



May 2019

# EXPORT-IMPORT BANK

## Enhancements Needed in Credit Program Underwriting Policies and Procedures

# GAO Highlights

Highlights of [GAO-19-43](#), a report to congressional committees

## Why GAO Did This Study

EXIM serves as the official export credit agency of the United States, providing a range of financial products to support the export of U.S. goods and services. Following the 2007–2009 financial crisis, demand for EXIM support increased. However, from July 2015 to May 2019, EXIM lacked a quorum on its Board of Directors and, as a result, was unable to approve medium- and long-term transactions greater than \$10 million.

The Export-Import Bank Reauthorization Act of 2012 includes a provision for GAO to evaluate EXIM's underwriting process. This report discusses the extent to which EXIM's (1) process for updating its underwriting policies and procedures is properly designed and implemented and (2) underwriting policies and procedures for loan and loan guarantee transactions are consistent with guidance for managing federal credit programs. To address these objectives, GAO evaluated EXIM's underwriting policies and procedures against federal guidance and discussed the underwriting process with EXIM officials.

## What GAO Recommends

GAO is making two recommendations to enhance EXIM's policies and procedures related to (1) the use of medium-term delegated authority lenders and (2) periodic program reviews. EXIM concurred with GAO's recommendations and described actions planned to address them.

View [GAO-19-43](#). For more information, contact James R. Dalkin at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov).

May 2019

## EXPORT-IMPORT BANK

### Enhancements Needed in Credit Program Underwriting Policies and Procedures

## What GAO Found

GAO found that Export-Import Bank's (EXIM) process for updating its underwriting policies and procedures was properly designed and implemented. EXIM's *Loan, Guarantee and Insurance Manual* (Manual) describes EXIM's underwriting policies and procedures for its short-, medium-, and long-term loans and loan guarantees. The Manual describes the responsibilities of divisions and loan officers involved in the underwriting process and is required to be updated at least annually, except for material changes (e.g., changes resulting from legislative actions or compliance with sanctions), which are required to be made as soon as possible.

EXIM has initiated a process to streamline the Manual, which consists of over 1,400 pages, by separating the policies and procedures, thus allowing for continuous reviews. The underwriting sections of the Manual are tentatively scheduled for review in 2019.

The primary guidance for designing and managing federal credit programs is Office of Management and Budget Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*. GAO found that EXIM's policies and procedures were consistent with three of five areas of federal guidance; two areas related to lender and servicer eligibility and risk sharing practices were partially consistent with federal guidance.

**Applicant screening.** EXIM's policies and procedures were consistent with guidance in that they require applicants to provide relevant financial information and assessments of applicant eligibility and creditworthiness.

**Loan documentation.** EXIM's process was consistent with guidance in that it requires the preparation of loan files, which include the application, credit reports, and related analyses, as well as collateral documentation and loan agreements.

**Collateral requirements.** EXIM's process was consistent with guidance in that it requires a security interest in the financed export items.

**Lender and servicer eligibility.** EXIM established eligibility and decertification procedures for short-term delegated authority lenders that were consistent with guidance. However, it did not establish similar procedures for medium-term delegated authority lenders.

**Risk sharing practices.** EXIM's process was generally consistent with guidance in that EXIM provides loan guarantee terms that officials stated were necessary to achieve program purposes. However, federal guidance also calls for an agency to periodically review programs in which the government bears more than 80 percent of any loss. While EXIM prepares various program reviews, it has not developed procedures to help ensure that its risk sharing practices are routinely reviewed.

Without enhancements to its policies and procedures, EXIM may allow lenders that are not qualified to underwrite transactions and runs the risk that it will not effectively review its programs.

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**Abbreviations**

AFP	Approved Finance Provider
Credit Policy	Credit Policy Division
CRTI	character, reputational, and transaction integrity
DUNS	Dun & Bradstreet Data Universal Numbering System
ECA	export credit agency
EXIM	Export-Import Bank of the United States
LTV	loan-to-value
Manual	<i>Loan, Guarantee and Insurance Manual</i>
MGA	Master Guarantee Agreement
OECD	Organisation for Economic Co-operation and Development
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
TIN	taxpayer identification number
Treasury	Department of the Treasury

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May 14, 2019

The Honorable Mike Crapo  
Chairman  
The Honorable Sherrod Brown  
Ranking Member  
Committee on Banking, Housing, and Urban Affairs  
United States Senate

The Honorable Maxine Waters  
Chairwoman  
The Honorable Patrick T. McHenry  
Ranking Member  
Committee on Financial Services  
House of Representatives

The mission of the Export-Import Bank of the United States (EXIM) is to support the export of U.S. goods and services through loans, loan guarantees, and insurance, thereby supporting U.S. jobs. Following the financial crisis of 2007–2009, EXIM’s outstanding financial commitments, or risk exposure, grew to about \$112 billion in 2014, primarily in its long-term loans and loan guarantees.<sup>1</sup> However, EXIM’s risk exposure subsequently decreased to about \$61 billion in 2018 primarily because of two factors. First, from July 1, 2015 to December 4, 2015, EXIM’s authority to incur new obligations lapsed.<sup>2</sup> Second, from July 20, 2015 to May 8, 2019, EXIM lacked a quorum on its Board of Directors, and as a result, it was unable to approve transactions greater than \$10 million.<sup>3</sup>

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<sup>1</sup>All years in this report are federal fiscal years unless otherwise indicated. The federal fiscal year runs from October 1 through September 30.

<sup>2</sup>EXIM’s legal authorization includes a defined termination date, which has been periodically extended by laws reauthorizing the entity. On July 1, 2015, this termination date passed, and, although EXIM was permitted to continue to carry out existing obligations, it lacked authority to execute new ones. Statutory authority to resume full operation was restored by the Export-Import Bank Reform and Reauthorization Act of 2015, Pub. L. No. 114-94, div. E, § 54001, 129 Stat. 1312, 1768 (Dec. 4, 2015), which extended the termination date to September 30, 2019.

<sup>3</sup>A quorum of the Board of Directors consists of at least three members.

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EXIM is governed by a charter, which requires the transactions it authorizes to have a reasonable assurance of repayment.<sup>4</sup> To comply with this requirement, EXIM must manage multiple risks when it extends export financing, including credit, political, market, and operational risks. EXIM uses a number of risk-management techniques throughout the different stages of a transaction, including underwriting, monitoring and restructuring, and recovering on defaulted transactions.

The Export-Import Bank Reauthorization Act of 2012 included a provision for GAO to evaluate, among other things, EXIM's underwriting process for its loan and loan guarantee transactions.<sup>5</sup> This is our second report in response to the act, and it examines the extent to which EXIM's (1) process for updating its underwriting policies and procedures is properly designed and implemented and (2) underwriting policies and procedures for loan and loan guarantee transactions are consistent with guidance for managing federal credit programs.<sup>6</sup>

To assess the extent to which EXIM's process for updating its underwriting policies and procedures is properly designed and implemented, we reviewed EXIM's policies and procedures for updating the *Loan, Guarantee and Insurance Manual* (Manual), discussed the process with EXIM officials, and assessed the process based on *Standards for Internal Control in the Federal Government*.<sup>7</sup> We did not evaluate EXIM's compliance with its process for updating its underwriting policies and procedures or assess its operating effectiveness.

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<sup>4</sup>As a government corporation, the statutory text establishing EXIM and governing its operations is referred to as a charter. See Export-Import Bank Act of 1945, Pub. L. No. 79-173 (July 31, 1945), classified *in part, as amended*, at 12 U.S.C. §§ 635-635t.

<sup>5</sup>Pub. L. No. 112-122, § 17(a), 126 Stat. 350, 359 (May 30, 2012). The underwriting process encompasses EXIM's underwriting guidelines, lending policies, due diligence procedures, and content guidelines. Content guidelines refer to EXIM's foreign content eligibility criteria and limitations on the level of foreign content that may be included in EXIM's financing package. EXIM's foreign content eligibility states that in order to be eligible for EXIM financing, goods and services in a U.S. supply contract must be shipped from the United States to a foreign buyer.

<sup>6</sup>The first report GAO issued in response to the act was issued in September 2014. 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).

<sup>7</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

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To assess the extent to which EXIM's underwriting policies and procedures governing loan and loan guarantee transactions were consistent with guidance for managing federal credit programs, we reviewed relevant requirements and guidance, including the Office of Management and Budget's (OMB) Circular A-129 *Policies for Federal Credit Programs and Non-Tax Receivables* and the Department of the Treasury (Treasury) Bureau of the Fiscal Service's *Managing Federal Receivables: A Guide for Managing Loans and Administrative Debt*, to identify key guidance for managing federal credit programs, including standards for extending credit, managing and overseeing credit programs, and managing guaranteed loan lenders and servicers.

We compared EXIM's Manual—which describes, among other things, procedures for assessing loan and loan guarantee applications and preparing loan documentation—to federal guidance for managing federal credit programs. As part of this comparison, we assessed whether policies and procedures included in EXIM's Manual were consistent with federal guidance. However, because of EXIM's limited lending authority during the period of our audit, we did not verify EXIM's compliance with its underwriting policies and procedures or assess their operating effectiveness. In areas where we found EXIM's policies and procedures to be consistent with federal guidance, there may still be opportunities to improve operating effectiveness.

We also reviewed EXIM's Office of Inspector General (OIG) reports since 2014 related to underwriting issues, various laws applicable to EXIM, and GAO reports related to EXIM. We discussed underwriting requirements and the due diligence process with EXIM officials. We also discussed export credit financing and risk sharing practices with an official from the Organisation for Economic Co-operation and Development (OECD).<sup>8</sup>

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<sup>8</sup>OECD provides a forum in which governments work together to seek solutions to common problems, share experiences, and identify best practices to promote better policies. OECD's role in export credits involves maintaining the *Arrangement on Officially Supported Export Credits* (Arrangement), which stipulates the financial terms and conditions for official export credits. The main purpose of the Arrangement is to provide a framework for the orderly use of officially supported export credits. This provides a level playing field, whereby exporters compete on the basis of the price and quality of their products, rather than the financial terms provided, and eliminates trade distortions and subsidies. OECD consists of 36 member countries, as of January 2019, including the United States.

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We conducted this performance audit from January 2017 to May 2019 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I provides more information on our scope and methodology.

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## Background

EXIM is an independent executive branch agency and a wholly owned U.S. government corporation. EXIM is the official export credit agency (ECA) of the United States, and its mission is to support the export of U.S. goods and services, thereby supporting U.S. jobs.<sup>9</sup> EXIM's charter states that it should not compete with the private sector. Rather, EXIM's role is to assume the credit and country risks that the private sector is unable or unwilling to accept, while still maintaining a reasonable assurance of repayment. EXIM must operate within the parameters and limits authorized by law, including, for example, statutory mandates that it support small business and promote sub-Saharan African and environmentally beneficial exports. In addition, EXIM is authorized to provide financing on a competitive basis with other ECAs and must submit annual reports to Congress on its actions.

EXIM operates under the leadership of a president who also serves as Chairman of EXIM's Board of Directors. The board is structured to include five members. All positions are appointed for 4-year terms by the President of the United States with the advice and consent of the Senate. The board is responsible for adopting and amending bylaws for the proper management and functioning of EXIM. Furthermore, the board approves EXIM's financing either directly or through delegated authority. On May 8, 2019, the Senate confirmed a new president and two other board members, ending the lack of a quorum needed to approve transactions over \$10 million that had existed since July 20, 2015.

EXIM's organizational structure includes various offices and divisions operating under its president. The Office of Board Authorized Finance is

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<sup>9</sup>ECAs provide export credits with explicit government backing, where either the government or the government-owned ECA assumes all or a portion of the risk. Governments provide official export credits support through ECAs for national exporters competing for foreign sales.

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subdivided into business divisions that are responsible for underwriting related to loans and loan guarantees, including processing applications, evaluating the compliance of transactions with credit and other policies, performing financial analyses, negotiating financing terms, coordinating and synthesizing input to credit recommendations from other divisions, and presenting credit recommendations for approvals.

EXIM facilitates support for U.S. exports through three major products: (1) loans; (2) loan guarantees, which include working capital guarantees; and (3) export credit insurance.<sup>10</sup> All EXIM obligations carry the full faith and credit of the U.S. government. Based on its mission to support U.S. employment, EXIM currently requires a certain amount of U.S. content for an export contract to receive EXIM financing.<sup>11</sup> EXIM's loans generally carry fixed-interest rate terms under the *Arrangement on Officially Supported Export Credits* negotiated among OECD members. EXIM's loan guarantees cover loans disbursed by private lenders by committing to pay the lenders if the borrower defaults. Both loans and loan guarantees may be classified as short-, medium-, or long-term.

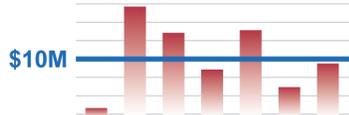
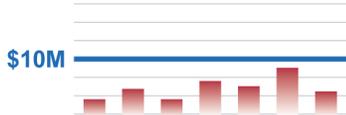
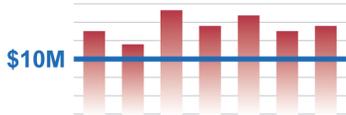
From fiscal year 2008 to fiscal year 2017, EXIM was “self-financing” for budgetary purposes—financing its operations from receipts collected from its customers—and operating within the parameters and limits authorized by Congress. However, according to EXIM, because of the lack of quorum on the Board of Directors, in fiscal year 2018 it was unable to approve transactions over \$10 million and, as a result, was not able to generate sufficient cash inflows to fully self-finance program and administrative costs. EXIM reported that when it is back to being fully operational, it plans to regain full self-financing status. See figure 1 for additional details on EXIM's loans and loan guarantees.

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<sup>10</sup>Export credit insurance was not included in the scope of our audit.

<sup>11</sup>Content is the amount of domestic and foreign costs from labor, materials, overhead, and other inputs associated with producing an export.

**Figure 1: Export-Import Bank Loans and Loan Guarantees**

	<b>Short term</b> (working capital)	<b>Medium term</b>	<b>Long term</b>
<b>Length of loan</b>	<b>1-3 years</b> May be approved for a single transaction or a revolving line of credit that can be extended up to 3 years 	<b>1-7 years</b> May be approved for a single transaction or a revolving line of credit that can be extended up to 7 years 	<b>Generally more than 7 years</b> May be approved for a single transaction or a revolving line of credit that can be extended for more than 7 years 
<b>Loan amount</b>	No minimum or maximum amount 	\$10 million or less 	Over \$10 million 
<b>EXIM guarantee percentage of the financed amount<sup>a</sup></b>	Generally <b>90%</b> guaranteed (lender retains risk of remaining 10%)	Generally <b>100%</b> guaranteed (lender retains 10% of the risk if the lender performs underwriting)	<b>100%</b> guaranteed
<b>Guarantee to lender</b>	Conditional upon participants' compliance with EXIM requirements 	Unconditional 	Unconditional 
<b>Examples</b>	Food products and supplies 	Agricultural, construction, and medical equipment 	Aircraft, railroad equipment, and oil and gas exploration and drilling 

Source: GAO analysis of Export-Import Bank (EXIM) data. | GAO-19-43

<sup>a</sup>The financed amount is the total amount of the EXIM support. For medium- and long-term transactions, EXIM provides up to 85 percent financing with the remaining 15 percent paid by the borrower or financed separately. EXIM financing could be less than 85 percent depending on the U.S. content. EXIM's medium- and long-term loan guarantees generally cover 100 percent of the financed amount if the borrower defaults.

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- **Short-term loans and loan guarantees:** Short-term financing consists of all transactions with repayment terms of less than 1 year, while Working Capital Guarantee program short-term financing may be approved for a single loan or a revolving line of credit that can be renewed for up to 3 years. In general, if the financed eligible product contains at least 50 percent U.S. content, then the entire transaction value is eligible for a working capital guarantee. Generally, for working capital guarantees, EXIM guarantees 90 percent of the loan's principal and interest if the borrower defaults. Therefore, the lender maintains the risk of the remaining 10 percent. EXIM's payment of working capital claims is conditional upon transaction participants' compliance with EXIM requirements such as underwriting policies, deadlines for filing claims, payment of premiums and fees, and submission of proper documentation. EXIM has reported that over 80 percent of its working capital guarantee transactions are approved by lenders with delegated authority, which means that commercial lenders approve the guaranteed loans in accordance with agreed-upon underwriting requirements without first obtaining EXIM approval.<sup>12</sup> If a lender does not have delegated authority, EXIM performs its own underwriting procedures and approves the guaranteed loans.
  - **Medium- and long-term loans and loan guarantees:** For medium- and long-term loan and loan guarantee transactions, EXIM provides up to 85 percent financing with the remaining 15 percent paid by the borrower or financed separately. The financing could be less than 85 percent depending on the U.S. content.<sup>13</sup> EXIM's medium- and long-term loan guarantees generally cover 100 percent of the financed amount if the borrower defaults. EXIM's guarantee to the lender is transferable and unconditional, meaning that EXIM must pay submitted claims regardless of the cause of default. EXIM generally underwrites medium- and long-term loans and loan guarantees for \$10 million and less, and EXIM officials with delegated authority approve the transactions. Further, EXIM has provided certain lenders

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<sup>12</sup>Delegated authority lenders are private financial institutions and nonfinancial companies, subject to prior EXIM qualifications and criteria, that may be granted authority after a review process to commit EXIM resources for certain extensions of credit.

<sup>13</sup>Financing 85 percent of the value of these transactions is considered full financing because of provisions under the OECD Arrangement that export credit agencies generally do not finance more than this for transactions with terms greater than 2 years. Eligible goods could include foreign content if shipped from the United States. In addition, EXIM guarantees can cover some local costs, such as on-site construction services, beyond the value of the export contract.

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delegated authority to underwrite and approve these guarantees. EXIM underwrites long-term loans and loan guarantees greater than \$10 million, and its Board of Directors approves the transactions.

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## EXIM's Credit Authorizations

As noted earlier, EXIM's authority to approve transactions lapsed from July 1, 2015, to December 4, 2015. Further, from July 20, 2015 to May 8, 2019, EXIM's Board of Directors lacked a quorum, and, as a result, EXIM was unable to approve transactions greater than \$10 million. Consequently, EXIM's annual authorizations for loans, loan guarantees, and export credit insurance decreased from about \$20 billion in 2014 to about \$3 billion in 2018, a decrease of about 83 percent.<sup>14</sup> See figure 2 for EXIM's total authorizations by type and length of term for 2014 through 2018.

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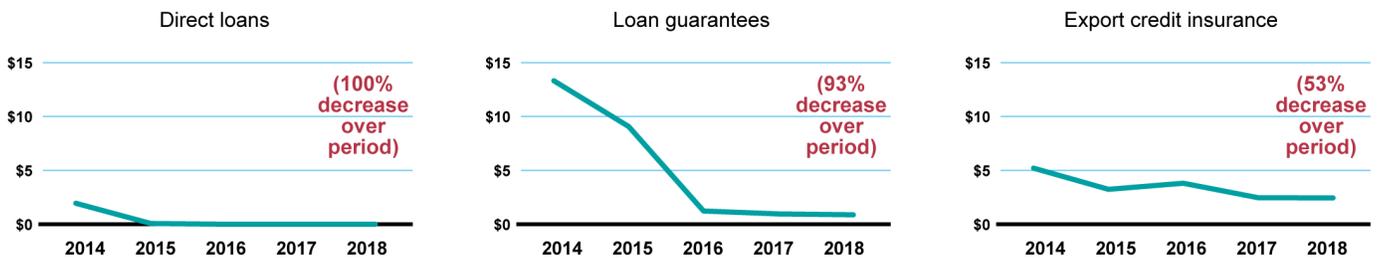
<sup>14</sup>An authorization is an export financing transaction for which EXIM has granted credit approval. While authorizations greater than \$10 million represent a small share of the total number of authorizations, the total dollar value associated with these authorizations represents a large share of the total dollar value of all authorizations. For example, in fiscal year 2014, the last full year of normal operations, EXIM's long-term loans and guarantees accounted for less than 2 percent of the number of authorizations while accounting for 62 percent of the total dollar value of all authorizations.

**Figure 2: Export-Import Bank's Total Authorizations by Type and Length of Term for Fiscal Years 2014 through 2018**

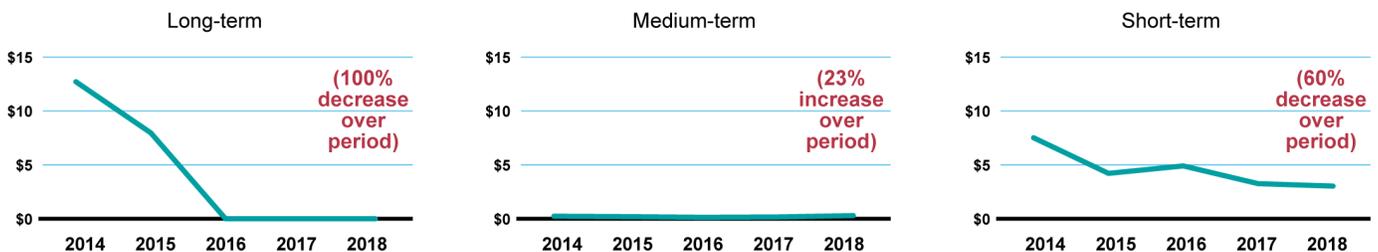
The Export-Import Bank (EXIM) facilitates support for U.S. exports through three major products: direct loans, loan guarantees, and export credit insurance. These products can be classified as short-, medium-, and long-term.

EXIM's annual authorizations for direct loans, loan guarantees, and export credit insurance decreased from 2014 through 2018, as EXIM's Board of Directors lacked the quorum needed to approve transactions greater than \$10 million.

**Total volume of credit services (by types of credit service) in billions of dollars**



**Total volume of credit services (by length of term) in billions of dollars**



Source: GAO analysis of Export-Import Bank data. | GAO-19-43

**EXIM's Policies and Procedures for Extending Credit**

EXIM's Manual describes EXIM's underwriting policies and procedures for each of its products offered, including short-, medium-, and long-term loans and loan guarantees. The Manual describes the responsibilities of EXIM's divisions (e.g., Transportation, Structured and Project Finance, or Working Capital Finance) involved in the underwriting process.

EXIM's Office of Board Authorized Finance is in the process of streamlining the Manual, which is over 1,400 pages. A goal of this process is to separate procedures from policies, thus allowing for policies and procedures to be continuously reviewed. An EXIM official told us that these steps should improve the agency's efficiency, transparency, and accountability. The underwriting sections of the Manual are tentatively scheduled for review in 2019.

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## Overview of EXIM's Underwriting Process

EXIM loan officers perform the underwriting for loans and long-term loan guarantees. The underwriting of medium-term or working capital loans guaranteed by EXIM is performed by either EXIM loan officers or qualified lenders with delegated authority, which allows the lender to authorize a loan that EXIM guarantees in accordance with agreed-upon underwriting requirements without first obtaining EXIM approval.<sup>15</sup> When the underwriting and credit decision is delegated to approved lenders, EXIM does not perform the underwriting procedures.

EXIM's underwriting process calls for thorough credit assessments by subject matter experts and loan officers. These assessments evaluate key transactional risks, such as the borrower's industry, competitive position, operating performance, liquidity position, leverage, and ability to service debt obligations. Frequently, credit enhancements are included in the structure of long-term financing (often in the form of collateral) in order to decrease the risk of a borrower default but also to increase the recovery in the event of a default. A risk rating is assigned to the transaction based on this evaluation which, in turn, determines the transaction fee that a borrower pays and assists in establishing the level of loss reserves EXIM must set aside. The credit assessments undergo multiple levels of internal review.

All transactions of EXIM carry some risk; however, transactions approved through delegated authority lenders potentially carry a higher level of inherent risk because third-party financial institutions make the decisions. To mitigate the risk, EXIM reviews medium-term transactions approved by delegated authority lenders before the transactions are executed to assure compliance with EXIM's delegated authority lending policies. For working capital guarantee delegated authority, EXIM conducts periodic examinations of the lenders, reviewing ongoing transactions and lender compliance with the delegated authority program. The examinations are intended to identify lenders that are not satisfactorily managing the requirements of the delegated authority program.

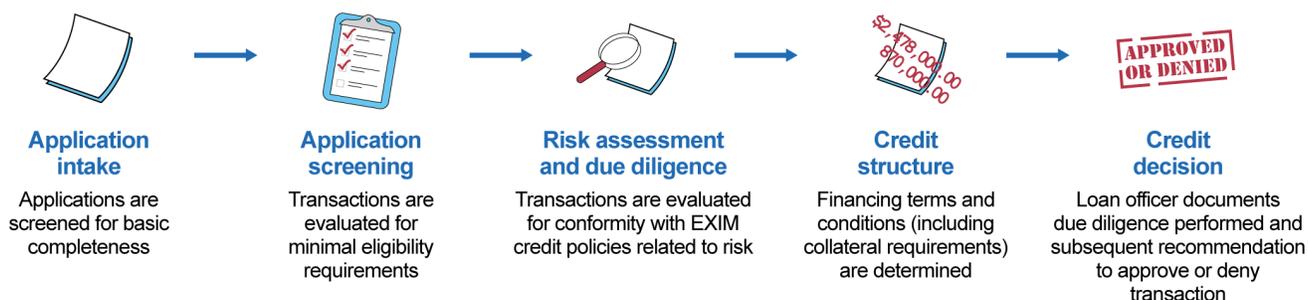
To mitigate the risk for its internal credit process, EXIM developed and documented underwriting processing steps from the time the application is received through the approval of the appropriate credit structure. These

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<sup>15</sup>External delegated authority has been granted to certain lenders under the Working Capital Guarantee program and a few lenders under the medium-term guaranteed loan program for loans of \$10 million and less.

steps serve to (1) establish a framework for sound credit decisions, (2) communicate to EXIM employees the requirements governing the extension of credit, and (3) encourage documentation and the consistent application of EXIM's credit policies and procedures. According to EXIM officials, the underwriting process also serves as EXIM's primary method for preventing fraud because of the due diligence performed on the proposed transaction. Figure 3 summarizes EXIM's underwriting process.

**Figure 3: Export-Import Bank's Underwriting Process**



Source: GAO analysis of Export-Import Bank (EXIM) data. | GAO-19-43

**Application intake.** When an application is initially received, it is screened for basic completeness, follow-up on incomplete or unacceptable applications is performed, and it is assigned to a processing division.

**Application screening.** After an application is determined to be complete, it is assigned to the applicable EXIM division that oversees the applicable type of project. For example, an application for the purchase of an aircraft would be assigned to the Transportation Division. Once assigned, a loan officer in that division is to assess the eligibility of the transaction. To ensure compliance with laws and regulations, the loan officer is to obtain and assess various certifications from transaction participants. Loan officers are also required to submit the corporate and individual names and addresses of lenders, borrowers, guarantors, and other transaction participants to the EXIM Library. Library staff are then to conduct a Character, Reputational, and Transaction Integrity (CRTI) review—a procedure designed to provide a level of due diligence over various risks and to help prevent fraud by checking loan participants' information against 28 databases.

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**Risk assessment and due diligence.** Once the transaction is considered minimally eligible for EXIM support, the loan officer is required to perform a series of due diligence activities to determine (1) whether the transaction provides a reasonable assurance of repayment, (2) any potential material issues regarding the transaction or the participants that would preclude EXIM support, and (3) the appropriate risk level and pricing for the transaction. As part of the financial evaluation of the transaction, the loan officer is required to obtain and analyze the borrower's financial statements,<sup>16</sup> credit reports or rating agency reports,<sup>17</sup> financial projections, and other relevant information. As applicable, the loan officer is required to obtain input from other EXIM staff, such as attorneys or engineers, to conclude on the legal, technical, economic, or environmental risks of the transaction. Based on this due diligence, the loan officer is to assess the transaction for risk and assign an overall risk rating. This rating is used to calculate the exposure fee EXIM will charge the borrower for guaranteeing the transaction. Greater perceived risks result in higher fees.

**Credit structure.** After the risk assessment and due diligence is performed, the loan officer determines the financing terms and conditions to be recommended. The loan officer is generally required to structure the transaction to include a security interest (collateral) in the financed goods or other assets of the borrower. If it is determined that collateral is not necessary, the loan officer is to document the explanation and mitigating factors (e.g., EXIM support is small relative to a borrower's size). For all aircraft transactions, the loan officer is required to perform an assessment and loan-to-value analysis of the collateral, and the financing terms must include requirements for the borrower to maintain ownership and condition of the collateral.

**Credit decision.** The loan officer is to document the due diligence in a credit or board memo, which includes the loan officer's recommendation to approve or decline the transaction. These memos and applicable

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<sup>16</sup>EXIM evaluates financial statements to assess the financial condition of the primary source of repayment. EXIM also determines the quality of the financial statements on factors such as whether the financial statements are audited and who performed the audit.

<sup>17</sup>A credit report is a document created by a credit reporting agency that summarizes the financial history of a party (a person or a business). Examples of information found in a credit report include the amount of credit available to a party, how much of its credit limit a party tends to rely on for purchases, whether the party has a history of paying bills on time, and whether a party has previously gone through bankruptcy.

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supporting documentation are then to be forwarded to the approving party. The credit memo applicable to working capital or medium-term transactions is to be provided to EXIM officials with individual delegated authority to approve transactions of \$10 million and less. Board memos for long-term transactions or transactions greater than \$10 million are to be provided to the EXIM Board of Directors for approval. From July 2015 to May 2019, EXIM lacked a quorum on its Board of Directors, and as a result, EXIM was unable to approve new transactions greater than \$10 million.

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## Management of Federal Credit Programs

Government-wide guidance for federal agencies to follow for the management and operation of federal credit programs, such as loan and loan guarantee programs, include the following:<sup>18</sup>

- OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, revised in January 2013, describes policies and procedures for designing and managing federal credit programs. The guidance addresses various standards for applicant screening, loan documentation, collateral requirements, determining and monitoring lender and servicer eligibility, and lender and borrower stake in full repayment. In addition, it details risk sharing practices that agencies should follow, such as ensuring that lenders and borrowers who participate in federal credit programs have a substantial stake in full repayment in accordance with the loan contract.
- Treasury's Bureau of the Fiscal Service's *Managing Federal Receivables* provides federal agencies with an overview of standards, guidance, and procedures for successful management of credit activities, including screening applicants for creditworthiness and financial responsibility, and managing, processing, evaluating and documenting loan applications and awards for loan assistance. Furthermore, it details how federal agencies should manage lenders and servicers that participate in federally insured guaranteed loan programs.

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<sup>18</sup>Although presented as "guidance," in some cases the standards contained in these documents are derived from statutes or executive orders with which federal agencies must comply.

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## EXIM's Process for Updating Its Underwriting Policies and Procedures Was Properly Designed and Implemented

We found that EXIM's process for updating its underwriting policies and procedures was properly designed and implemented.<sup>19</sup> *Standards for Internal Control in the Federal Government* states that management should design control activities to achieve objectives and respond to risks. Management's design of internal control establishes and communicates the who, what, when, where, and why of internal control execution to personnel. Management should clearly document internal control in a manner that allows the documentation to be readily available and properly managed and maintained. Further, management should also implement control activities through policies and periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks.

Underwriting policies and procedures are documented in EXIM's Manual, which consists of 26 chapters, covering various topics by product (e.g., long-term loans and loan guarantees) or process (e.g., application intake or credit structure). We found that the Manual provides EXIM's divisions involved in the underwriting process with direction and guidance for making credit decisions and is to be updated at least annually, except for material changes, which are required to be incorporated as soon as possible. The Credit Policy Division (Credit Policy) maintains and manages the process for updating of the Manual and relies on EXIM's divisions for additions, updates, and revisions to it.

Credit Policy maintains an assignment list of the primary officer, the primary reviewer, and the Office of General Counsel (OGC) reviewer, who are responsible for each chapter in the Manual. Each year, the process calls for Credit Policy to send an email to the primary officer and two reviewers assigned to each chapter. This communication requests that the officer review the assigned chapters for any needed changes. After the assigned officer has reviewed the chapter, if there are no contemplated changes, the primary officer assigned to the chapter is required to notify Credit Policy of this determination by email with the concurrence of the respective primary and OGC reviewers. If changes are needed, the assigned officer is required to provide the updated chapter to

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<sup>19</sup>We did not evaluate EXIM's compliance with its process for updating underwriting policies and procedures or assess their operating effectiveness.

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Credit Policy by email with the concurrence of the primary and OGC reviewers.

According to EXIM's process, when material changes to the Manual are needed, the necessary revisions do not wait for the annual update. Instead, the responsible division is required to incorporate such changes into the applicable chapter(s) of the Manual and submit them to Credit Policy as soon as possible. EXIM officials stated that examples of material changes that would be addressed immediately include recommendations from oversight bodies, such as the EXIM OIG or GAO, and changes resulting from legislative actions, such as updates to EXIM's charter or changes in compliance procedures related to sanctions.

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## EXIM's Underwriting Policies and Procedures Were Mostly Consistent with Federal Guidance, but Could Be Enhanced

The underwriting policies and procedures in EXIM's Manual for its loan and loan guarantee transactions were mostly consistent with OMB and Treasury guidance for managing federal credit programs. We evaluated these policies and procedures for (1) applicant screening, (2) loan documentation, (3) collateral requirements, (4) lender and servicer eligibility, and (5) risk sharing practices.<sup>20</sup> As shown in table 1, EXIM's underwriting policies and procedures for the loan and loan guarantee programs were consistent with 12 of 15 applicable standards for managing federal credit programs and were partially consistent with three.<sup>21</sup> Three other standards were not applicable to EXIM's underwriting.

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<sup>20</sup>Guidance for managing federal credit programs also includes additional criteria not related to underwriting, which we did not assess.

<sup>21</sup>While we assessed the design and implementation of EXIM's underwriting policies and procedures with guidance for managing federal credit programs, we did not evaluate EXIM's compliance with its underwriting policies and procedures or assess their operating effectiveness. In areas where we found EXIM's policies and procedures to be consistent with federal guidance, there may still be opportunities to improve operating effectiveness.

**Table 1: GAO Assessment of EXIM’s Underwriting Policies and Procedures against Federal Guidance**

Federal guidance categories	Federal guidance standards	Assessment
Applicant screening	1. Program eligibility	Consistent
	2. Delinquency on federal debt	Consistent
	3. Creditworthiness	Consistent
	4. Delinquent child support	Consistent
	5. Taxpayer identification number	Consistent
Loan documentation	6. Loan documentation	Consistent
Collateral requirements	7. Appraisal of real property	Not applicable <sup>a</sup>
	8. Loan-to-value ratio	Consistent
	9. Liquidation of real property collateral	Not applicable <sup>a</sup>
	10. Asset management standards and systems	Not applicable <sup>a</sup>
Lender and servicer eligibility	11. Participation criteria	Consistent
	12. Review of eligibility	Partially consistent
	13. Fees	Consistent
	14. Decertification	Partially consistent
	15. Loan servicers	Consistent
Risk sharing practices	16. Private lenders stake in full repayment	Consistent
	17. Borrowers stake in full repayment	Consistent
	18. Program reviews	Partially consistent

Source: GAO analysis of Office of Management and Budget, Department of the Treasury, and Export-Import Bank (EXIM) documents. | GAO-19-43

<sup>a</sup>This standard is not applicable to EXIM because the primary collateral for EXIM’s transactions is the asset financed, and EXIM does not finance real property.

**EXIM’s Policies and Procedures Were Consistent with Federal Guidance Related to Applicant Screening**

Applicant screening refers to determining an applicant’s eligibility and creditworthiness for a loan or loan guarantee. Federal guidance for applicant screening includes specific standards related to the applicant’s (1) program eligibility, (2) delinquency on federal debt, (3) creditworthiness, (4) delinquent child support, and (5) taxpayer identification number (TIN). As shown in table 2, EXIM’s underwriting

policies and procedures were consistent with federal guidance for applicant screening.<sup>22</sup>

**Table 2: GAO Assessment of EXIM's Underwriting Policies and Procedures for Applicant Screening against Federal Guidance**

Federal guidance standards	EXIM's policies and procedures	Assessment
<b>Program eligibility</b> – Lenders shall determine the applicants' program eligibility, and applicants must certify and document their inability to obtain credit from private sources on reasonable terms and certify the accuracy of information in the application.	<ul style="list-style-type: none"> <li>EXIM must screen the application to determine if the applicant and the proposed transaction meet initial eligibility and completeness requirements.</li> <li>Applicants must certify that they are unable to obtain credit from private sources on reasonable terms and provide EXIM with documentation to make a credit assessment.</li> <li>Applicants must certify on the applications that the representation made and the facts stated in the application are true and that they have not misrepresented or omitted any material facts.</li> </ul>	Consistent
<b>Delinquency on federal debt</b> – Lenders must determine whether an applicant is delinquent on federal debt, suspend application processing for those who are delinquent, and continue application processing only when the debt is satisfactorily resolved (for example, debt is paid in full or a new repayment plan is negotiated).	<ul style="list-style-type: none"> <li>Applicants must certify that neither they nor any of their principals have within the past 3 years been delinquent on federal debt, which loan officers verify by obtaining and reviewing credit reports.</li> <li>As part of its Character, Reputational, and Transaction Integrity review, EXIM screens the corporate and individual names and addresses of lenders, borrowers, guarantors, and other transaction participants against 28 databases for red flags.</li> <li>EXIM must suspend the application processing and contact the Office of General Counsel for further guidance for applicants with delinquent federal debt or other insufficient or negative credit information.</li> </ul>	Consistent
<b>Creditworthiness</b> – Lenders must determine whether the applicant has the ability to repay the loan, considering credit reports and supplementary data sources.	<ul style="list-style-type: none"> <li>EXIM must perform a due diligence review, risk assessment (financial and nonfinancial risks), and credit worthiness analysis. Loan officers must document this in a credit memorandum and recommend transaction approval or denial.</li> <li>Loan officers must evaluate whether the transaction provides reasonable assurance of repayment.</li> </ul>	Consistent

<sup>22</sup>In 2018, EXIM's OIG issued two reports related to operating effectiveness of certain EXIM applicant screening procedures. Based on findings identified in its review of certain long- and medium-term transactions, OIG made several recommendations for EXIM to enhance policies and procedures in areas related to applicant screening, including eligibility requirements and the CRTI process. See Export-Import Bank of the United States, Office of Inspector General, *Audit of the Export-Import Bank's Medium-Term Early Problem Credits*, OIG-AR-18-06 (Washington, D.C.: Sept. 26, 2018), and *Evaluation of EXIM's Additionality Policy and Procedures*, OIG-EV-19-01 (Washington, D.C.: Nov. 27, 2018).

Federal guidance standards	EXIM's policies and procedures	Assessment
Delinquent child support – The agency should deny an applicant who is subject to administrative offset (interception of certain federal payments) to collect delinquent child support payments. <sup>a</sup>	<ul style="list-style-type: none"> <li>EXIM must evaluate delinquency on child support as part of the credit review process for working capital guarantee transaction applicants.</li> </ul>	Consistent
Taxpayer identification number – The agency must obtain the taxpayer identification number (TIN) of applicants.	<ul style="list-style-type: none"> <li>EXIM requires applicants to submit TINs where appropriate. The applications for working capital guarantees require TINs. For long- and medium-term transactions, the applicants and borrowers are mainly non-U.S. persons and entities and thus would not have TINs. However, all applicants submit a Dun &amp; Bradstreet Data Universal Numbering System (DUNS) number, which EXIM must use in its due diligence process.<sup>b</sup></li> </ul>	Consistent

Source: GAO analysis of Office of Management and Budget, Department of the Treasury, and Export-Import Bank (EXIM) documents. | GAO-19-43

<sup>a</sup>Because applicants for EXIM's medium- and long-term loans and loan guarantees are generally foreign buyers or borrowers, this standard is only applicable to working capital guarantees.

<sup>b</sup>The DUNS number is a unique nine-digit identification number for each physical location of a business. The DUNS number is used to establish a credit file on a particular business to help predict the reliability, financial stability, or both of the company in question.

For all loan and loan guarantee applications, EXIM requires applicants to provide identifying information, such as name, address, phone number, and Dun & Bradstreet Data Universal Numbering System (DUNS) number.<sup>23</sup> Applicants are also required to provide relevant financial information, such as income, assets, cash flows, liabilities, financial statements, and credit reports.

EXIM's underwriting process requires screening of applicants for eligibility, which is partly completed through the CRTI review. As part of the CRTI review, EXIM screens the corporate and individual names and addresses of lenders, borrowers, guarantors, and other transaction participants against 28 databases that include various U.S. government and international debarment and sanctions lists for red flags.<sup>24</sup> If a match is identified, EXIM's Credit Review and Compliance Division works with

<sup>23</sup>The DUNS number is a unique nine-digit identification number for each physical location of a business. The DUNS number is used to establish a credit file on a particular business to help predict the reliability, financial stability, or both of the company in question.

<sup>24</sup>EXIM uses World-Check, a database and screening tool managed by Thomson Reuters, to screen transaction participants. World-Check is used to carry out due diligence or other screening activities in accordance with legal or regulatory obligations or risk management procedures designed to combat financial crime. World-Check creates a profile based on global media reports, watch lists, and other regulatory and law enforcement lists. The profile lists identification numbers; aliases; and any crimes, including fraud, corruption, and money laundering.

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the loan officers to determine the legitimacy of the match and, as necessary, works with OGC to determine what additional due diligence measures may be required and whether to continue the underwriting process.

In addition to the CRTI review process, loan officers must obtain and use credit reports to assess creditworthiness and identify whether transaction applicants are delinquent on federal tax or nontax debts, including judgment liens against property for a debt to the federal government, and are therefore not eligible to receive federal loans and loan guarantees. EXIM's policies and procedures contain instructions to suspend application processing and contact OGC for further guidance upon finding federal debt delinquencies or other insufficient or negative information on applicant credit reports. Loan officers must document any issues encountered on applicant credit reports and explain why a transaction is creditworthy if they recommend it for approval.

Lastly, OMB Circular A-129 requires agencies to obtain the TIN of all persons doing business with the agency. The working capital guarantee application form requests the TIN for transaction applicants, which an EXIM official stated are used to obtain applicant credit reports. EXIM does not require the TIN for medium- and long-term applications. EXIM officials stated that applicants for medium- and long-term transactions are likely foreign entities and thus would not have federal TINs. However, all applications request the DUNS number which EXIM must use to perform the credit review and CRTI due diligence procedures.

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**EXIM's Policies and Procedures Were Consistent with Federal Guidance Related to Loan Documentation**

Federal guidance calls for the maintenance of loan files containing key information used in loan underwriting. As shown in table 3, EXIM's underwriting policies and procedures were consistent with the federal guidance related to loan documentation.

**Table 3: GAO Assessment of EXIM’s Underwriting Policies and Procedures for Loan Documentation against Federal Guidance**

Federal guidance standard	EXIM’s policies or procedures	Assessment
<b>Loan documentation</b> – The loan origination file should contain loan applications, credit bureau reports, credit analysis, loan contracts, and other documents necessary to conform to private sector standards for that type of loan.	EXIM must maintain loan files that include <ul style="list-style-type: none"> <li>• loan or guarantee application including an analysis of the application;</li> <li>• credit report and the related credit memorandum;</li> <li>• verification documents and legal documents relating to the loan;</li> <li>• debt collection certification, nondelinquency on federal debt certification, and support that applicant has paid all origination fees;</li> <li>• assessment of collateral; and</li> <li>• loan or services agreement with the debtor.</li> </ul>	Consistent

Source: GAO analysis of Office of Management and Budget, Department of the Treasury, and Export-Import Bank (EXIM) documents. | GAO-19-43

EXIM’s underwriting policies and procedures state that loan officers must maintain a loan file on the transaction applicant and other participants, which includes the completed application, credit bureau reports, credit analysis, certifications, verifications and other legal documents, and loan or service agreements with the debtor, as appropriate. EXIM’s process calls for obtaining debt collection certification statements for the working capital guarantee applications because the applicants are domestic entities.<sup>25</sup> While the debt collection certification statement is not applicable for medium- and long-term applications, because the applicants are foreign entities, EXIM’s executed credit agreements and promissory notes define the terms of the transactions, including defaults and the remedies EXIM may take, such as declaring default and accelerating debt repayment, and pursuing restructuring or recovery actions, including possible litigation.

<sup>25</sup>A Debt Collection Certification Statement is a statement signed by the applicant detailing the consequences of delinquency (i.e., credit bureau reporting, hiring a collection agency to collect the delinquent loan, offsetting the income tax refund or other amounts due from the federal government, suspending or debaring the entity from doing business with the federal government, referring the loan to the Department of Justice for litigation, foreclosing on the collateral or taking other actions as permitted in the loan instruments, or a combination of these) and certifying that the federal government’s debt collection policies were discussed with the applicant at the time of application.

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**EXIM's Policies and Procedures Were Consistent with Federal Guidance Related to Collateral**

Collateral refers to the assets used to secure a loan. For many types of loans, the government can reduce its risk of default and potential losses through well-managed collateral requirements. However, several of the collateral requirements contained in federal guidance relate specifically to real property. Since EXIM's mission is to support U.S. exports, it does not finance real property and, accordingly, does not accept real property as the primary collateral. As a result, three of the four federal guidance standards were not applicable to EXIM's underwriting. As shown in table 4, EXIM's underwriting policies and procedures were consistent with the applicable federal guidance related to collateral.

**Table 4: GAO Assessment of EXIM’s Underwriting Policies and Procedures for Collateral against Federal Guidance**

Federal guidance standards	EXIM’s policies and procedures	Assessment
<b>Appraisal of real property</b> – The agency should require real property appraisals to be consistent with the Uniform Standards of Professional Appraisal Practice and prepared by a state-licensed or state-certified appraiser.	<ul style="list-style-type: none"> <li>EXIM does not accept real property as primary collateral. Therefore, this standard is not applicable.</li> </ul>	Not applicable <sup>a</sup>
<b>Loan-to-value (LTV) ratio</b> – (1) Borrowers should assume an equity interest in assets whose acquisition is being financed by loans, (2) the agency should explicitly define the components of the LTV ratio, (3) the agency should limit financing by not offering terms (including the financing of closing costs) that result in an LTV ratio equal to or greater than 100 percent, and (4) the loan maturity period should be shorter than the estimated useful economic life of the collateral.	<ul style="list-style-type: none"> <li>For medium- and long-term transactions, EXIM provides up to 85 percent financing with the remaining 15 percent paid by the borrower or financed separately. EXIM financing could be less than 85 percent depending on the U.S. content.</li> <li>For short-term transactions, EXIM guarantees up to 90 percent of the transaction, with lenders/borrowers assuming the remaining 10 percent.</li> <li>For aircraft transactions, EXIM defines the LTV ratio as the comparison of the expected future values of the financed aircraft with the estimated outstanding balance on the loan guaranteed by EXIM, plus estimated recovery costs, over the term of the financing.</li> <li>The repayment term that EXIM offers is based on the contract value and shall not exceed the effective remaining useful life of the asset financed.</li> </ul>	Consistent
<b>Liquidation of real property collateral</b> – Lenders should be required to liquidate any real property collateral for a defaulted guaranteed loan before filing a claim.	<ul style="list-style-type: none"> <li>EXIM does not accept real property as primary collateral. Therefore, this standard is not applicable.</li> </ul>	Not applicable <sup>a</sup>
<b>Asset management standards and systems</b> – The agency should establish policies, procedures, and cost tracking systems for the acquisition, management, and disposal of real property.	<ul style="list-style-type: none"> <li>EXIM does not accept real property as primary collateral. Therefore, this standard is not applicable.</li> </ul>	Not applicable <sup>a</sup>

Source: GAO analysis of Office of Management and Budget, Department of the Treasury, and Export-Import Bank (EXIM) documents. | GAO-19-43

<sup>a</sup>This standard is not applicable to EXIM because the primary collateral for EXIM’s transactions is the asset financed, and EXIM does not finance real property.

EXIM’s underwriting policies and procedures state that it should have a security interest in the financed export items. The loan officer and a transaction engineer will evaluate the export sales contracts, and this evaluation will be used as the assessment of collateral for the transaction. If using the financed export items as collateral is not possible, the loan officer should secure the EXIM financing with other assets owned by the primary source of repayment that are at least of comparable value to the financed items. Collateral that could be considered includes fixed assets, inventory, accounts receivable, or a third-party guarantee.

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While OMB Circular A-129 requires a real property appraisal and contains specific criteria defining acceptable appraisals, the standard was not applicable to EXIM's loans and loan guarantees. According to EXIM officials, EXIM rarely takes real property as collateral because the primary collateral for EXIM's transactions is the asset financed, and EXIM does not finance real property. Further, EXIM officials stated that the U.S. appraisal standards cannot be applied to foreign real property. However, if real property is taken as collateral, it would be as secondary or additional collateral. When EXIM accepts real property as additional collateral for a transaction, EXIM officials stated that an independent third-party appraisal in accordance with regional practices is obtained.

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**EXIM's Policies and Procedures Were Not Fully Consistent with Federal Guidance Related to Lender and Servicer Eligibility**

Federal guidance calls for policies and procedures related to lender and servicer eligibility, monitoring, and recertification. As shown in table 5, EXIM's policies and procedures were consistent with three and partially consistent with two of five federal standards for lender and servicer eligibility.

**Table 5: GAO Assessment of EXIM’s Underwriting Policies and Procedures for Lender and Servicer Eligibility against Federal Guidance**

Federal guidance standards	EXIM’s policies and procedures	Assessment
<p><b>Participation criteria</b> – The agency should establish and publish in the Federal Register lender and servicer eligibility criteria, including requirements that the lender or servicer not be debarred or delinquent on government debt, qualification requirements for principal officers and staff, appropriate bonding or insurance, and financial and capital requirements for lenders not supervised by a federal financial institution regulator.</p>	<p>In May 2016, EXIM published a Federal Register notice containing its current lender and servicer eligibility criteria [See 81 Fed. Reg. 29858 (May. 13, 2016)]. The notice contained eligibility requirements concerning</p> <ul style="list-style-type: none"> <li>• debarment/suspension,</li> <li>• delinquency on federal debt,</li> <li>• qualification requirements for principal officers, and</li> <li>• financial and capital requirements for lenders not regulated by a federal financial institution regulatory agency.</li> </ul>	Consistent
<p><b>Review of eligibility</b> – The agency should (1) review and document a lender’s or servicer’s eligibility for continued participation at least every 2 years and (2) consider lender or servicer performance as a critical factor in determining continued eligibility for participation.</p>	<p>Lenders must continue to meet performance standards and renew their Approved Finance Provider (AFP) applications every 3 years to remain active in EXIM’s program. EXIM reviews the renewal packages for the lender’s continued eligibility. If approved, an AFP may enter into one or more Master Guarantee Agreements (MGA), which include the general terms and conditions of the lender’s agreement with EXIM and allow the AFP to provide loans guaranteed by EXIM.</p> <ul style="list-style-type: none"> <li>• EXIM’s process calls for assessing the eligibility of previously approved Working Capital Guarantee program delegated authority lenders<sup>a</sup> at annual intervals<sup>b</sup> unless more frequent exams are required. EXIM uses a quarterly Exam Status Report, which documents when EXIM last examined each lender. To continue participating in the delegated authority program and to increase lending limits, the delegated authority lender must receive at least a pass with qualification rating.<sup>c</sup></li> <li>• EXIM analyzes medium-term lender performance, but has not established written policies and procedures for determining continued eligibility for the delegated authority lenders.</li> <li>• EXIM’s Credit Review and Compliance Division is responsible for reviewing medium-term transactions approved by delegated authority lenders to monitor compliance with EXIM’s policies, including due diligence procedures. These reviews may be risk-based or random.</li> <li>• EXIM performs the underwriting of loan guarantees not processed by delegated authority lenders.</li> </ul>	Partially consistent
<p><b>Fees</b> – The agency should incorporate steps to assess nonrefundable fees to defray the costs of determining and reviewing lender or servicer eligibility when authorized and appropriated for such purposes.</p>	<p>While EXIM does not charge fees specifically to lenders and servicers, EXIM charges processing, commitment, and exposure fees on various applications and approved credit structures. These fees are intended to defray, among other things, the costs of determining and reviewing lender and servicer eligibility.</p>	Consistent

Federal guidance standards	EXIM's policies and procedures	Assessment
<b>Decertification</b> – The agency should establish specific procedures to decertify lenders, end servicing contracts, or take other appropriate action for lenders that do not meet compliance or eligibility standards.	<ul style="list-style-type: none"> <li>• After providing proper notice, EXIM may decertify lenders and terminate an MGA with an AFP that exhibits reputational problems, commits or appears implicated in fraud, or otherwise mismanages EXIM's programs.</li> <li>• Working Capital Guarantee program delegated authority lenders who receive a "fail" rating during EXIM's lender examinations are not in compliance with the program and immediate suspension of delegated authority is required.</li> <li>• While EXIM performs assessments of medium-term delegated authority lenders, it has not established written policies and procedures for decertifying lenders or taking other appropriate actions for lenders that do not meet compliance or eligibility standards.</li> </ul>	Partially consistent
<b>Loan servicers</b> – The agency should ensure that lenders or agencies transferring or assigning the right to service loans should use only servicers meeting applicable agency standards or are approved by a government-sponsored enterprise or similar organization.	<ul style="list-style-type: none"> <li>• For guaranteed loans, the MGAs specifically state that the lenders shall not assign, transfer, negotiate, or sell any of their interests, obligations, or rights in any loan facility without prior written consent of EXIM.</li> <li>• For loans, EXIM does not sell or transfer loans where it was the source of financing, and therefore, this standard is not applicable.</li> </ul>	Consistent

Source: GAO analysis of Office of Management and Budget, Department of the Treasury, and Export-Import Bank (EXIM) documents. | GAO-19-43

<sup>a</sup>Delegated authority lenders are private financial institutions and nonfinancial companies, subject to prior EXIM qualifications and criteria, that may be granted authority after a review process to commit EXIM resources for certain extensions of credit.

<sup>b</sup>Annual intervals are defined as from 10 to 16 months on average because of program activity and available resources.

<sup>c</sup>At the completion of a delegated authority lender examination, the lender is issued a "pass," "pass with qualification," or "fail" rating. Lenders that receive "pass with qualification" or "fail" ratings must implement corrective actions.

OMB Circular A-129 calls for agencies to establish specific procedures to continuously review lender and servicer eligibility and decertify lenders and servicers that fail to meet the agency's standards for continued participation. EXIM's policies and procedures related to requirements for working capital guarantee delegated authority lenders were consistent with federal guidance.

However, for medium-term delegated authority lenders, EXIM has not established documented policies and procedures for (1) determining their eligibility for continued participation in the program and (2) decertifying or taking other appropriate actions for those that do not meet compliance or eligibility standards. EXIM officials told us that currently EXIM has only three medium-term delegated authority lenders: two were renewed for continued participation and one became inactive in 2018. Further, according to EXIM officials, since 2009 only 2.3 percent of all medium-

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term guarantee authorizations have been delegated authority authorizations (\$71 million out of \$3.1 billion).

EXIM reviews the performance of its primary medium-term lenders quarterly. In these reviews, EXIM officials evaluate the lenders' portfolio performance, underwriting capabilities, and a set of qualitative factors. However, without documented policies and procedures for determining the eligibility of the medium-term delegated authority lenders' continued participation in the program and for decertifying such lenders, as appropriate, EXIM may allow lenders who are not qualified to underwrite transactions, thus increasing the risk for improper underwriting and defaults. EXIM officials stated that they are in the process of updating and enhancing the Manual and will include procedures for medium-term delegated authority lender reviews and the consequences of an unfavorable assessment.

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### EXIM's Policies and Procedures Were Not Fully Consistent with Federal Guidance Related to Risk Sharing Practices

OMB Circular A-129 calls for lenders and borrowers who participate in federal credit programs to have a substantial stake in full repayment but also states that the level of guarantee should be no more than necessary to achieve program purposes. As shown in table 6, EXIM's underwriting policies and procedures were generally consistent with the federal guidance related to certain risk sharing practices for lenders and borrowers to have a stake in full repayment and were partially consistent with the federal guidance related to periodic program reviews.

**Table 6: GAO Assessment of EXIM’s Underwriting Policies and Procedures for Risk Sharing Practices against Federal Guidance**

Federal guidance standards	EXIM’s policies and procedures	Assessment
<p><b>Private lenders stake in full repayment –</b> The agency should include standards to ensure that private lenders who extend credit should have substantial stake in full repayment and bear at least 20 percent of the loss from a default. The level of guarantee should be no more than necessary to achieve program purposes. In addition, borrowers who pose less of a risk receive a lower guarantee.</p>	<ul style="list-style-type: none"> <li>For medium- and long-term transactions, EXIM provides up to 85 percent financing with the remaining 15 percent paid by the borrower or financed separately. EXIM financing could be less than 85 percent depending on the U.S. content.</li> <li>Working capital guarantee covers 90 percent of the principal. The lender must retain 10 percent risk in the transaction.</li> <li>EXIM’s charter specifically allows EXIM to provide loan guarantees with up to 100 percent of the financed amount. Further, EXIM is authorized to provide loan guarantees at rates and terms and other conditions that are, in the opinion of the EXIM Board of Directors, competitive with those provided by the official export credit agencies of other countries.</li> </ul>	Consistent
<p><b>Borrowers stake in full repayment –</b> Borrowers should have equity interest in asset financed with credit assistance and substantial capital or equity at risk in their business.</p>	<ul style="list-style-type: none"> <li>Borrowers are required to make a minimum cash payment of 15 percent of the value of the export contract for medium- and long-term transactions in support of export sales and leases equivalent to sales. However, borrowers may secure alternative financing for the cash payment, which is permissible as long as such financing is not officially supported by EXIM or another U.S. government agency.</li> <li>The maximum borrowing level on a working capital guarantee is up to 75 percent of the value of export-related inventory or up to 90 percent of the invoice value of export-related goods or services.</li> </ul>	Consistent
<p><b>Program reviews –</b> The agency should periodically review programs in which the government bears more than 80 percent of any loss.</p>	<ul style="list-style-type: none"> <li>EXIM officials stated that annually, EXIM prepares a budget justification and a competitiveness report. According to EXIM officials, to prepare these documents, EXIM analyzes its programs, market trends, strategies, and actions by competitor export credit agencies. However, EXIM does not have documented policies and procedures for performing these periodic reviews, including determining whether the private sector could bear more risk.</li> </ul>	Partially consistent

Source: GAO analysis of Office of Management and Budget, Department of the Treasury, and Export-Import Bank (EXIM) documents. | GAO-19-43

Although OMB Circular A-129 calls for lenders who extend credit to have substantial stake in full repayment and bear at least 20 percent of any loss from a default, it also states that the level of guarantee should be no more than necessary to achieve program purposes. However, consistent with its charter, EXIM is authorized to provide terms that are competitive with those of other ECAs, such as up to 100 percent loan guarantee coverage. EXIM does not require lenders to bear 20 percent of the risk of default. For working capital guarantees, EXIM offers 90 percent guarantee coverage and lenders retain 10 percent risk. For medium- and long-term loan guarantees, EXIM provides up to 85 percent financing with

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the remaining 15 percent paid by the borrower or financed separately. EXIM financing could be less than 85 percent depending on the U.S. content. According to EXIM, guaranteeing 100 percent of the amount it finances permits it to explore capital markets and is more desirable to banks for large and long-term projects. As a result, the lender may not retain any risk of default in the transaction. According to an OECD official, guaranteeing 100 percent of the financed amount is consistent with other ECAs. For example, the ECAs of Canada, Germany, and the United Kingdom also provide guarantees up to 100 percent of the financed amount on certain products.

OMB Circular A-129 states that borrowers should have equity interest in assets financed with credit assistance and substantial capital or equity at risk in their business. However, consistent with its charter, EXIM is authorized to provide terms that are competitive with those of other ECAs. EXIM does not specifically require borrowers to have an equity interest in the transaction or to contribute the minimum cash payment. EXIM's policies and procedures state that in practice, buyers often secure alternative financing for the cash payment, which is permissible as long as the financing is not officially supported by EXIM or another U.S. government agency. EXIM officials noted that during the analysis of creditworthiness, loan officers examine supporting documents for the alternative financing to assure that it is not guaranteed by EXIM or another U.S. government agency.<sup>26</sup>

OMB Circular A-129 states that the agency should periodically review programs in which the government bears more than 80 percent of any loss. The review is intended to evaluate the extent to which credit programs achieve intended objectives and whether the private sector has become able to bear a greater share of the risk. EXIM officials stated that EXIM performs program reviews through annual budget justifications submitted to OMB and annual competitiveness reports submitted to

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<sup>26</sup>In September 2018, EXIM's OIG issued a report on its review of certain medium-term guarantee transactions that exhibited early problems between the time the transaction was approved and when the claims were filed by the guaranteed lenders. Based on findings identified in its review, the OIG made several recommendations for EXIM to enhance its policies and procedures, including, requiring the identification and validation of the borrower's source of down payment prior to the lender's cash disbursement and including all supporting documentation in the credit file. See Export-Import Bank of the United States, Office of Inspector General, *Audit of the Export-Import Bank's Medium-Term Early Problem Credits*.

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Congress.<sup>27</sup> EXIM officials also stated that there are established timelines for preparing these reviews that must be followed to ensure that EXIM meets deadlines for submitting its budget documentation and the June 30 deadline for the annual competitiveness report. In addition, EXIM employs a detailed summary of the products and terms that other countries' official ECAs offer. However, EXIM does not have documented policies or procedures related to performing periodic program reviews. As a result, EXIM runs the risk that it will not effectively review its programs to determine whether the private sector could bear a greater share of the risk.

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## Conclusions

EXIM's Manual provides a framework for making credit decisions so that only qualified applicants that demonstrate reasonable assurance of repayment are provided loans or loan guarantees. This framework helps ensure consistent application of procedures for assessing an applicant's creditworthiness and for overseeing certain delegated authority lenders. However, EXIM's underwriting process could be improved by additional procedures. For example, the Manual did not address medium-term delegated authority lenders' eligibility requirements for continued participation and decertification procedures for lenders who fail to meet agency's standards. Further, EXIM has not documented its process for periodic program reviews to determine whether the private sector could bear a greater share of the risk. Improvements in these areas could help enhance the oversight of lenders and the usefulness of program reviews.

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## Recommendations for Executive Action

We are making the following two recommendations to EXIM:

- The Chief Operating Officer of EXIM should consider establishing documented policies and procedures for (1) determining medium-term delegated authority lenders' eligibility for continued participation in

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<sup>27</sup>As required by its charter, EXIM annually assesses how its policies, practices, and programs compare with those of major foreign ECAs in its *Annual Competitiveness Report* to Congress. The report does not encompass all EXIM products for the period; rather, it covers a portion of EXIM's operations and its position in comparison with the foreign ECAs. The content varies year to year depending on the global export credit environment. For example, in its 2015 competitiveness report, EXIM evaluated its long-term policies in comparison to major competing ECAs (Germany, Japan, France, Italy, Canada, the United Kingdom, South Korea and China). EXIM assessed multiple factors, including interest rates, risk appetite, transaction fees, and flexibility (willingness to offer extended repayment terms) and concluded on its competitiveness on those factors in relation to the foreign ECAs.

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EXIM's programs and (2) decertifying or taking other appropriate actions for such lenders that do not meet compliance or eligibility standards. (Recommendation 1)

- The Chief Operating Officer of EXIM should establish documented policies and procedures for periodically reviewing credit programs in which the government bears more than 80 percent of any loss to determine whether private sector lenders should bear a greater share of the risk. (Recommendation 2)

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## Agency Comments

We provided a draft of this report to EXIM for review and comment. In written comments on a draft of this report, which are reproduced in appendix II, EXIM concurred with our two recommendations. EXIM also provided technical comments that we incorporated into the final report, as appropriate.

In its written comments, EXIM described planned actions to address our recommendations. Specifically, EXIM stated that it will consider establishing documented policies and procedures for determining medium-term delegated authority lenders' eligibility for continued participation in EXIM's programs and decertifying or taking other appropriate actions for such lenders that do not meet compliance or eligibility standards. Further, EXIM will establish documented policies and procedures for periodically reviewing credit programs in which the government bears more than 80 percent of any loss to determine whether private sector lenders should bear a greater share of the risk. If implemented effectively, EXIM's planned actions should address the intent of our recommendations.

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We are sending copies of this report to appropriate congressional committees, the Chairman of the Export-Import Bank, and the EXIM Inspector General. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

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If you or your staff have any questions about this report, please contact me at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



James R. Dalkin  
Director, Financial Management and Assurance

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives were to determine the extent to which Export-Import Bank's (EXIM) (1) process for updating its underwriting policies and procedures is properly designed and implemented and (2) underwriting policies and procedures for loan and loan guarantee transactions are consistent with guidance for managing federal credit programs.

To assess the extent to which EXIM's process for updating its underwriting policies and procedures was properly designed and implemented, we reviewed EXIM's policies and procedures for updating its *Loan, Guarantee and Insurance Manual* (Manual) and interviewed EXIM officials. We assessed EXIM's process to determine whether it sufficiently communicated the procedures to be performed and documentation to be prepared and was consistent with *Standards for Internal Control in the Federal Government*.<sup>1</sup> We did not evaluate EXIM's compliance with its process for updating its underwriting policies and procedures or assess their operating effectiveness.

To assess the extent to which EXIM's underwriting policies and procedures for loan and loan guarantee transactions were consistent with guidance for managing federal credit programs,<sup>2</sup> we reviewed relevant requirements and guidance, including the Office of Management and Budget's (OMB) Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, and the Department of the Treasury's Bureau of the Fiscal Service's *Managing Federal Receivables: A Guide for Managing Loans and Administrative Debt*.

Specifically, we focused on OMB Circular A-129's Section II (C)(1)(a) through (c), Section III (A)(1) through (3), and Section III (C)(1)(a) through (e)), which contain standards pertinent to risk management for loan and loan guarantee programs, including standards for (1) applicant screening (program eligibility, delinquency on federal debt, creditworthiness, delinquent child support, and taxpayer identification number); (2) loan documentation; (3) collateral (appraisal of real property, loan-to-value ratio, liquidation of real property collateral, and asset management standards and systems for real property disposal); (4) lender and servicer eligibility (participation criteria, review of eligibility, fees, decertification, and loan servicers); and (5) risk sharing practices (private lenders stake

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<sup>1</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

<sup>2</sup>Export credit insurance was not included in the scope of our audit.

in full repayment, borrowers stake in full repayment, and program reviews). From the Bureau of the Fiscal Service's *Managing Federal Receivables*, we identified key guidance related to credit extension (ch. 3) and management of guaranteed lenders and servicers (ch. 5).

We reviewed EXIM's policies and procedures related to underwriting for the loan and loan guarantee programs contained in its Manual and other documentation, such as its charter.<sup>3</sup> We also discussed EXIM's policies and procedures related to underwriting with EXIM officials. We compared EXIM's underwriting processes to federal guidance for managing federal credit programs. As part of this comparison, we assessed whether policies and procedures included in EXIM's Manual were consistent with federal guidance. However, because of EXIM's limited lending authority during the period of our audit, we did not verify EXIM's compliance with its underwriting policies and procedures or assess their operating effectiveness. In areas where we found EXIM's policies and procedures to be consistent with federal guidance, there may still be opportunities to improve operating effectiveness. Further, guidance for managing federal credit programs includes additional requirements not related to underwriting, which we did not assess.

In addition, we reviewed EXIM's Office of Inspector General (OIG) reports since 2014 related to underwriting issues, various laws applicable to EXIM, and GAO reports related to EXIM. We also reviewed EXIM's annual reports and competitiveness reports. We also discussed EXIM underwriting process with EXIM OIG officials and export credit financing and risk sharing practices with an official from the Organisation for Economic Co-operation and Development.

We conducted this performance audit from January 2017 to May 2019 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>3</sup>As a government corporation, the statutory text establishing EXIM and governing its operations is referred to as a charter. See Export-Import Bank Act of 1945, Pub. L. No. 79-173 (July 31, 1945), classified *in part, as amended*, at 12 U.S.C. §§ 635-635t.

# Appendix II: Comments from the Export-Import Bank of the United States



*Reducing Risk. Unleashing Opportunity.*

April 16, 2019

James Dalkin  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20584

Dear Mr. Dalkin:

Thank you for providing the Export-Import Bank of the United States (“EXIM” or the “Bank”) with the Government Accountability Office (GAO) draft report, “Enhancements Needed in Credit Program Underwriting Policies and Procedures” (GAO-19-43). The Bank supports the GAO’s work and audits which complement the Bank’s efforts to continuously improve its practices and procedures. EXIM Bank is proud of its cooperative relationship with the GAO.

The GAO conducted a performance audit of the Bank’s policies and procedures for the Bank’s underwriting process. We appreciate the GAO recognizing that “EXIM’s process for updating policies and procedures was properly designed and implemented” and that “EXIM’s underwriting policies and procedures were mostly consistent with federal guidance.”

The Medium-Term Delegated Authority (MTDA) Program, implemented in 2009, is designed to reduce transaction turnaround time, leverage EXIM medium-term program resources and increase lender utilization of the Bank’s medium-term program, while maintaining credit quality and program integrity. Since 2009 medium-term guarantee delegated authority authorizations represent \$71 million or an average of \$7.1 million per year over the last 10 years and accounted for 2.3% of all medium term guarantee authorizations which totaled \$3.1 billion.

The GAO has made two recommendations related to the MTDA in this report to enhance EXIM’s policies and procedures. The Bank concurs with both recommendations and will move forward with implementing the recommendations.

Recommendation 1: The Chief Operating Officer of the Export-Import Bank of the United States should consider establishing documented policies and procedures for (1) determining medium-term delegated authority lenders’ eligibility for continued participation in EXIM’s programs and (2) decertifying or taking other appropriate actions for such lenders that do not meet compliance or eligibility standards.



Management Response: The Bank agrees with this recommendation.

The Bank will consider establishing documented policies and procedures for (1) determining medium-term delegated authority lenders' eligibility for continued participation in EXIM's programs and (2) decertifying or taking other appropriate actions for such lenders that do not meet compliance or eligibility standards.

Recommendation 2: The Chief Operating Officer of the Export-Import Bank of the United States should establish documented policies and procedures for periodically reviewing credit programs in which the government bears more than 80 percent of any loss to determine whether private sector lenders should bear a greater share of the risk.

Management Response: The Bank agrees with this recommendation.

The Bank will establish documented policies and procedures for periodically reviewing credit programs in which the government bears more than 80 percent of any loss to determine whether private sector lenders should bear a greater share of the risk.

EXIM is committed to the continuous improvement of its processes to reduce, mitigate, and eliminate fraud and hold accountable those who attempt to defraud the U.S. government. We look forward to strengthening our working relationship and continuing to work closely with the Government Accountability Office.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey Goettman". The signature is written in a cursive, flowing style.

Jeffrey Goettman  
Executive Vice President and Chief Operating Officer  
Export-Import Bank of the United States

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

James R. Dalkin, (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Marcia Carlsen (Assistant Director), Dragan Matic (Analyst in Charge), Sarah Lisk, Erika Szatmari, and Jingxiong Wu made key contributions to this report.

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