required by federal guidance, for certain loan guarantee transactions prior to approval. Furthermore, Ex-Im did not have mechanisms to verify compliance with certain established procedures, including documenting certain loan guarantee eligibility procedures.

²⁰The data are for calendar years. The deliveries not supported by ECAs include deliveries to airlines in the United States, France, Germany, Spain, and the United Kingdom—which according to OECD and Ex-Im officials are ineligible for ECA financing support under the "Home Country Rule"—as well as buyers in other countries that use other financing options.

²¹[GAO-14-574](#).

We recommended that Ex-Im take the following actions:

- Develop and implement procedures, prior to loan guarantee approval, for (1) verifying that transaction applicants are not delinquent on federal debt and (2) performing assessments of collateral for nonaircraft medium- and long-term loan guarantee transactions.
- Establish mechanisms to oversee compliance with Ex-Im's existing procedures, prior to loan guarantee approval, for (1) obtaining credit reports for borrowers or documenting why they were not applicable, (2) documenting certain eligibility procedures, and (3) documenting the analysis of country exposure.
- Develop and implement detailed instructions, prior to loan guarantee approval, for (1) preparing and including all required documents or analyses in the loan file and (2) using credit reports in the risk assessment and due diligence process.
- Update the Character, Reputational, and Transaction Integrity review process to include the search of databases to help identify transaction applicants with delinquent federal debt that would then not be eligible for loan guarantees.

As of April 2015, Ex-Im has revised its Loan, Guarantee, and Insurance Manual in response to the first three recommendations from our September 2014 report. We consider the second and third of these recommendations to be implemented and are taking actions to close them. With respect to the first of these recommendations, we are continuing to review Ex-Im's actions. In addition, Ex-Im officials have stated that they have been working with the Department of the Treasury on the fourth recommendation to determine the technical feasibility of an automated method to access a Treasury database to verify that applicants are not delinquent on federal debt. We are currently reviewing Ex-Im's actions related to this recommendation.

Documentation of Fraud Processes

Our September 2014 report additionally found weaknesses in Ex-Im's documentation of aspects of its underwriting and overall procedures related to fraud.²² We found that Ex-Im had not documented its risk-based approach for scheduling examinations to monitor lenders with delegated authority to approve guaranteed loans. In addition, while Ex-Im had

²²[GAO-14-574](#).

processes to prevent, detect, and investigate fraud, it had not documented its overall fraud processes. Such documentation is recommended by several authoritative auditing and antifraud organizations. We therefore recommended that Ex-Im document:

- its risk-based approach for scheduling delegated authority lender examinations, and
- its overall fraud-prevention process, including the roles and responsibilities of Ex-Im divisions and officials that are key participants in Ex-Im's process.

As of April 2015, Ex-Im has revised its Loan, Guarantee, and Insurance Manual to further document its approach and has documented its overall processes related to fraud, including describing the roles and responsibilities of Ex-Im divisions and officials that are key participants in these processes. Therefore we consider these recommendations to be implemented and are taking actions to close them.

Dual-Use Monitoring

Our August 2014 annual report on Ex-Im's monitoring of dual-use exports also found weaknesses in Ex-Im's documentation of required procedures.²³ We found that Ex-Im had received some but not all of the information it required in its credit agreements regarding the three dual-use transactions it financed in fiscal year 2012, and that some of the information it had received was late. As a result, we found that Ex-Im did not have complete and timely information about whether the items were actually being used in accordance with the terms of the agreements and Ex-Im policy. We recommended that Ex-Im establish steps that staff should take in cases where borrowers do not submit required end-use documentation within the time frames specified in their financing agreements and ensure that these efforts are well documented. In response to our recommendation, Ex-Im revised its 1997 memorandum on the implementation of its dual-use policy for military applications to provide more specific guidance and disseminated the revised memo to relevant staff. During our current annual review of Ex-Im's dual-use financing, we are following up with Ex-Im to see how this revised guidance is being implemented.²⁴

²³[GAO-14-719](#).

²⁴We will report the findings of our current dual-use review later this fiscal year.

Ex-Im's Exposure Forecasting and its Reporting of Jobs Supported

In two May 2013 Ex-Im reports, we reported weaknesses in how Ex-Im estimated its future exposure, and we reported the limitations in its calculations of the number of jobs its financing supports. We made two recommendations related to how Ex-Im prepares forecasts and one recommendation on its reporting jobs impact reporting. Ex-Im agreed with all three recommendations and took actions to address them.

Exposure Forecasting

In our May 2013 report on Ex-Im's exposure and resources, we found weaknesses in the methodology Ex-Im used to forecast future financial exposure levels.²⁵ Although Ex-Im's forecast model is sensitive to key assumptions, Ex-Im had not reassessed these assumptions to reflect changing conditions, nor had it conducted sensitivity analyses to assess and report the range of potential outcomes. We made two recommendations to Ex-Im: (1) that Ex-Im compare previous forecasts and key assumptions to actual results and adjust its forecast models to incorporate previous experience and (2) that Ex-Im assess the sensitivity of the exposure forecast model to key assumptions and estimates and identify and report the range of forecasts based on this analysis. Ex-Im put in place new methodologies for its 2015 budget estimates. Specifically, Ex-Im compared the results of its existing authorization forecast method with actual results and enhanced its calculation of expected repayments and authorizations by incorporating historical experience into the methodology. Additionally, Ex-Im created statistical models to validate its forecasts and provide a range of estimates. Therefore, we consider these two recommendations implemented and closed.

Reporting of Job Support Calculation

In our May 2013 on Ex-Im's job calculation methodology, we found that Ex-Im had not reported the limitations in its calculations of the jobs supported by its financing.²⁶ To calculate the number of jobs it supports, Ex-Im calculates the total value of exports it supports for each industry associated with each transaction it finances and multiplies the export value for each industry by the Bureau of Labor Statistics (BLS) ratio of jobs needed to support \$1 million in exports in that industry. Ex-Im then totals the numbers across all industries to produce an overall estimate. Although the BLS data tables that Ex-Im relies on are based on a commonly used methodology, this methodology has limitations. For

²⁵GAO-13-620.

²⁶GAO-13-446.

example, the employment data are a count of jobs that treats full-time, part-time, and seasonal jobs equally. In addition, Ex-Im's calculations assume that the firm receiving Ex-Im support uses the same number of jobs as the industry-wide average, but Ex-Im's clients could be different from the typical firm in the same industry. Ex-Im did not report these limitations or fully detail the assumptions related to its data or methodology. We recommended that Ex-Im improve reporting on the assumptions and limitations in the methodology and data used to calculate the number of jobs Ex-Im supports through its financing. Ex-Im's 2013 and 2014 annual reports included greater detail on these issues; therefore, we consider this recommendation implemented and closed.

In conclusion, our reviews of Ex-Im since the 2012 Reauthorization Act have identified a number of areas in which Ex-Im could improve its operations. Ex-Im has shown a willingness to reexamine its operations, agreeing with all of our recent recommendations and implementing a number of them. However, managing a large export financing portfolio with its wide variety of associated risks is challenging. Therefore, to sustain the improvements it has made and address emerging challenges, it will be important for Ex-Im to effectively implement remaining audit recommendations and carefully manage risks in the evolving global financial marketplace.

Chairmen Jordan and Huizenga, Ranking Members Cartwright and Moore, and Members of the Subcommittees, this concludes my statement. I would be pleased to respond to any questions you may have.

GAO Contacts and Staff Acknowledgements

For further information about this statement, please contact me at 202-512-8612 or gianopoulosk@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Celia Thomas, Assistant Director; Kathryn Bolduc; Marcia Carlsen; Michael Simon; and Steve Westley.

Appendix I: Content and Status of Relevant GAO Recommendations

GAO-14-574: EXPORT-IMPORT BANK: Enhancements Needed in Loan Guarantee Underwriting Procedures and for Documenting Fraud Processes (September 2014)

Product	Recommendation	Status
GAO-14-574	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to develop and implement procedures, prior to loan guarantee approval, for (1) verifying that transaction applicants are not delinquent on federal debt, including using credit reports to make such a determination, and (2) performing assessments of collateral for nonaircraft medium- and long-term loan guarantee transactions.	Ex-Im has responded; GAO currently reviewing for potential closure
GAO-14-574	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to establish mechanisms to oversee compliance with Ex-Im's existing procedures, prior to loan guarantee approval, for (1) obtaining credit reports for transaction borrowers or documenting why they were not applicable; (2) documenting certain eligibility procedures, including the Character, Reputational, and Transaction Integrity reviews for medium- and long-term loan guarantee transactions, export item eligibility, and country eligibility; and (3) documenting the analysis of country exposure.	We consider these recommendations to be implemented and are taking actions to close them
GAO-14-574	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to develop and implement detailed instructions, prior to loan guarantee approval, for (1) preparing and including all required documents or analyses in the loan file and (2) using credit reports in the risk assessment and due diligence process.	We consider these recommendations to be implemented and are taking actions to close them
GAO-14-574	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to Update the Character, Reputational, and Transaction Integrity review process to include the search of databases to help identify transaction applicants with delinquent federal debt that would then not be eligible for loan guarantees.	Ex-Im has responded; GAO currently reviewing for potential closure
GAO-14-574	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to document Ex-Im's current risk-based approach for scheduling delegated authority lender examinations.	We consider these recommendations to be implemented and are taking actions to close them
GAO-14-574	The Chairman of the Export-Import Bank of the United States should direct the appropriate officials to document Ex-Im's overall fraud process, including describing the roles and responsibilities of Ex-Im divisions and officials that are key participants in Ex-Im's fraud processes.	We consider these recommendations to be implemented and are taking actions to close them

GAO-14-719: EXPORT-IMPORT BANK: Monitoring of Dual-Use Exports Should Be Improved (August 2014)

Product	Recommendation	Status
GAO-14-719	To ensure adequate and consistent oversight for monitoring the end use of dual-use items, the Chairman of the Export-Import Bank of the United States should strengthen Ex-Im guidance for monitoring end use. Specifically, Ex-Im should establish steps staff should take in cases where borrowers do not submit required end-use documentation within the time frames specified in their financing agreements and ensure that these efforts are well documented.	Ex-Im has responded; GAO is reviewing as part of its annual review of Ex-Im dual use exports

GAO-13-620: EXPORT-IMPORT BANK: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources (May 2013)

Product	Recommendation	Status
GAO-13-620	To provide Congress with the appropriate information necessary to make decisions on Ex-Im's exposure limits and targets and to improve the accuracy of its forecasts of exposure and authorizations, the Chairman of the Export-Import Bank of the United States should compare previous forecasts and key assumptions to actual results and adjust its forecast models to incorporate previous experience.	Closed – Implemented
GAO-13-620	To provide Congress with the appropriate information necessary to make decisions on Ex-Im's exposure limits and targets and improve the accuracy of its forecasts of exposure and authorizations, the Chairman of the Export-Import Bank of the United States should assess the sensitivity of the exposure forecast model to key assumptions and authorization estimates and identify and report the range of forecasts based on this analysis.	Closed – Implemented
GAO-13-620	To help Congress and Ex-Im management understand the performance and risk associated with its subportfolios of transactions supporting the small business, sub-Saharan Africa, and renewable energy mandates, Ex-Im should routinely report financial performance information, including the default rate and risk rating, of these transactions at the subportfolio level.	Closed – Implemented
GAO-13-620	To better inform Congress of the issues associated with meeting each of the bank's percentage-based mandated targets, Ex-Im should provide Congress with additional information on the resources associated with meeting the mandated targets.	Closed – Implemented

GAO-13-446: EXPORT-IMPORT BANK: More Detailed Information about Its Jobs Calculation Methodology Could Improve Transparency (May 2013)

Product	Recommendation	Status
GAO-13-446	To ensure better understanding of its jobs calculation methodology, the Chairman of Ex-Im Bank should increase transparency by improving reporting on the assumptions and limitations in the methodology and data used to calculate the number of jobs Ex-Im supports through its financing.	Closed – Implemented

GAO-13-303: EXPORT-IMPORT BANK: Recent Growth Underscores Need for Continued Improvements in Risk Management (March 2013)

Product	Recommendation	Status
GAO-13-303	To help improve the reliability of its loss estimation model, the Chairman of the Export-Import Bank of the United States should assess whether it is using the best available data for adjusting loss estimates for longer-term transactions to account for global economic risk.	Closed – Implemented
GAO-13-303	To conduct future analysis comparing the performance of newer and older business and to make future enhancements to its loss estimation model, the Chairman of the Export-Import Bank of the United States should retain point-in-time, historical data on credit performance.	Closed – Implemented
GAO-13-303	To help Congress better understand the financial risks associated with Ex-Im's portfolio, the Chairman of the Export-Import Bank of the United States should report its stress test scenarios and results to Congress when such information becomes available.	Closed – Implemented
GAO-13-303	To help manage operational risks stemming from Ex-Im's increased business volume, the Chairman of the Export-Import Bank of the United States should develop workload benchmarks at the agencywide and functional area levels, monitor workload against these benchmarks, and develop control activities for mitigating risks when workloads approach or exceed these benchmarks.	Closed – Implemented

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