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REPORT TO THE CONGRESS

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Examination Of
Financial Statements Of
The Export-Import Bank
Of The United States
Fiscal Year 1971 B-114823

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

OCT. 29, 1971

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

B-114823

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

The General Accounting Office has examined the statement of financial condition of the Export-Import Bank of the United States, a wholly owned Government corporation, as of June 30, 1971, and the related statements of income and expense and analysis of retained income reserve and source and application of funds for the year then ended. This examination, pursuant to the Government Corporation Control Act (31 U.S.C. 841), was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The interest and other financial expense reported by Eximbank include interest charges on a significant part of the borrowings from the U.S. Treasury at rates lower than the rate prevailing at the time the funds were borrowed. Had the Treasury charged Eximbank interest rates approximating the full cost of the funds, the Bank's interest and other financial expense would have been increased by about \$11.9 and \$16.9 million in fiscal years 1971 and 1970, respectively, and the net income from operations for the years then ended would have been correspondingly reduced.

During our fiscal year 1970 audit, we were advised by Eximbank officials that these special borrowing arrangements were made with the Treasury to compensate, in part, for Eximbank's having financed its operations through the sale of participation certificates and certificates of beneficial interest and for Eximbank's having made certain relatively low-interest-rate loans, all in furtherance of national policy. During the latter part of fiscal year 1971, the Eximbank and Treasury entered into a new agreement with regard to the borrowings, whereby such low-interest borrowings from Treasury are tied-in directly to the rate, term, and amount of the outstanding balances of those loans which Eximbank states have been made at concessionary terms in the national interest. The effect of the new agreement, however, eliminates only a portion of the concession given Eximbank on its low-cost borrowings from the Treasury. Because the interest rates on the loans

made by Eximbank are less than the Treasury's cost of borrowing the funds, the Treasury will be absorbing that portion of the cost between its lending rate to Eximbank and the cost of obtaining the funds.

The net income reported by Eximbank is stated before any provision for losses that may be sustained on loans receivable and related accrued interest or on guarantees and insurance. All accumulated net income, after dividends, has been reserved as a provision for future contingencies, defaults, or claims. (See note 2 to financial statements.)

The contingent liabilities reported by Eximbank as loan maturities sold subject to contingent repurchase commitments include participations in specific loans, in support of which Eximbank issued instruments called certificates of beneficial interest. The buyers of these instruments are not free to dispose of them except as permitted by the Eximbank, which also assumes fully the risk of default. Accordingly, we believe that such instruments should be considered as borrowing or financing transactions, which, if so handled on the Eximbank's financial statements, would increase the Eximbank's total assets and liabilities by about \$540 million as of June 30, 1971.

In our opinion, the accompanying financial statements, subject to our comments in the paragraph directly above, present fairly the financial position of the Export-Import Bank of the United States at June 30, 1971, and the results of its operations and the source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

The accompanying financial statements (sch. 1, 2, and 3) are those contained in Eximbank's annual report to the Congress.

E-114823

Copies of our report are being sent today to the President of the Export-Import Bank and to the Secretary of the Treasury.

A handwritten signature in cursive script, reading "James B. Stewart". The signature is written in black ink and is positioned above the printed title.

Comptroller General
of the United States

FINANCIAL STATEMENTS

SCHEDULE 1

COMPARATIVE STATEMENT OF FINANCIAL CONDITION FISCAL YEARS 1971-1970

Assets	June 30, 1971	June 30, 1970
Cash:		
In banks, in transit, and on hand	\$ 5,679,201	\$ 13,480,868
With U.S. Treasury	84,192,836	12,931,687
	\$ 89,872,037	\$ 26,412,555
Loans receivable:		
Outstanding loans and undisbursed authorizations	9,185,945,598	8,690,392,261
Less undisbursed balance of authorized loans	3,521,218,248	2,976,582,969
Outstanding loans receivable (Notes 2 and 3)	5,664,727,350	5,713,809,292
Accrued interest and fees receivable on loans and guarantees	67,667,294	71,186,966
Other assets:		
Due from Foreign Credit		
Insurance Association	353,025	274,740
Miscellaneous	1,127,231	1,676,586
	1,480,256	1,951,326
Furniture and equipment, less accumulated depreciation (1971, \$384,635; 1970, \$405,022)	297,466	297,314
Deferred charges— unamortized balance of financial expense	1,519,409	2,483,347
Total assets	\$5,825,563,812	\$5,816,140,800

Liabilities, Capital, and Reserve	June 30, 1971	June 30, 1970
Liabilities:		
Portfolio Participation Certificates payable (Note 3)	\$1,224,895,706	\$1,492,798,705
Debentures payable	400,000,000	400,000,000
Short-term notes payable	1,000,000,000	—
Notes payable to U.S. Treasury (Note 1)	783,465,737	1,586,440,848
Dividend payable (Note 1)	50,000,000	50,000,000
Guaranteed letters of credit payable	8,501,821	7,092,338
Accrued interest payable	31,422,257	26,294,462
Other	6,744,336	2,791,431
Total liabilities	\$3,505,029,857	\$3,565,417,784
Deferred Income	5,469,867	5,176,936
Capital and Reserve:		
Capital stock held by U.S. Treasury (Note 1)	1,000,000,000	1,000,000,000
Retained income reserve for contingencies and defaults (Note 2)	1,315,064,088	1,245,546,080
Total capital and reserve	2,315,064,088	2,245,546,080
Total liabilities, capital, and reserve	\$5,825,563,812	\$5,816,140,800

The Notes to the Financial Statements on page 4 are an integral part of this statement. See Note 1 for composition of the U.S. Government's investment in Eximbank.

Comparative Statement of Income And Expense and Analysis of Retained Income Reserve

	Fiscal Year Ended	
	June 30, 1971	June 30, 1970
Revenues:		
Interest and fees on loans	\$ 322,487,909	\$ 317,121,559
Insurance premiums and guarantee fees	3,824,969	3,024,814
Other income	5,989	8,408
Total revenues	\$ 326,318,867	\$ 320,154,781
Expenses:		
Interest and other financial expense	\$ 197,762,130	\$ 203,441,369
Administrative and other expenses	7,035,615	5,967,034
Total expenses	\$ 204,797,745	\$ 209,408,403
Operating income	\$ 121,521,122	\$ 110,746,378
Loans charged off and claims paid—net of recoveries	2,003,114	15,978
Net income	\$ 119,518,008	\$ 110,730,400
Less: Dividend declared on capital stock (Note 1)	50,000,000	50,000,000
 Addition to Retained Income Reserve (Note 2)	 \$ 69,518,008	 \$ 60,730,400
Analysis of Retained Income Reserve:		
Balance at beginning of fiscal year	\$1,245,546,080	\$1,184,815,680
Addition to reserve (Note 2)	69,518,008	60,730,400
Balance at End of Fiscal Year	\$1,315,064,088	\$1,245,546,080

Comparative Statement Of Source and Application of Funds

	Fiscal Year Ended	
	June 30, 1971	June 30, 1970
Funds Provided:		
Net income from operations	\$ 119,518,008	\$ 110,730,400
Add depreciation expense for the year	50,448	45,904
Funds provided by operations	\$ 119,568,456	\$ 110,776,304
Sales of short-term notes	2,500,000,000	—
Repayments and other credits		
to loans receivable	1,186,573,485	870,586,219
Sales of individual loan		
maturities	268,622,907	406,240,453
Borrowings from U.S. Treasury—		
Net	—	866,252,766
Other—Net	(47,772,288)	(55,408,346)
Total Funds Provided	\$4,026,992,560	\$2,198,447,396
Funds Applied:		
Repayment of U.S. Treasury		
borrowings—Net	\$ 802,975,111	\$ —
Payment of dividend to		
U.S. Treasury	50,000,000	50,000,000
Disbursements and other additions		
to loans, including capitalized interest		
(1971, \$7,941,029; 1970, \$5,912,363)	1,406,114,450	1,569,148,161
Repayments on Portfolio		
Participation Certificates	267,902,999	321,154,235
Redemptions of short-term		
notes	1,500,000,000	258,145,000
Total Funds Applied	\$4,026,992,560	\$2,198,447,396

The Notes to the Financial Statements on page 4 are an integral part of these statements.

**Notes to the Financial
Statements June 30, 1971**

Note 1

Eximbank's authority to borrow from the U.S. Treasury is limited to \$6 billion outstanding at any one time, and the authority to lend, guarantee, and insure is limited to \$13.5 billion. Up to \$3.5 billion of outstanding guarantees and insurance may be charged against this lending authority at 25 percent of the contractual liability assumed. At June 30, 1971 the uncommitted authority to lend, guarantee, and insure totaled \$2,873.1 million.

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

	<u>June 30, 1971</u>	<u>June 30, 1970</u>
Notes payable to U.S. Treasury	\$ 783,465,737	\$1,586,440,848
Capital stock held by U.S. Treasury	1,000,000,000	1,000,000,000
Dividend payable	50,000,000	50,000,000
Retained income reserve (Note 2)	1,315,064,088	1,245,546,080
Total investment	<u>\$3,148,529,825</u>	<u>\$3,881,986,928</u>

A dividend of \$50 million was declared on June 30, 1971 and paid on July 1, 1971.

Note 2

Loans with delinquent installments of 30 days or over at June 30, 1971 are summarized in millions of dollars as follows:

Country	Number of loans	Old-st past due installment	Total outstanding principal	Delinquent installments		
				Principal	Interest	Total
Cuba	5	1958	\$ 36.3	\$25.1	\$22.3	\$47.4
Nigeria	1	1967	1.6	1.6	.4	2.0
Thailand	1	1971	14.0	2.3	.8	3.1
United Arab Republic	2	1966	23.4	20.3	6.6	26.9
Other	17	1966	35.1	2.6	1.1	3.7
Total	<u>26</u>		<u>\$110.4</u>	<u>\$51.9</u>	<u>\$31.2</u>	<u>\$83.1</u>

In addition, by agreement, the Republic of China is not at this time being called upon to make payments on that portion of four loans made to the Republic of China prior to 1947, when the seat of the government was on the mainland, which relates to assets no longer under the government's control. The total outstanding principal of this portion of these loans was \$26.4 million at June 30, 1971; on that date \$39.1 million (\$21.4 million principal plus \$17.7 million interest) was matured

and outstanding, the oldest past due installment having matured in 1949.

The entire retained net income is reserved for contingencies and defaults. This amount of \$1,315,064,088 substantially exceeds the total outstanding balances of both principal and interest on the foregoing delinquent loans. Because of the unpredictable nature of future economic and political conditions throughout the world, the risk of loss on Eximbank's loans, guarantees, and insurance is not susceptible to accurate measurement. The management of Eximbank believes therefore that its accumulated net earnings should be retained as a reserve for contingencies and defaults.

The contingent liabilities of Eximbank are summarized below in millions of dollars as of June 30, 1971.

Loan maturities sold subject to contingent repurchase commitments	\$ 554.6
Guarantees	1,893.3
FCIA insurance	1,720.6
Consignment insurance	.1
Total contingent liabilities	<u>\$4,168.6</u>

Note 3

From May 1, 1962, to June 30, 1968, 19 issues of guaranteed Certificates of Participation in portions of Eximbank's loan portfolio were sold. On June 30, 1971 this designated portion of loans totaled \$1.7 billion. Certificates of Participation outstanding at June 30, 1971 totaled \$1.2 billion.

***FOOTNOTE TO NOTE 1.**

On August 17, 1971, President Richard M. Nixon signed into Law P. L. 92-126 (The Eximbank Finance Act of 1971) which amends the Export-Import Bank Act of 1945. The new Law raises these cited figures from \$13.5 billion to \$20 billion and \$3.5 billion to \$10 billion.

APPENDIX

PRINCIPAL OFFICIALS OF
THE EXPORT-IMPORT BANK OF
THE UNITED STATES
AT JUNE 30, 1971

	<u>Position</u>	<u>Date of appoint- ment</u>
BOARD MEMBERS:		
Henry Kearns	Chairman and President	3-20-69
Walter C. Sauer	Vice Chairman and First Vice President	9-28-62
Tom Lilley	Director	10-26-65
R. Alex McCullough	Director	5-21-69
John C. Clark	Director	6- 3-69
R. H. Rowntree	Economic Advisor to Board of Directors	2-10-70
OFFICERS:		
Don Bostwick	Executive Vice President	3-18-70
John E. Corette, III	General Counsel	5- 1-69
J. Patrick Dugan	Senior Vice President and Treasurer Controller	6- 2-69
Warren W. Glick	Senior Vice President Fi- nancing	9-21-69
Raymond L. Jones	Senior Vice President Ex- porter Credits, Guarantees and Insurance	7-22-62
Charles E. Shearer, Jr.	Senior Vice President Planning and Export Ex- pansion	3-18-70
Joseph H. Regan	Secretary	12-14-65

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

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