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Report to the Congress

February 1992

FINANCIAL AUDIT

Export-Import Bank's 1990 and 1989 Financial Statements

145776

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-197710

February 3, 1992

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

This report presents the results of our audit of the Export-Import Bank of the United States' financial statements as of September 30, 1990 and 1989. Reports on the bank's internal control structure and on its compliance with laws and regulations are also provided. The bank's financial statements are fairly presented in accordance with generally accepted accounting principles and no material internal control weaknesses or compliance issues were disclosed by the audit. The bank's financial statements reflect its deteriorating financial condition and highlight the need for the bank to be recapitalized to restore its equity position to a positive level.

For fiscal year 1990, the bank's operations resulted in a net loss of $890 million. The bank lost $1.9 billion in fiscal year 1989. These net losses are attributed to (1) estimated losses on loan and claim receivables, (2) declining interest revenues as a result of nonperforming loans, and (3) a large negative interest rate spread between loans the bank made during the late 1970s and 1980s and the bank's cost of capital during the same period. As a result of recurring losses, the bank had accumulated a net capital deficiency of $5.4 billion at September 30, 1990.

The 1990 audit also disclosed that the losses experienced by the bank are expected to continue for the foreseeable future. The audit disclosed that, because the bank has unlimited borrowing authority with the Federal Financing Bank (FFB), it can continue to operate regardless of its losses and capital deficiency. Further, beginning in fiscal year 1992, the Federal Credit Reform Act of 1990 provides for recognizing the costs of the bank's direct loans and loan guarantees in the President's budget. It also provides for funding these costs with an appropriation of budget authority and establishes a permanent indefinite appropriation to fund the cost of prior years' losses. Consequently, the bank's losses will now be financed by the Treasury.

Background

The Export-Import Bank of the United States is an independent corporate agency of the United States. The bank's mission, as outlined in the Export-Import Bank Act of 1945, as amended, is to aid in financing exports and imports of goods and services between the United States and foreign countries and to promote and maintain American exports through fully competitive financing programs. The bank's export programs provide for export financing through loans to foreign buyers, and through guarantees and insurance which provide repayment protection against political and commercial risks. The bank's export programs are financed by various loan, insurance, and guarantee fees; interest earnings and repayments on loan and claim receivables; and, increasingly, borrowings from the FFB.

Opinion on Financial Statements

We were required to conduct an audit of the bank at least once every 3 years under the provisions of 31 U.S.C. 9105.[1] To fulfill our responsibility, we contracted with the independent certified public accounting firm of Price Waterhouse to conduct a financial audit of the bank for the year ended September 30, 1990. We determined the scope of the audit work, monitored its progress at all key points, reviewed the working papers of Price Waterhouse, and performed other procedures as we deemed necessary. The 1990 audit was conducted in accordance with generally accepted government auditing standards. The results of our financial audit of the Export-Import Bank for the year ended September 30, 1989, were presented in GAO/AFMD-90-80, dated July 19, 1990.

In our opinion, and consistent with the opinion of Price Waterhouse, the Export-Import Bank's financial statements present fairly its financial position as of September 30, 1990, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

In 1990, the bank changed its method of accounting for interest on rescheduled loans and claims and its method of accounting for discounts granted on disbursed loans. The financial statements for prior years were restated to reflect retroactive application of these changes. The 1990 audit disclosed that such adjustments were appropriate and were properly applied to the 1989 financial statements.

[1]The Chief Financial Officers Act of 1990, Public Law 101-576, amended 31 U.S.C. 9105 to require a government corporation's Inspector General or an independent external auditor selected by the Inspector General to perform an annual audit of the corporation's financial statements. If the corporation has no Inspector General, section 9105, as amended, requires that the annual audit be conducted by an independent external auditor selected by the head of the corporation. Section 9105, as amended, also provides the Comptroller General discretionary authority to review or conduct the audit.

Internal Control Structure

Price Waterhouse's report on the bank's internal control structure, with which we concur, disclosed no reportable conditions that are material weaknesses and that could have a material effect on the financial statements. During the course of its audit, Price Waterhouse identified several matters which, although not material to the financial statements, nevertheless warrant management's attention. Price Waterhouse communicated these matters to the bank in a separate letter.

Compliance With Laws and Regulations

Price Waterhouse's report on the bank's compliance with laws and regulations, with which we concur, disclosed nothing to indicate that the bank had not complied with applicable laws and regulations that could have a material effect on the financial statements.

The Bank's Deteriorating Financial Condition and Uncertain Outlook

In carrying out its mission to aid the American export market, the bank sometimes assumes levels of financing risk not generally borne by commercial banks. While one of the basic principles guiding the bank's operations is to authorize only loans which offer reasonable assurance of repayment, the bank's primary purpose is to aid in financing foreign trade which will foster the expansion of the United States' export markets. In addition, to ensure that the American export market is not placed at a competitive disadvantage with other nations whose exports are highly subsidized, the bank sometimes provides to prospective borrowers generous financing to match that available to foreign exporters. These practices, and the risks associated with them, have resulted in the bank incurring substantial losses and a capital deficiency that, by September 30, 1990, had grown to $5.4 billion.

Debt Servicing Problems Continue to Plague the Bank

The bank continues to experience debt servicing problems on its loans and claims receivable which are contributing significantly to the bank's deteriorating financial condition, and the bank's interest earnings on its loan portfolio continue to decline. On January 4, 1990, the bank announced that, for the first time, it was establishing and reporting in its fiscal year 1989 financial statements an allowance for losses as a result of serious and increasing collection problems the bank was experiencing on its $12.1 billion portfolio of loans and claims receivable. The bank established the allowance to better reflect the total costs of its various export financing programs. The allowance resulted from our and the bank's determination that certain bank assets had become impaired and their value reduced. The allowance was the bank's best estimate of the probable losses it had sustained because of the impairment of its loans and claims receivable. In making this determination, the bank took into account available pertinent information about each borrower's financial condition and ability to repay, as well as the effects of any change or deterioration in the economic and/or political conditions of the borrower's country.

For fiscal year 1990, the bank's assessment of its loans and claims receivable disclosed further deterioration and the need for the bank to recognize an additional $165 million in losses in its September 30, 1990, financial statements. The recognition of these additional losses, coupled with other adjustments to reflect the effects of changes in the bank's accounting principles in 1990 for capitalized interest and interest discounts (see financial statements note 2), brought the bank's allowance for probable losses on its loans and claims receivable portfolio to $4.3 billion at year-end 1990. This allowance equals approximately 40 percent of the bank's $10.5 billion loans and claims receivable portfolio as of September 30, 1990.

Interest earned on the bank's loan portfolio in fiscal year 1990 declined $41.9 million, or 7.7 percent, from the level earned in fiscal year 1989 due to a substantial increase in the level of loans in nonaccruing status.[2] As of September 30, 1990, $3.5 billion, or 44 percent of the bank's loan portfolio, had repayment installments overdue by more than 90 days.[3] By comparison, at September 30, 1989, $1.9 billion, or 23 percent of the bank's loan portfolio, had repayment installments overdue by more than 90 days. Further deterioration in the loan portfolio will continue to erode the bank's interest earnings and, ultimately, its capital position.

[2]When a loan is placed in a nonaccrual status, the bank stops recording interest income that is contractually owed to the bank by the borrower and removes from interest income any interest previously accrued for but not collected. There is a distinction between nonaccruing loans and noncurrent or delinquent loans in that, in the latter cases, interest could still be accruing on the loan despite the fact that interest payments have not been received.

[3]Typically, the bank places loans with repayment installments overdue 90 days or more in a nonaccrual status unless the loan is well secured and significant collections have been received during the past year. The fact that a loan is in nonaccrual status does not necessarily mean that the bank will not collect the contractual interest and outstanding principal balance of the loan. The bank's borrowers at times experience temporary difficulties servicing their obligations to the bank. A restructuring, or rescheduling, of the original loan agreement terms that modifies the repayment period may enable the bank's borrowers to overcome their debt servicing difficulties and to resume servicing their loans from the bank at some later date.

Negative Interest Rate Spread Also Impacts the Bank's Financial Condition

The bank's negative interest rate spread is also contributing to the bank's deteriorating financial condition. In fulfilling its mission to provide financing to help promote and maintain American exports, the bank has incurred a negative interest rate spread by lending money at lower interest rates and at longer financing terms than the rates and financing terms at which it borrows funds from the FFB. As of September 30, 1990, the weighted average interest rate on the bank's $11.3 billion FFB debt exceeded the weighted average interest rate on loans in its loan portfolio by approximately 1.8 percent. This represents an improvement of 0.5 percent from the negative interest rate spread of 2.3 percent the bank was experiencing as of September 30, 1989. However, a review of the loans in the bank's loan portfolio as of September 30, 1990, shows that the interest rate paid on the FFB debt will continue to exceed the interest earnings rate on the current loan portfolio through fiscal year 1997, at least. This is the date by which repayment on all loans the bank made at a discount through September 30, 1990, are due. However, any loan reschedulings could significantly affect both the date and the amount of the negative interest rate spread on the current loan portfolio, depending on the terms of the loan rescheduling agreements.

The bank has taken steps to minimize the effects of the negative interest rate spread in the future. In conformity with the "Arrangement on Guidelines for Officially Supported Export Credits," adhered to by most major members of the Organization for Economic Cooperation and Development, the bank's loan rates are now based on a weighted average of market rates of five major currencies (see financial statements note 12). One of these currencies is the United States dollar. This may help to minimize the interest rate spread between lending and funding costs because (1) the rates at which the bank borrows funds to finance its activities is a factor in determining the loan rate and (2) the market rates are adjusted semiannually, which should result in a closer matching of loan and funding rates.

The bank has taken two other actions which should also result in more closely matching the bank's lending and borrowing rates. First, the bank's Board of Directors has changed its lending strategy to a more flexible use of short-, medium-, and long-term financing instead of the extensive use of long-term financing which took place between the late 1970s and the late 1980s. Second, in May 1987, the bank began assessing a one-time risk-related exposure fee on new loans. These actions should help to reduce the negative interest rate spread.

The Bank Has Become Dependent on Federal Financing Bank Borrowings

The bank's increasing level of delinquent loans and its negative interest rate spread has forced it to borrow substantial and increasing amounts from FFB. For example, in fiscal year 1990, the bank borrowed approximately $2.7 billion from FFB, an increase of approximately $1.6 billion (142 percent) over the $1.1 billion borrowed in fiscal year 1989. The bank borrowed these amounts because its operations did not generate enough cash to cover operating costs and new loan disbursements. For example, the bank received loan principal repayments of $981 million in fiscal year 1990, a decrease of $217 million (18 percent) from the $1.2 billion received during fiscal year 1989. Loan repayments, after funding new loan disbursements made in fiscal year 1990, funded only 52 percent of the bank's $713 million in operating costs, and funded none of the repayments of FFB borrowings that matured during the year. Consequently, the bank had to obtain new FFB borrowings to repay its maturing FFB debt as well as to fund the shortfall in cash needed to pay the bank's operating costs. By fiscal year-end 1990, the bank had become heavily dependent on FFB borrowings to pay its operating costs.

As shown in the bank's financial statements, as of September 30, 1990, the bank's accumulated deficit equaled $6.5 billion and its capital deficiency equaled $5.4 billion. Despite the bank's losses and capital deficiency, it continued to operate because of the borrowing authority provided to it under the Export-Import Bank Act of 1945, as amended. However, at fiscal year-end 1990, the bank was unable to repay its outstanding FFB debt and had little prospects for repaying any additional FFB borrowings needed to refinance its debt and fund its operations through collections on its loans and claims receivable. Given the magnitude and continuing nature of the problems in the bank's loans and claims receivable portfolio, a return to profitable operations in the forseeable future is unlikely.

Impact of the Federal Credit Reform Act on the Bank's Future Operations

In last year's report on the Export-Import Bank,[4] we stated that we believe the Congress should implement a recapitalization plan for the bank. We stated that such a recapitalization plan, to be effective, should (1) restore the bank's equity position to a positive level as measured by generally accepted accounting principles and (2) provide a means for ensuring that the bank maintains a minimum positive level of capital despite any future losses it may incur in fulfilling its mission. Maintaining a positive equity level will require capital infusions in any fiscal year in which the bank's capital falls below a specified minimum level as a result of (1) additional

[4] Financial Audit: Export-Import Bank's 1989 and 1988 Financial Statements (GAO/AFMD-90-80, July 19, 1990).

provisions for possible loan and claim losses due to increased impairment of the bank's loan and claim portfolios, (2) losses associated with interest rate subsidies, and/or (3) losses associated with forgiveness of foreign loans as approved by the administration.

In November 1990, the Congress passed the Federal Credit Reform Act of 1990. Under the act, the President's budget for fiscal year 1992 and thereafter must include the estimated cost of the bank's direct loans and loan guarantees. These estimated costs are to be derived from the present value of the estimated net cash flows from direct loan or guarantee transactions. Under the act, beginning in fiscal year 1992, the bank may not incur either new direct loan obligations or new loan guarantee commitments until the Congress provides an appropriation of budget authority to cover the estimated costs of these obligations or commitments. If the estimated costs of these programs increase in subsequent years, the act provides permanent indefinite appropriations to cover any additional costs. Funding for the bank's programs will be specifically identified in separate budgetary accounts, which will allow the Congress and the administration to monitor the costs of these programs and to compare these costs with the benefits gained by expanding U.S. export markets.

The act also established a separate liquidating account for all cash flows resulting from direct loan and loan guarantee transactions entered into by the bank prior to fiscal year 1992. This account is to be used to pay interest on amounts the bank borrowed through September 30, 1991, from the Treasury or FFB, to repay the principal borrowed from the Treasury or FFB, and to make disbursements on direct loan and loan guarantee transactions entered into by the bank prior to October 1, 1991. These payments and disbursements, to the extent they cannot be funded by collections on direct loan and loan guarantee transactions entered into by the bank prior to October 1, 1991, will be funded by the liquidating account through a permanent, indefinite appropriation. Consequently, the Treasury will, in effect, finance the bank's losses and working capital needs on these direct loan and loan guarantee transactions to the extent the bank's loan collections in the liquidating account cannot cover its cash commitments.

The Federal Credit Reform Act of 1990 accomplishes for the bank much of what we have previously recommended[5] should be provided for in a

[5]Financial Audit: Export-Import Bank's 1989 and 1988 Financial Statements (GAO/AFMD-90-80, July 19, 1990). Also see Recapitalizing the Export-Import Bank of the U.S.: Why It Is Necessary; How It Can Be Achieved (GAO/T-AFMD-88-4, Feb. 25, 1988), p. 7.

comprehensive recapitalization plan. As direct loan and loan guarantee transactions entered into by the bank prior to fiscal year 1992 are closed out, all losses incurred by the bank on these direct loans and loan guarantees will be recovered through appropriations. Consequently, the bank's capital deficiency will gradually diminish as pre-fiscal year 1992 loans mature and guarantee commitments expire. On new loan authorizations and guarantee commitments, the subsidy cost of these transactions will be recognized and funded prior to entering into a direct loan or loan guarantee. The provisions of the Federal Credit Reform Act of 1990 should enable the Congress and the administration to more effectively monitor the costs of the bank's various export programs and measure these costs against the benefits derived from the bank's operations.

We are sending copies of this report to the Director of the Office of Management and Budget; the Secretary of the Treasury; and the Chairmen and Ranking Minority Members of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs.

Donald H. Chapin for

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

FFB	Federal Financing Bank

Auditor's Opinion

Office of Government Services
1801 K Street, N.W.
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Telephone 202 296 0800

Price Waterhouse

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying statement of financial position of the Export-Import Bank of the United States (Eximbank) as of September 30, 1990, and the related statements of operations and changes in accumulated deficit, and of cash flows for the year then ended. These financial statements are the responsibility of Eximbank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Eximbank of the United States for the year ended September 30, 1989, prior to restatement, were audited by the U.S. General Accounting Office whose report dated March 30, 1990 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of the Export-Import Bank of the United States at September 30, 1990, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 12 to the financial statements Eximbank has suffered recurring losses from operations and has accumulated a net capital deficiency of $5,413.2 million. Such losses are expected to continue for the foreseeable future. Eximbank has unlimited borrowing authority with the Federal Financing Bank, and can thus continue to operate regardless of its losses and capital deficiency. However, absent the elimination of this deficiency through the attainment of profitable operations or through infusion of capital funds, Eximbank may ultimately be unable to repay its current debt as well as any additional borrowings, in which case the burden of its losses will be effectively shifted to the Federal Financing Bank and the U.S. Treasury.

Report of Independent Accountants
Page 2

As further discussed in Note 2 to the financial statements, in 1990 Eximbank changed its method of accounting for interest on rescheduled loans and claims and its method of accounting for discounts granted on loans disbursed. The financial statements for prior years have been restated to reflect retroactive application of the changes. We have audited the adjustments that were applied to restate the 1989 financial statements. In our opinion, such adjustments are appropriate and have been properly applied to the 1989 financial statements.

Price Waterhouse

March 29, 1991
Washington, D.C.

Auditor's Report on Internal Control Structure

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Price Waterhouse

REPORT ON INTERNAL CONTROLS

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

We have audited the financial statements of the Export-Import Bank of the United States (Eximbank) as of and for the year ended September 30, 1990, and have issued our report thereon dated March 29, 1991. We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the financial statements of Eximbank for the year ended September 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide reasonable assurance on the internal control structure.

The management of Eximbank is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded promptly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Report on Internal Controls
Page 2

For purposes of this report, we have classified the significant policies and procedures relative to Eximbank's internal control structure into the following categories:

- General Ledger and Financial Reporting
- Financing and Treasury Operations
- Loan and Interest Receivable Processing
- Insurance and Guarantee Operations
- Claims Processing

For all of the internal control structure categories listed above, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we considered to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Eximbank in a separate letter dated March 29, 1991.

This report is intended for the information of the Board of Directors and management of Eximbank, the Congress, and the U.S. General Accounting Office. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Price Waterhouse

March 29, 1991
Washington, D.C.

Auditor's Report on Compliance With Laws and Regulations

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Price Waterhouse

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

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

We have audited the financial statements of the Export-Import Bank of the United States (Eximbank) as of and for the year ended September 30, 1990, and have issued our report thereon dated March 29, 1991. We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to Eximbank is the responsibility of the management of Eximbank. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Eximbank's compliance with certain provisions of applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Eximbank complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Eximbank had not complied, in all material respects, with those provisions.

This report is intended for the information of the Board of Directors and management of Eximbank, the Congress, and the U.S. General Accounting Office. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Price Waterhouse

March 29, 1991
Washington, D.C.

Financial Statements

Statements of Financial Position

EXPORT-IMPORT BANK OF THE UNITED STATES

STATEMENTS OF FINANCIAL POSITION
(in Millions)

	September 30, 1990	September 30, 1989
ASSETS		
Cash and cash equivalents	$ 128.5	$ 72.0
Loans receivable, net of allowance	5,280.0	5,872.3
Receivables from subrogated claims, net of allowance	989.5	971.3
Accrued interest and fees receivable	247.4	270.4
Other assets	34.8	43.6
Total assets	$ 6,680.2	$ 7,229.6
LIABILITIES AND STOCKHOLDER'S EQUITY		
Borrowings	$11,339.8	$10,983.6
Claims payable	489.6	531.0
Accrued interest payable	94.7	98.7
Other liabilities	169.3	180.7
Total liabilities	12,093.4	11,794.0
Capital stock held by U.S. Treasury	1,000.0	1,000.0
Unexpended appropriations	114.0	72.9
Accumulated deficit	(6,527.2)	(5,637.3)
Total stockholder's equity	(5,413.2)	(4,564.4)
Total liabilities and stockholder's equity	$ 6,680.2	$ 7,229.6

The accompanying notes are an integral part of these financial statements.

Statements of Operations and Changes in Accumulated Deficit

EXPORT-IMPORT BANK OF THE UNITED STATES

STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT
(in Millions)

	For the year ended September 30, 1990	1989
Interest income		
Interest on loans	$ 502.0	$ 543.9
Interest on investments	9.6	15.3
Total interest income	511.6	559.2
Interest expense		
Interest on borrowings	1,226.5	1,262.6
Other interest expense	5.9	9.6
Total interest expense	1,232.4	1,272.2
Net interest expense	720.8	713.0
Provision for losses on loans and claims	164.7	962.1
Net interest expense after provision for losses	885.5	1,675.1
Non-interest income		
Commitment fees	10.3	9.2
Exposure fees	10.9	6.1
Insurance premiums and guarantee fees	39.6	46.7
Other income	.4	.8
Total non-interest income	61.2	62.8
Non-interest expense		
Administrative expenses	21.5	20.0
Claim loss expense	5.6	293.8
Other expenses	38.5	32.6
Total non-interest expense	65.6	346.4
Net loss	889.9	1,958.7
Accumulated deficit - beginning of the year	5,637.3	3,678.6
Accumulated deficit - end of the year	$6,527.2	$5,637.3

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flow

EXPORT-IMPORT BANK OF THE UNITED STATES

STATEMENTS OF CASH FLOW
(in Millions)

	For the year ended September 30, 1990	1989
CASH FLOWS FROM OPERATIONS		
Net loss	($ 889.9)	($1,958.7)
Adjustments to reconcile net loss to net cash from operations:		
Amortization of discount on loan disbursements	(50.4)	(48.1)
Discount on loan disbursements	8.4	15.5
Amortization of unexpended appropriations	(.8)	(.7)
Provision for losses on loans	262.7	596.0
(Increase) Decrease in claims receivable, net	(18.2)	175.5
Decrease in accrued interest and fees receivable	23.0	142.0
Decrease (Increase) in other assets	8.8	(34.3)
(Decrease) Increase in claims payable	(41.4)	373.9
(Decrease) in accrued interest payable	(4.0)	(2.4)
(Decrease) in other liabilities	(11.4)	(3.0)
Net cash used in operations	(713.2)	(744.3)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan disbursements	(609.1)	(489.1)
Repayments of loans receivable	980.7	1,198.1
Net cash from investing activities	371.6	709.0
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of Federal Financing Bank Borrowings	(2,317.8)	(1,079.0)
Borrowings from the Federal Financing Bank	2,674.0	1,105.0
Unexpended appropriations receipts (disbursements)	41.9	(11.4)
Net cash from financing activities	398.1	14.6
Net increase (decrease) in cash and cash equivalents	56.5	(20.7)
Cash and cash equivalents - beginning of the year	72.0	92.7
Cash and cash equivalents - end of the year	$ 128.5	$ 72.0
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest	$1,236.4	$1,274.6

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

EXPORT-IMPORT BANK OF THE UNITED STATES
Notes to Financial Statements

1. Summary of Significant Accounting and Reporting Policies

Enabling Legislation and Mission

The Export-Import Bank of the United States (Eximbank) is an independent corporate agency of the United States, which was first organized as a District of Columbia banking corporation in 1934. The primary legislation governing its operations consists of the Export-Import Bank Act of 1945, as amended, and the Government Corporation Control Act.

Eximbank's mission is to facilitate export financing of U.S. goods and services by neutralizing the effect of export credit subsidies from other governments and by absorbing credit risks that the private sector will not accept. Eximbank provides export financing through loans to foreign buyers, and through guarantees and insurance which provides repayment protection against political and commercial risks.

Cash Equivalents

Eximbank defines cash equivalents as short-term highly liquid investments with original maturities of three months or less. This definition includes all of Eximbank's investments in U.S. Treasury Securities at September 30, 1990 and 1989. Cash and cash equivalents consist entirely of funds maintained at the U.S. Treasury.

Accrued Interest on Loans Receivable

Interest is accrued on loans as it is earned. Loans receivable delinquent 90 days or more are placed in a non-accrual status unless they are well secured and significant collections have been received during the past year. Any accrued but unpaid interest previously recorded on loans placed in a non-accrual status is reversed against current period interest income.

Accounting for Capitalized Interest on Rescheduled Loans

Rescheduling agreements frequently allow Eximbank to add uncollected interest to the principal balance of loans and rescheduled claims receivable (i.e., capitalized interest). In such circumstances, interest income resulting from capitalized interest is recorded only when, in management's judgement, borrowers have demonstrated the ability to repay the debt in the normal course of business.

Allowance for Loan and Claim Losses

The allowance for loan and claim receivable losses provides for the risk of loss inherent in the lending process. Providing for such losses recognizes the fact that the prospects of collection of some of Eximbank's loans and claims are doubtful and that the value of the loans and claims receivable are impaired. The allowance is available to absorb loan and claim losses related to the total loan and claim portfolios. The allowance is increased by provisions charged to expense and decreased by write-offs, net of recoveries.

Commitment and Exposure Fees

Commitment fees on Eximbank's direct loans, which are generally non-refundable, are calculated and recognized ratably over the term of the commitment.

Eximbank charges a risk related exposure fee on loan disbursements. This fee is recognized as an adjustment to the yield over the life of the loan.

Guarantee and Insurance Fees

Fees charged for guarantee and insurance policies are recognized as income on the straight line basis over the life of the guarantee and insurance policies.

Claims Payable

Liabilities for claims arising from the Eximbank's guarantee and insurance activities, and the related estimated losses and loss adjustment expenses, are accrued based on historical and anticipated loss experience.

Reclassifications

Certain fiscal year 1989 information has been reclassified to conform with the fiscal year 1990 presentation.

2. Changes in Accounting Principles

The accompanying financial statements include the effects of changes in accounting principles, as discussed below, because, in management's opinion, adoption of the new principles represent a change to more appropriate methods. Both of these changes have been accounted for as prior period adjustments. Accordingly, retroactive adjustments have been made to the fiscal year 1989 financial statements.

In fulfilling its mission to aid in financing and facilitating exports of U.S. goods and services to foreign countries and to provide U.S. exporters with financing which is competitive with that provided by foreign governments to their exporters, Eximbank has, at times, lent money at interest rates lower than its cost of funds. In prior years this discount had not been recognized in Eximbank's financial statements. However, management has elected to change their method of accounting for loans issued at a discount by recording a retroactive charge to income equivalent to the discount at inception of the loan and amortizing the discount over the life of the loan as interest income. The effect of this change was to increase the accumulated deficit as of October 1, 1988 by $137.6 million and decrease the 1989 net loss by $32.7 million.

Terms of rescheduling agreements frequently require that previously accrued interest be added to the loan receivable balance. In cases where interest had not been accruing on such a loan due to its non-performing status, Eximbank historically capitalized this non-accrued interest by increasing the principal balance of the loan and recording a credit to income. Management elected to change their method of income recognition for interest capitalized on non-performing loans to be more consistent with prevalent industry practice. Accordingly, Eximbank now records interest income resulting from capitalized interest only to the extent, in management's judgement, borrowers have demonstrated the ability to repay the debt in the normal course of business. The effect of this change was to increase the accumulated deficit as of October 1, 1988 by $191.0 million and the 1989 net loss by $42.8 million.

The combined effect of these changes on the accumulated deficit of Eximbank is as follows (in millions):

	1991	1990
Balance at beginning of year, as previously reported	$5,298.6	$3,350.0
Adjustments for cumulative effects of retroactive application of changes in accounting principles	338.7	328.6
Balance at beginning of year, as adjusted	5,637.3	3,678.6
Net loss	889.9	1,958.7
Balance At End of Year	$6,527.2	$5,637.3

3. Loans Receivable

Eximbank extends medium-term and long-term direct loans to foreign buyers of U.S. exports and intermediary loans (both medium and long-term) to fund responsible parties that extend loans to foreign buyers. Loans extended under the medium-term loan program have repayment terms of one to seven years, while loans extended under the long-term loan program have repayment terms in excess of seven years. Both the medium-term and long-term loans cover up to 85 percent of the U.S. export value of shipped goods. Eximbank's direct loans carry the lowest fixed interest rate permitted for the country and term under the "Arrangement on Guidelines for Officially Supported Export Credits" negotiated among members of the Organization for Economic Cooperation and Development (OECD). For intermediary loans, financing institutions, unrelated to the exporter, engaged in the business of making export loans to buyers of U.S. exports may borrow from Eximbank at less than the OECD interest rate to permit the lender to charge the fixed OECD rate to the foreign buyer and retain an interest spread for handling the transaction.

The weighted average interest rate on Eximbank's loan portfolio at September 30, 1990, equaled 6.80 percent (8.99 percent on performing loans).

Eximbank's loans receivable as shown in the Statement of Financial Position are net of an allowance for losses. At September 30, 1990 and 1989, the allowance for losses equaled 34.5 percent and 30.0 percent, respectively, of the outstanding loans receivable balance, excluding capitalized interest and unamortized discount. The balance of loans receivable at September 30, 1990 and 1989 consists of the following (in millions):

	September 30, 1990	September 30, 1989
Africa/Middle East	$1,803.6	$1,693.2
Asia	2,051.2	2,092.1
Europe/Canada	1,784.5	2,102.9
Latin America	3,387.9	3,268.8
United States/Other	339.7	192.8
	9,366.9	9,349.8
Less: Capitalized interest	1,241.4	853.3
Unamortized discount	63.0	104.9
	8,062.5	8,391.6
Less: Allowance for losses	2,782.5	2,519.3
Loans Receivable, net	$5,280.0	$5,872.3

Changes in the allowance for losses for fiscal years 1990 and 1989 are as follows (in millions):

	September 30, 1990	September 30, 1989
Balance at beginning of year	$2,519.3	$1,934.6
Provision charged to operations	262.7	596.0
Write-Offs	(.1)	(16.8)
Recoveries	.6	5.5
Balance at end of year	$2,782.5	$2,519.3

The allowance for losses is based on Eximbank's evaluation of the loan portfolio taking into consideration a variety of factors, including repayment status of the loans, assessment of future risks, and worldwide economic and political conditions.

From time to time Eximbank extends the repayment date and modifies the interest terms of some or all principal installments of a loan because the obligor or country has encountered financial difficulty and Eximbank's Board of Directors has determined that providing relief in this manner will enhance the ability to collect the loan. The outstanding balances related to rescheduled installments included in loans receivable at September 30, 1990 and 1989 were $3,227.8 million and $4,201.6 million, respectively. The rescheduled loan installments of principal and interest for fiscal year 1990 were $618.4 million and $377.7 million, respectively, and for fiscal year 1989 were $250.9 million and $161.0 million, respectively. The interest rate on rescheduled loans is generally a floating rate of interest which is 37.5 to 50.0 basis points over Eximbank's cost of funds.

4. Receivables from Subrogated Claims

Receivables from subrogated claims represent the outstanding balance of claims paid or pending payment which were submitted to Eximbank in its capacity as guarantor or insurer under Eximbank's export guarantee or insurance programs. Under the subrogation clauses in its insurance contracts, Eximbank receives the rights to all claims on the policy and therefore establishes an asset to reflect such rights.

Receivable from subrogated claims as shown in the Statement of Financial Position are presented net of an allowance for losses. The balance of claims receivable, net, at September 30, 1990 and 1989 consists of the following (in millions):

	September 30, 1990	September 30, 1989
Claims previously paid and unrecovered:		
Rescheduled	$1,632.4	$1,281.4
Non-rescheduled	533.7	710.4
Claims filed pending payment	489.6	531.0
	2,655.7	2,522.8
Less: Capitalized interest	217.4	126.0
	2,438.3	2,396.8
Less: Allowance for losses	1,448.8	1,425.5
Claims Receivable, net	$ 989.5	$ 971.3

The allowance for losses is based on Eximbank's evaluation of receivables from subrogated claims taking into consideration a variety of factors, including repayment status of the claims, assessment of future risks, and worldwide economic and political conditions. Recoveries represent funds received on claims which were previously written-off. There were no write-offs in 1990 or 1989. At September 30, 1990 and 1989, the allowance for losses equaled 59.4 percent and 59.5 percent, respectively, of the outstanding claims receivable balance, excluding capitalized interest.

Changes in the allowance for losses for fiscal years 1990 and 1989 are as follows (in millions):

	September 30, 1990	September 30, 1989
Balance at beginning of year	$1,425.5	$1,067.2
Provision charged (credited) to operations	(61.3)	358.3
Recoveries	84.6	0.0
Balance at end of year	$1,448.8	$1,425.5

5. Non-Accrual of Interest

Generally, the accrual for interest on loans and rescheduled claims is discontinued when the credit is delinquent by 90 days. Eximbank had a total of $3,538.7 million and $949.3 million of loans and rescheduled claims, respectively, in non-accrual status at September 30, 1990, $1,944.1 million and $575.1 million at September 30, 1989. Had these credits been in accrual status, interest income would have been higher by approximately $371.0 million higher in 1990, $214.0 million in 1989.

6. Borrowings

Eximbank has unlimited borrowing authority. Eximbank has used this authority to borrow from the Federal Financing Bank (FFB). At September 30, 1990, 79.7 percent of Eximbank's $11,339.8 million long-term debt owed to the FFB had maturity dates within the next five years. In the absence of a debt forgiveness or recapitalization plan, it is unlikely these borrowings could be fully repaid. Following is a summary of the maturity of Eximbank's borrowings with the FFB (in millions):

Fiscal Year	Amount
1991	$ 2,535.9
1992	1,539.5
1993	1,816.9
1994	1,794.2
1995	1,353.2
	9,039.7
1996 - 2014	2,300.1
	$11,339.8

Weighted average interest rates applicable to the borrowings maturing during the fiscal years ending September 30, 1991-1995 are 10.43 percent, 12.54 percent, 10.83 percent, 12.17 percent and 10.81 percent, respectively. The weighted average interest rate on Eximbank's total outstanding FFB borrowings at September 30, 1990 equaled 10.75 percent.

7. Related Party Transactions

The financial statements reflect the results of contractual agreements with the Foreign Credit Insurance Association (FCIA), and with the Private Export Funding Corporation (PEFCO).

FCIA is an association of primary insurance and reinsurance companies. Eximbank issues export credit insurance in cooperation with FCIA. Under a contractual agreement, Eximbank reinsures commercial risks, is the direct insurer of political risks, and covers any operational expenses of FCIA in excess of premiums written and earned while FCIA markets and administers the insurance policies, including billing and collecting premiums, processing and paying claims, and pursuing recovery on claims.

Premiums written and earned by FCIA for fiscal years 1990 and 1989 were $7.4 million and $8.4 million, respectively, for commercial risks, and $15.4 million and $18.0 million, respectively, for political risks, for totals of $22.8 million and $26.4 million. Premium revenues, net of expenses, ceded to Eximbank were $22.0 million in 1990 and 1989. Eximbank recognizes the net premium revenues generated by the insurance program over the life of the insurance polices. Net amounts due from FCIA to Eximbank, included in other assets, at September 30, 1990 and 1989 were $6.0 million and $4.5 million, respectively.

Beginning October 1, 1990, certain FCIA members began to assume risk in certain of the Association's export credit insurance policies. Consequently, the relationship between FCIA and Eximbank changed. Eximbank, which had previously chaired and had effective control of FCIA's Board of Directors, ceased to have FCIA Board membership. However, monitoring and oversight of the export credit insurance program itself continued unchanged. Eximbank anticipates terminating its existing agency and reinsurance agreements with FCIA in the Spring of 1991 and contracting with FCIA or a successor organization to issue and service Eximbank's export credit insurance policies separately from policies issued by the Association.

PEFCO, which is owned by a consortium of private sector banks and industrial companies, makes fixed rate loans to foreign borrowers to purchase U.S. equipment when such loans are not available from traditional private sector lenders on competitive terms. PEFCO has agreements with Eximbank which, for specified fees, provide that Eximbank will (1) guarantee the due and punctual payment of principal and interest on all export loans made by PEFCO, (2) guarantee the due and punctual payment of interest on PEFCO long-term debt obligations when requested by PEFCO, and (3) guarantee certain fees paid by borrowers on behalf of PEFCO.

Eximbank exercises a broad measure of supervision over PEFCO's major financial management decisions including approval of both the terms of individual loan commitments and the terms of PEFCO's long-term debt issues and is entitled to representation at all meetings of PEFCO's Board of Directors, Advisory Board and Exporters' Council.

As discussed in Note 6, Eximbank has significant transactions with the Federal Financing Bank, an office of the Department of Treasury. The Department of Treasury holds the common stock of Eximbank creating a related party relationship between Eximbank and the FFB.

8. Pensions and Accrued Annual Leave

Virtually all of Eximbank's employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). For CSRS employees, Eximbank withholds a portion of their base earnings. The employees' contributions are then matched by Eximbank and the sum is transferred to the Civil Service Retirement Fund, from which the CSRS employees will receive retirement benefits. For FERS employees, Eximbank withholds, in addition to social security withholdings, a portion of their base earnings. Eximbank contributes an amount proportional to the employees' base earnings toward retirement, and in addition a scaled amount toward each individual FERS employee's Thrift Savings Plan, depending upon his/her level of savings. The FERS employees will receive retirement benefits from the Federal Employees Retirement System, Social Security System and the Thrift Savings Plan deposits that have accumulated in their accounts.

Total Eximbank (employer) matching contributions to the Thrift Savings Plan, Civil Service Retirement System and Federal Employees Retirement System for all employees, included in administrative expenses, were approximately $1,343,000 and $1,119,000 for fiscal years ended September 30, 1990 and 1989, respectively.

Although Eximbank funds a portion of pension benefits under the Civil Service and Federal Employees Retirement Systems relating to its employees and makes the necessary payroll withholdings from them, it has no liability for future payments to employees under these programs, and does not account for the assets of the Civil Service and Federal Employees Retirement Systems nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for the Retirement Systems and are not allocated to the individual employers. The Office of Personnel Management also accounts for all health and life insurance programs for retired federal employees.

Eximbank's liability to employees for accrued annual leave, included in other liabilities, was $1,076,000 at September 30, 1990 and $1,056,000 at September 30, 1989.

9. Appropriations from the U.S. Treasury

For fiscal year 1990, Congress appropriated $110 million for a "War Chest" for the purpose of making grants and to reimburse Eximbank for interest rate subsidies in connection with loans made available by Eximbank to support U.S. export sales, with the proviso that any obligation of these funds would reduce the amount available to Eximbank in fiscal year 1990 for authorizing new direct loans. Of the $110 million, $55.5 million in appropriated funds was received by the Bank in fiscal year 1990.

As of September 30, 1989, the balance of unexpended "War Chest" appropriations from fiscal year 1988 and prior years was $72.9 million. During fiscal year 1990, disbursements of $13.6 million for grants were made from these funds. In addition, $0.8 million representing the difference between interest at Eximbank's standard interest rate and interest earned at the lower rate authorized for some loans as a grant equivalent, was credited to income.

Of the balance of unexpended appropriations of $114.0 million at September 30, 1990, $66.1 million is available for future grant disbursements, $2.1 million is available for the Interest Equalization Program, and $45.8 million is available to reimburse Eximbank for interest rate subsidies in connection with loan programs with authorized interest rates which are lower than Eximbank's standard interest rate. Eximbank had $77.9 million outstanding on total commitments of $163.8 million at September 30, 1990, for these loans.

For fiscal year 1989, Eximbank was authorized to receive "War Chest" appropriations up to $110 million, however, since no "War Chest" grants were authorized by Eximbank in fiscal year 1989, none of the fiscal year 1989 appropriation was received.

10. Statutory Limitations

Under provisions of the Export-Import Bank Act, Eximbank is limited to $40 billion of loans, guarantees and insurance outstanding at any one time. Guarantees and insurance are charged against the $40 billion limitation at not less than 25 percent of Eximbank's contractual liability, with the provision that the aggregate amount of guarantees and insurance so charged may not exceed $25 billion outstanding at any one time. Thus, Eximbank's contractual commitments outstanding at any one time could reach $58.75 billion, consisting of $25 billion of guarantees and insurance outstanding, resulting in a $6.25 billion charge against the $40 billion limitation, and $33.75 billion (additional commitments) charged at 100 percent against the limitation.

At September 30, 1990, Eximbank's outstanding receivables, guarantees and insurance, and their impact on Eximbank's statutory limits for such purposes are as follows (in millions):

	Amount Outstanding	Statutory Authority Used
Outstanding Loans	$ 9,366.9	$ 9,366.9
Undisbursed Loans	1,726.8	1,726.8
Estimated Recoveries on Disbursed Claims	2,166.1	2,166.1
Guarantees	7,733.8	1,933.4
Insurance	8,964.7	2,241.2
Committed Balance	$29,958.3	$17,434.4

Limitations on the amount of loans, and guarantees and insurance which may be committed by Eximbank in any given year are established each year by legislation enacted by Congress. For fiscal year 1990, Eximbank's loan limitation was $612.4 million. The guarantee and insurance commitment limitation was $10,191.4 million. Actual fiscal year 1990 loan authorizations were $556.9 million, and "War Chest" grants were $55.4 million, and obligations in the Interest Equilization Program were $2.1 million for a total of $612.4 million and guarantee and insurance authorizations were $8,173.7 million. For fiscal year 1989, Eximbank was limited to $718.8 million of new loan authorizations and "War Chest" grants, and $17,901.0 million of new guarantee and insurance commitments. Eximbank authorized $718.8 million of loans, and $5,602.5 million of guarantees and insurance in fiscal year 1989.

11. Commitments and Contingencies

Enabling Legislation

In accordance with its enabling legislation, continuation of Eximbank as an independent corporate agency of the United States is subject to periodic extensions granted by Congress. Current Congressional authorization will expire on September 30, 1992.

Financial Instruments with Off-Balance Sheet Risk

In addition to the risks associated with its loan and claims receivable, Eximbank is subject to credit risk for financial instruments not included in its Statement of Financial Position. These financial instruments consist of (1) guarantees and insurance which provide repayment protection against political and commercial risks and (2) guarantees of letters of credit underlying future loan disbursements. Political risks covered by Eximbank involve non-payment as a result of war, cancellation of an existing export or import license, expropriation, confiscation of or intervention in buyer's business, or transfer risk (failure of foreign government authorities to transfer foreign deposits into dollars). However, losses due to currency devaluation are not considered political risk by Eximbank. Commercial risks involve non-payment for reasons such as deterioration of buyer markets, unanticipated competition and buyer insolvency. Eximbank generally does not hold collateral or other security to support its financial instruments with off-balance sheet risk. However, when issuing financial guarantees, Eximbank frequently requires the guaranteed party to obtain collateral or a third-party guarantee from the debtor. The amount of collateral is based on management's credit evaluation. All Eximbank guarantees and insurance benefits carry the full faith and credit of the United States Government.

The risks associated with off-balance sheet financial instruments differ from those associated with loans. First, loans are generally concentrated in countries categorized as "relatively poor" while off-balance sheet financial instruments have a broader spread of risk with parties that are located in "relatively rich" and "intermediate" countries. And second, exporters and financial intermediaries who use Eximbank guarantees and insurance may bear a portion of losses resulting from non-payment of up to 10.0 percent.

Following is a summary of Eximbank's off-balance sheet risk at September 30, 1990 (in millions):

	Commitments		
	Total	Unused	Amount at Risk
Guarantees	$ 7,733.8	$ 4,148.0	$3,585.8*
Insurance	8,964.7	7,505.8	1,458.9*
Guarantees of Letters of Credit	1,726.8		1,726.8
Total	$18,425.3	$11,653.8	$6,771.5

* - Shipment of goods has taken place.

Eximbank is exposed to credit loss with respect to the amount at risk in the event of non-payment by other parties in the agreements. However, Eximbank does not anticipate non-payment by such other parties. The commitments shown above are agreements to lend monies and issue guarantees and insurance so long as there is no violation of any condition established in the credit agreement. With respect to guarantees and insurance, a distinction is made for purposes of determining the allowance for losses where the guaranteed or insured event (i.e., the shipment of goods) has not occurred. Once the guaranteed or insured event has occurred, Eximbank includes the exposure in the allowance for loss calculation. Prior to this time, guarantee and insurance commitments are excluded from the allowance for losses. Management believes it is proper to exclude unused guarantee and insurance commitments from its allowance calculation because Eximbank has the ability to mitigate the risks associated with them in several ways. More specifically, in the event of default by the obligor, Eximbank may (1) cancel all or part of any credit to the obligor which has not been disbursed, or (2) disapprove further performance by a supplier which would create a guaranteed or insured event. Guarantees of letters of credit are included in the allowance for loss calculation because, in the majority of cases, Eximbank cannot terminate its future performance under the guarantee agreements.

Substantially all of Eximbank's off-balance sheet financial instruments involve credits located outside of the United States. Following is a breakdown of such financial commitments at September 30, 1990 by major geographic area (in millions):

	Guarantees	Insurance	Guarantees of Letters of Credit
Africa/Middle East	$ 956.0	$ 14.4	$ 324.0
Asia	781.6	227.4	607.6
Europe/Canada	283.6	178.4	18.7
Latin America	1,315.6	1,010.2	589.5
United States/Other	249.0	28.5	187.0
Total	$3,585.8	$1,458.9	$1,726.8

Other liabilities includes and allowance of $106.6 million for possible losses related to the previously discussed risks. The allowance is established based upon historical experience and knowledge of the specific risks.

Leasing Activities

Eximbank has no capital leases. Operating lease arrangements are renewable annually. These leases consist primarily of rental of office space and EDP equipment. Office space is leased from the General Services Administration through the Public Buildings Fund. Lease expenses, included in administrative expenses, were $2.5 million and $2.4 million for fiscal years 1990 and 1989, respectively.

Pending Litigation

As of the end of fiscal year 1990, Eximbank was named in several legal actions, virtually all of which involved claims under the guarantee and insurance programs. It is not possible to predict the eventual outcome of the various actions; however, it is management's opinion that these claims will not result in liabilities to such an extent they would materially affect the financial position of Eximbank.

12. Eximbank's Financial Outlook

Eximbank has operated at a loss for the past eight years resulting in a deterioration of its capital base such that Eximbank now reports a capital deficiency of $5,413.2 million. These losses arose primarily from three main factors: (1) incurring a large negative interest rate spread on loans made during the late 1970's and early 1980's versus Eximbank's cost of capital, (2) recognizing estimated losses on loan and claim receivables when full collection is doubtful, and (3) the lack of interest revenues as a result of non-performing loans. Management of Eximbank believe losses may be incurred for the foreseeable future.

Management and the Board of Directors have taken the following steps to address Eximbank's negative interest rate spread:

- Through the Arrangement on Guidelines For Officially Supported Export Credits, which is adhered to by most major members of the Organization for Economic Cooperation and Development (OECD), the rates charged on Eximbank loans are now based on a weighted average of market rates of five major currencies. These rates are adjusted semi-annually, thereby maintaining any interest rate spread between lending and funding costs to a minimum.

- o The lasting effect of the large negative interest rate spreads arose partially from the Board's decision to utilize long-term financing versus short-term financing in the late 1970's. The Board reconsidered this strategy in the late 1980's and changed to a more flexible use of short, medium and long-term financing. This has provided Eximbank an opportunity to reduce the interest rate spread.

As discussed in Note 6, Eximbank has unlimited borrowing authority with the Federal Financing Bank. Thus, Eximbank can continue to operate regardless of its losses and capital deficiency. However, absent the elimination of this deficiency, through the attainment of profitable operations or through infusion of capital funds, Eximbank may ultimately be unable to repay its current debt as well as any additional borrowing in which case the burden of its losses will be effectively shifted to the Federal Financing Bank or the U.S. Treasury.

13. Subsequent Event

On March 20, 1991, President Bush announced that the United States would reduce the value of Poland's debt obligations by a total of seventy percent. President Bush's action was in response to the Paris Club's decision to consider a debt restructuring for Poland which incorporates an element of substantial debt reduction. The debt reduction proposed by President Bush, although not finalized, is expected to allow for seventy percent relief, on a net present value basis, of the current obligation. At September 30, 1990, Poland's principal obligations to Eximbank totaled $419.7 million. The principal obligations carry a weighted average interest rate of 9.14 percent with principal payments scheduled through fiscal 2005. The estimated effect of this forgiveness has been recorded in the accompanying financial statements.

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