



441 G St. N.W.
Washington, DC 20548

July 8, 2014

The Honorable Jon Tester
Chairman
Subcommittee on Efficiency and Effectiveness of Federal Programs and the Federal Workforce
Committee on Homeland Security and Governmental Affairs
United States Senate

Export-Import Bank: Information on Export Credit Agency Financing Support for Wide-Body Jets

Dear Chairman Tester:

As the export credit agency (ECA) of the United States, the U.S. Export-Import Bank (Ex-Im) helps U.S. firms export goods and services by providing a range of financial products, such as loan and bond guarantees, to foreign buyers. Ex-Im's financing support includes support for Boeing wide-body jet exports¹ from the United States; the ECAs of France, Germany, and the United Kingdom support Airbus wide-body jet exports from their countries. This report updates information that you requested and we initially provided to your staff on April 22, 2014. The enclosed briefing slides describe (1) trends in financing support for wide-body jet exports by Ex-Im and European ECAs; (2) international arrangements relevant to ECA support for wide-body jet exports; and (3) financing options, including non-ECA financing and support, used to procure wide-body jets.

To conduct this work, we reviewed and analyzed reports, studies, documents, Ex-Im and European ECA annual reports, and data from aircraft manufacturers. In addition, we reviewed and analyzed data from Ex-Im on its authorizations² and financial exposure (outstanding financial commitments), and the number of aircraft transactions supported by ECA financing. Some data we obtained did not break out wide-body jets from broader air transportation categories. We reviewed the data collection and verification processes for these data and discussed them with the relevant providers. We determined that these data were sufficiently reliable for our purposes. We also interviewed officials from Ex-Im and from the Organisation for Economic Co-operation and Development (OECD). Analysis of the economic impact of Ex-Im's financing support of aircraft transactions is outside the scope of this review.

We conducted this performance audit from November 2013 to July 2014 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.

¹Wide-body jets include passenger and freighter aircraft. Passenger wide-body jets are large commercial aircraft with two aisles; passenger narrow-body jets are large commercial aircraft with one aisle.

²Authorizations are export financing transactions for which Ex-Im has granted credit approval.

In summary, we found:

- Since 2004, Ex-Im's financing support for Boeing wide-body jet exports has generally increased, and, in fiscal years 2008 through 2012, Ex-Im's total authorizations increased significantly in the wake of the 2007 to 2009 financial crisis. The highest level of wide-body jet authorizations as a percentage of Ex-Im's total authorizations occurred in fiscal years 2007 and 2011, when it reached 24 percent. As of March 31, 2014, Ex-Im's financial exposure in wide-body jets was about \$32 billion; this represented about 28 percent of Ex-Im's total financial exposure. From 2004 to 2013, in each of three countries—the United Arab Emirates, India, and South Korea—buyers received in aggregate over \$3 billion in Ex-Im authorizations for wide-body jets, and in each of an additional seven countries buyers received in aggregate between \$1.5 and \$3 billion. From 2008 through 2013, Ex-Im supported deliveries of 789 Boeing large commercial aircraft, and European ECAs supported deliveries of 821 Airbus large commercial aircraft. Large commercial aircraft deliveries supported by Ex-Im and European ECAs rose sharply in 2009 and declined in 2011 and 2013.
- Three international arrangements affect Ex-Im's and other ECAs' support for wide-body jets. First, the 2011 Aircraft Sector Understanding (ASU) is an agreement among the United States, the European Union, Canada, Brazil, and other countries that dictates uniform terms and conditions for ECA support of commercial aircraft exports. The 2011 ASU established higher initial ECA risk premium rates across risk classification levels. In addition, it grandfathered ECA support for some aircraft under the terms of earlier agreements, which, according to Ex-Im officials, are generally less restrictive. Second, the 2006 Cape Town Convention (CTC) is an agreement designed to ease repossession of aircraft in cross-border transactions that use aircraft as collateral, according to Ex-Im officials. Under the 2011 ASU, buyers from countries that have implemented the CTC's provisions are eligible for reduced ECA risk premium rates. Third, the "Home Country Rule" is an informal understanding among the United States, France, Germany, Spain, and the United Kingdom that airlines based in those countries are not eligible to receive support from any of those countries' ECAs for large commercial aircraft transactions, according to OECD and Ex-Im officials.
- From 2008 through 2013, Ex-Im and European ECAs supported 26 percent of large commercial aircraft deliveries. When procuring these aircraft, in addition to using ECA financing support, buyers can use various commercial financing options such as cash, bank loans, or aircraft-backed bonds. Leasing is also a procurement option. According to Boeing data, from 2004 through 2013 over 10 percent of wide-body jet sales were to lessors. According to Ex-Im, U.S. domestic lessors are eligible for ECA support when the aircraft they purchase are leased and exported to non-U.S. airlines.

Agency Comments

We provided a draft of this report to Ex-Im and the U.S. Department of the Treasury (Treasury) for comment. Ex-Im provided a written response, which is reproduced as an enclosure to this letter. In its comments, Ex-Im highlighted certain aspects of trends in ECA financing support for wide-body jets and other market characteristics. Ex-Im also provided technical comments, which we incorporated as appropriate. Treasury indicated that it would not provide comments.

As agreed with your office, we are issuing this product with a 1-day hold on its public release. We are sending copies of this report to the Chairman of the Export-Import Bank, the Secretary of the Treasury, and appropriate congressional committees. This report will also be available at no charge on our website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8612 or gianopoulosk@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Celia Thomas (Assistant Director), Ian Ferguson, Michael Gitner, Fang He, David Dayton, Grace Lui, and Martin De Alteriis.

Sincerely yours,

A handwritten signature in black ink, reading "Kimberly Gianopoulos". The signature is fluid and cursive, with the first name "Kimberly" written in a larger, more prominent script than the last name "Gianopoulos".

Kimberly Gianopoulos
Acting Director, International Affairs and Trade

Enclosures – 2



EXPORT-IMPORT BANK: Information on Export Credit Agency Financing Support for Wide-Body Jets

**Information Provided to the Subcommittee on Efficiency and
Effectiveness of Federal Programs and the Federal Workforce,
Committee on Homeland Security and Governmental Affairs,
U.S. Senate**

Introduction

- As the export credit agency (ECA) of the United States, the U.S. Export-Import Bank (Ex-Im) helps U.S. firms export goods and services by providing a range of financial products, including loan and bond guarantees, to foreign buyers.¹
- Ex-Im's financing support includes support for Boeing wide-body jet exports from the United States. The ECAs of France, Germany, and the United Kingdom support Airbus wide-body jet exports from their countries. (Passenger wide-body jets are large commercial aircraft with two aisles; passenger narrow-body jets are large commercial aircraft with one aisle.)
- A number of countries in the Organisation for Economic Co-operation and Development (OECD) have entered into agreements—sometimes with non-OECD countries—to govern aspects of ECA activities, including those related to ECA support of aircraft exports.

¹We report that U.S. - based lessors—acting as intermediaries—also received Ex-Im support for the purchase of aircraft to be leased and exported to airlines outside the United States and the European home markets (France, Germany, Spain, and the United Kingdom).

Background on Boeing and Airbus Competition

- Boeing is the sole U.S. producer and exporter of wide-body jets and is one of the United States' largest exporters. Its only competitor in wide-body jets is Airbus, which produces and exports from France, Germany, Spain, and the United Kingdom.
- Boeing and Airbus compete in the wide-body jet market; according to Boeing and Airbus delivery data, from 2004 through 2013, Boeing delivered 1,104 wide-body jets, and Airbus delivered 1,038 wide-body jets.
- Boeing and Airbus compete for wide-body jet sales by seeking to offer an airline the most attractive combination of passenger capacity, range, fuel economy, and life cycle costs in consideration of the airline's operating strategy.

Objectives

In this briefing, we will describe

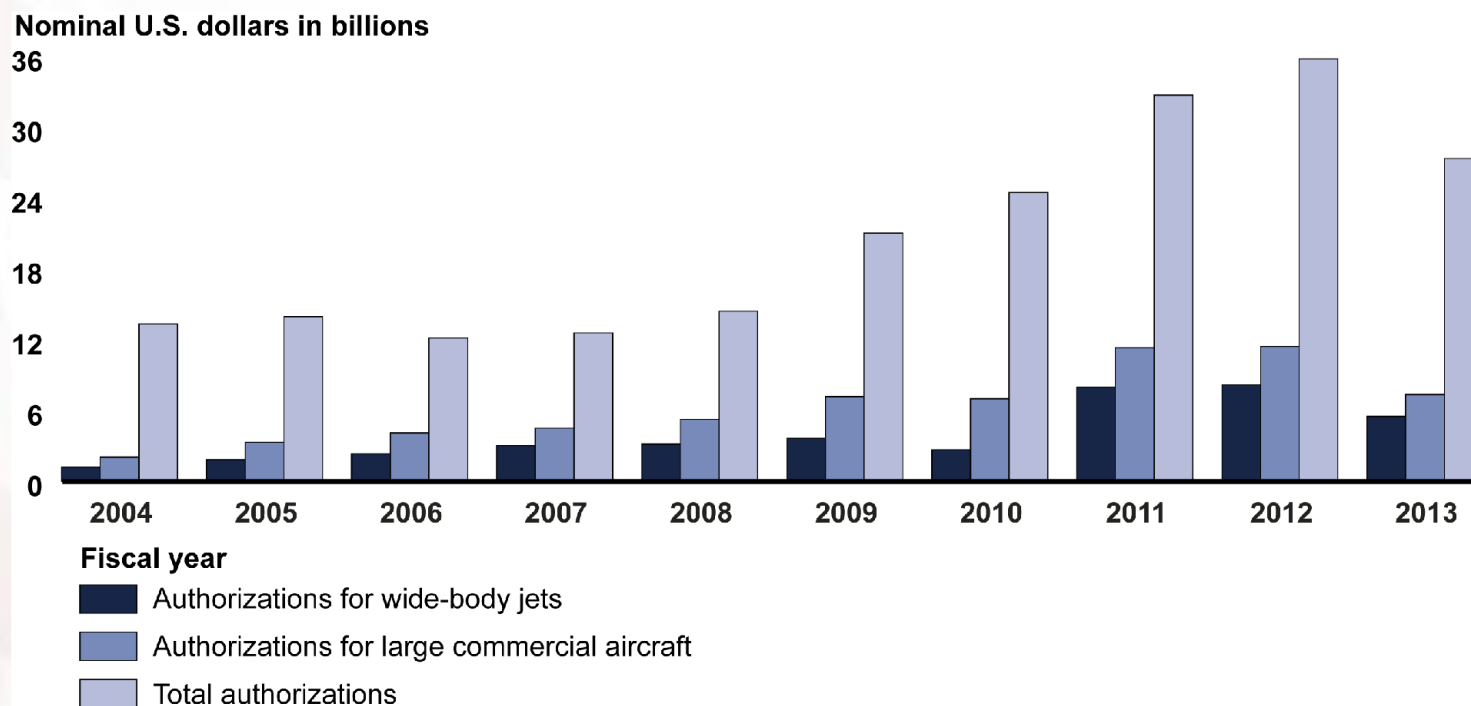
1. trends in financing support for wide-body jet exports by Ex-Im and European ECAs;
2. international arrangements relevant to ECA support for wide-body jet exports; and
3. financing options, including non-ECA financing and support, used to procure wide-body jets.

Ex-Im's Financing Support for Wide-Body Jet Exports Has Generally Increased since Fiscal Year 2004

- Ex-Im's total authorizations² increased significantly in fiscal years 2008 through 2012 in the wake of the 2007-2009 financial crisis (see fig. 1).
- Ex-Im's authorizations for wide-body jet exports generally increased in fiscal years 2004 through 2012; they fell in fiscal years 2010 and 2013 but were still above pre-crisis levels in 2013.
- In fiscal year 2013, 20 percent of total Ex-Im authorizations were for wide-body jet exports; the highest percentage was in fiscal years 2007 and 2011, when 24 percent of authorizations were for wide-body jets.
 - Wide-body jets include both passenger and freighter jets. Passenger jets represented about 81 percent of Ex-Im's wide-body jet authorizations from fiscal years 2004 through 2013.
- For all large commercial aircraft (both wide-body and narrow-body jets), Ex-Im's 2013 authorizations represented 27 percent of its total authorizations.

²An authorization is an export financing transaction for which Ex-Im has granted credit approval.

Figure 1: U.S. Export-Import Bank Authorizations, Total and by Aircraft Categories, Fiscal Years 2004-2013



Source: U.S. Export-Import Bank. | GAO-14-642R

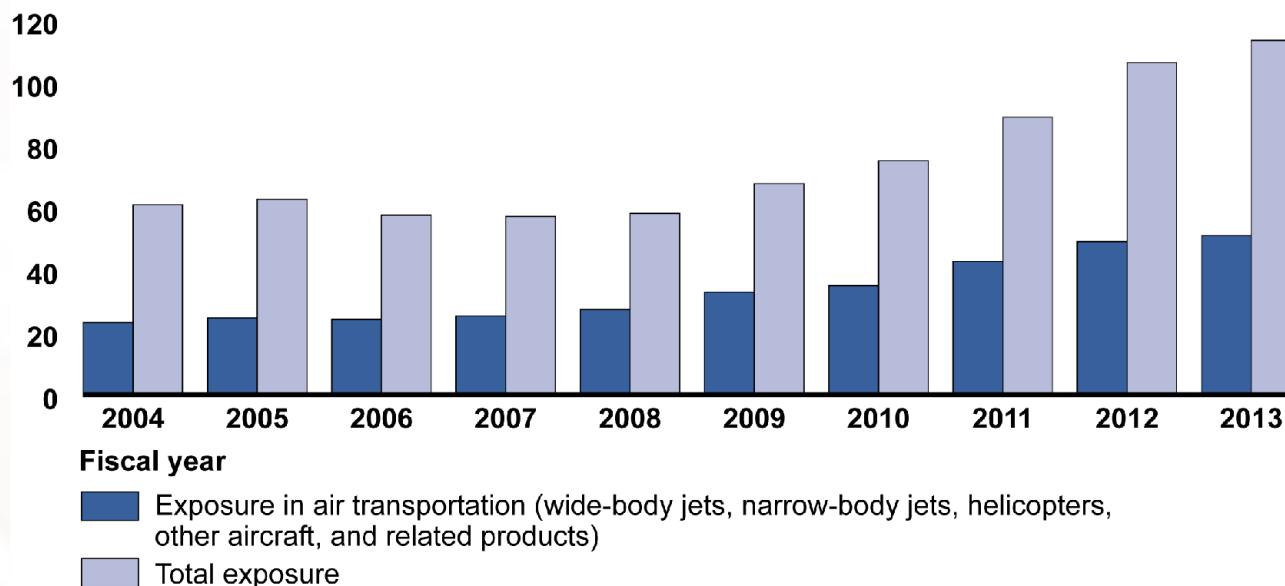
Note: Large commercial aircraft include both narrow-body jets and wide-body jets produced by Boeing.

Since Fiscal Year 2008, Ex-Im's Financial Exposure in Air Transportation and Its Total Financial Exposure Have Increased

- Since fiscal year 2008, Ex-Im's financial exposure (outstanding financial commitments) in air transportation—wide-body jets, narrow-body jets, helicopters, other aircraft, and related products—and its total financial exposure have increased (see fig. 2).
- In fiscal year 2009, air transportation made up about 49 percent of Ex-Im's total financial exposure, the highest such percentage in fiscal years 2004 through 2013.

Figure 2: U.S. Export-Import Bank Financial Exposure, Total and in Air Transportation, Fiscal Years 2004-2013

Nominal U.S. dollars in billions



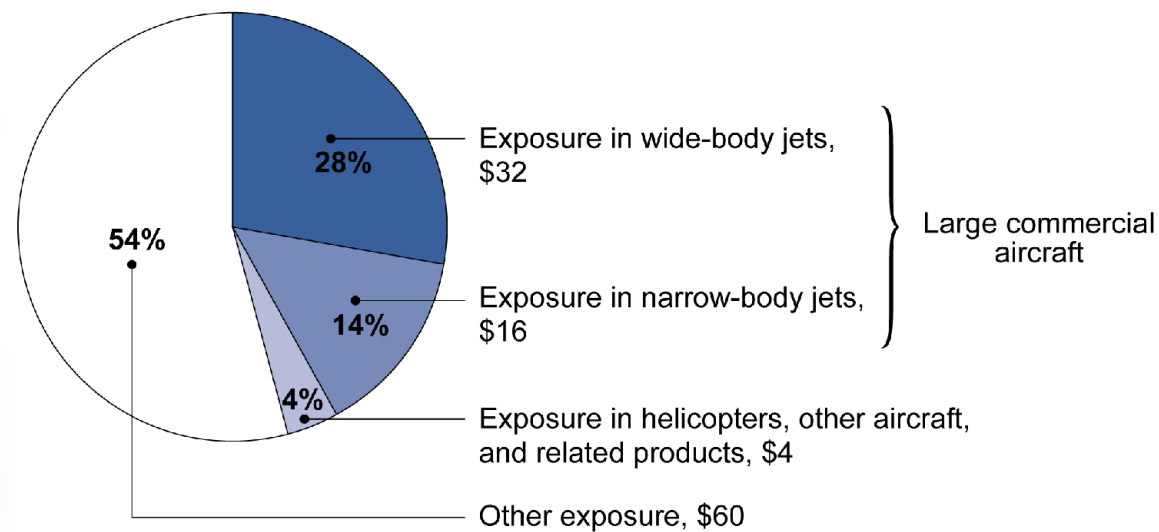
Source: U.S. Export-Import Bank. | GAO-14-642R

Note: Annual data on wide-body jet exposure were not available.

A Large Share of Ex-Im's Financial Exposure Is in Wide-Body Jets

Figure 3: Ex-Im's Financial Exposure in Air Transportation Components, as of March 31, 2014

U.S. dollars in billions



Source: U.S. Export-Import Bank. | GAO-14-642R

Note: Numbers are rounded to the nearest billion and percent.

Buyers from 34 Countries Received Ex-Im Financing Support for Wide-Body Jets in Fiscal Years 2004-2013

- Buyers of wide-body jets were from 34 recipient countries, which vary in terms of economy size and level of economic development.
- In each of three countries—the United Arab Emirates, India, and South Korea—buyers received in aggregate over \$3 billion in Ex-Im authorizations for wide-body jets, and in each of an additional 7 countries buyers received in aggregate between \$1.5 and \$3 billion (see fig. 4).
- The buyers from the United States are U.S.-based lessors acting as intermediaries leasing wide-body jets to foreign airlines. They received in aggregate between \$1.5 and \$3 billion in authorizations; according to Ex-Im, the wide-body jets purchased by U.S.-based lessors must be leased and exported to airlines outside the United States and the European home markets (France, Germany, Spain, and the United Kingdom).

Figure 4: Countries with Buyers Who Received U.S. Export-Import Bank Authorizations for Wide-Body Jets, Fiscal Years 2004-2013

Received over \$3 billion in authorizations	Received \$1.5 billion to \$3 billion in authorizations	Received \$0.5 billion to \$1.5 billion in authorizations	Received less than \$0.5 billion in authorizations
<ul style="list-style-type: none"> • United Arab Emirates • India • South Korea 	<ul style="list-style-type: none"> • Hong Kong^a • Chile • China • Ethiopia • United States^b • Luxembourg • Turkey 	<ul style="list-style-type: none"> • Canada • Netherlands • Brazil • Singapore • Australia • Pakistan • Thailand • Taiwan^c • Philippines 	<ul style="list-style-type: none"> • Russia • New Zealand • Poland • Kenya • Angola • Kuwait • Japan • Bangladesh • Kazakhstan • Israel • Vietnam • Ireland • Austria • Uzbekistan • Mongolia

Source: U.S. Export-Import Bank. | GAO-14-642R

Notes: Amounts are for aggregate authorizations over the time period. In each column, countries are listed by rank order of total authorizations.

^aHong Kong is a special administrative region of China. It is shown in this report as a separate country because it is an economic entity separate from the rest of China and is able to enter into international agreements on its own behalf in commercial and economic matters.

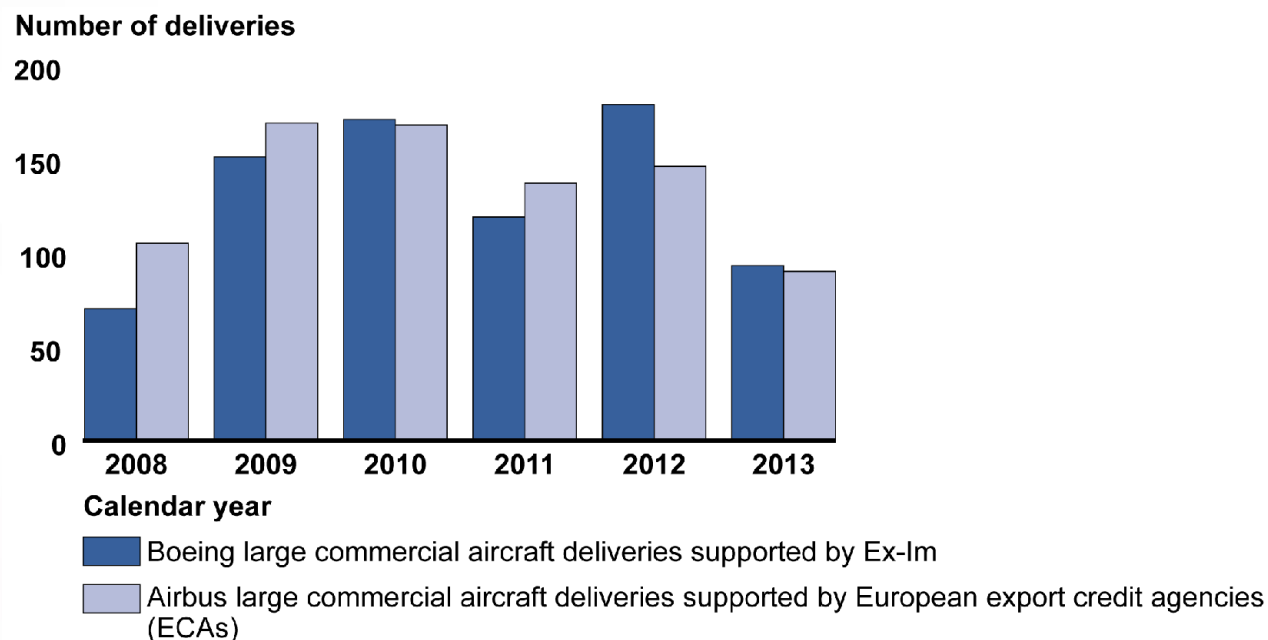
^bThis represents U.S.-based lessors acting as intermediaries leasing the wide-body jets to airlines outside the United States and the European home markets (France, Germany, Spain, and the United Kingdom).

^cAlthough the United States does not have diplomatic relations with Taiwan, we have listed it as a separate country because, whenever the laws of the United States refer or relate to foreign countries, nations, states, governments, or similar entities, such terms shall include and shall apply to Taiwan.

Trends in Ex-Im and European ECA Support for Exports of Large Commercial Aircraft

- From 2008 through 2013, Ex-Im supported deliveries of 789 Boeing large commercial aircraft, and European ECAs supported deliveries of 821 Airbus large commercial aircraft (see fig. 5).
 - Ex-Im and European ECA-supported deliveries of large commercial aircraft rose sharply in 2009 and declined in 2011 and 2013.
- Available data show that
 - the United Kingdom's ECA provided approximately \$15 billion in financing support for Airbus aircraft exports from April 1, 2007, through March 31, 2013, and
 - Germany's ECA provided approximately \$29 billion in financing support for Airbus aircraft exports from calendar years 2008 through 2013.
 - Information on the amount of French ECA support for Airbus aircraft exports was not available.

Figure 5: Number of Boeing and Airbus Large Commercial Aircraft Deliveries Supported by ECAs, 2008-2013



Source: GAO analysis of data provided by Boeing and Airbus to Ex-Im. | GAO-14-642R

Note: Data presented are for calendar years.

International Arrangements Affect ECA Support for Wide-Body Jet Exports

- 1) The **2011 Aircraft Sector Understanding (ASU)** is an agreement among the United States, the European Union, Canada, Brazil, and other countries that includes specific provisions that dictate terms and conditions for ECA support of commercial aircraft exports, such as benchmarking ECA risk premiums to prevailing commercial rates.
- 2) According to Ex-Im officials, the agreement commonly known as the **2006 Cape Town Convention (CTC)** is designed to ease repossession of aircraft in cross-border transactions that use aircraft as collateral; the 2011 ASU allows buyers from countries that have joined and implemented the CTC's provisions to be eligible for reduced ECA risk premium rates.
- 3) According to OECD and Ex-Im officials, the **“Home Country Rule”** is an informal understanding among the United States, France, Germany, Spain, and the United Kingdom that airlines based in the domestic markets of Boeing (the United States) and Airbus (France, Germany, Spain, and the United Kingdom) are not eligible to receive support from any of those countries' ECAs for large commercial aircraft transactions.

Additional Information on the 2011 Aircraft Sector Understanding

- The 2011 ASU has provisions that dictate terms and conditions of ECA support for wide-body jet exports, including in part:
 - classifying all buyers into 1 of 8 risk categories, done jointly by ECAs;
 - benchmarking financing terms to commercial market pricing on a quarterly basis, for all risk categories;
 - limiting ECA financing to 80 percent of the net price of the aircraft for buyers in the lowest risk category and 85 percent for higher risk buyers; and
 - incorporating requirements to reduce lending risk for certain risk categories, such as provisions concerning security deposits.
- The 2011 ASU set substantially higher initial risk premium rates—across all risk classification levels—than those set by the 2007 ASU. Risk premium rates as of April 2014 have since dropped but remain higher than those initially set under the 2007 ASU.

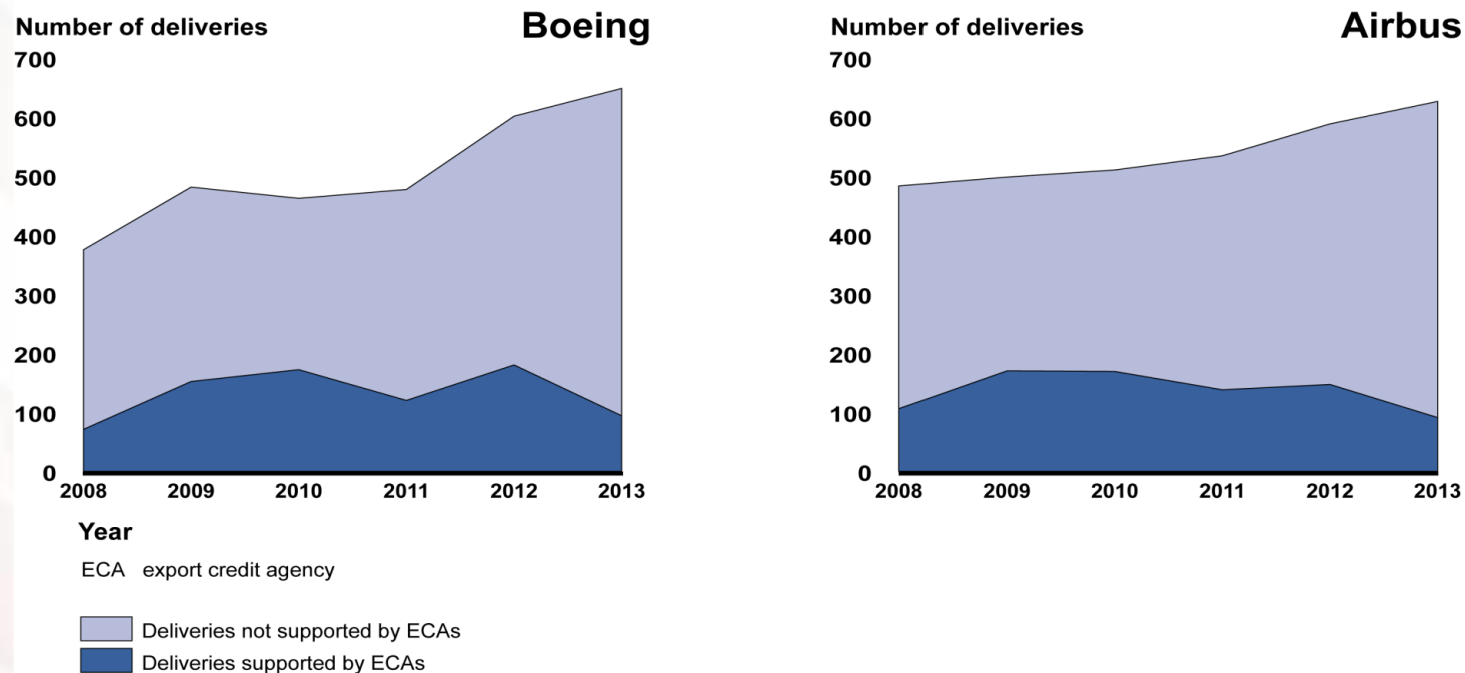
Additional Information on the 2011 Aircraft Sector Understanding (cont.)

- The 2011 ASU grandfathered ECA support for some aircraft under terms of earlier agreements—the 1986 Large Aircraft Sector Understanding and the 2007 ASU—which, according to Ex-Im officials, are generally less restrictive.
 - 2007 ASU terms were applicable for ECA support of certain aircraft purchases with firm contracts concluded by December 31, 2010, and delivery completed by December 31, 2012, among other conditions.
 - Pre-2007 terms are applicable to some aircraft with deliveries originally scheduled to have occurred on or before December 31, 2010; according to OECD and Ex-Im officials, some future deliveries of wide-body jets remain eligible for ECA support under these pre-2007 terms.
- According to OECD and Ex-Im officials, grandfathering provisions were a major part of the negotiation of the 2011 ASU.

Buyers of Large Commercial Aircraft Have Used Both ECA and Non-ECA Financing

- From 2008 through 2013, Boeing delivered 3,044 large commercial aircraft, and Airbus delivered 3,239 large commercial aircraft, as shown in figure 6.
 - From 2008 through 2013, Ex-Im and European ECAs supported 26 percent of Boeing and Airbus large commercial aircraft deliveries.
 - In 2013, 85 percent of Boeing and Airbus large commercial aircraft deliveries were not supported by ECAs. Deliveries not supported by ECAs included deliveries to airlines based in the United States, France, Germany, Spain, and the United Kingdom—which according to OECD and Ex-Im officials are ineligible for ECA financing support under the “Home Country Rule”—as well as buyers in other countries that use other financing options.
- Buyers have used a number of non-ECA financing options for procuring wide-body jets.

Figure 6: Number of Boeing and Airbus Large Commercial Aircraft Deliveries, 2008-2013



Source: GAO analysis of data provided by Boeing and Airbus to Ex-Im. | GAO-14-642R

Notes: Data presented are for calendar years. ECA-supported deliveries of Boeing aircraft were supported by Ex-Im. ECA-supported deliveries of Airbus aircraft were supported by the ECAs of France, Germany, and the United Kingdom.

Non-ECA Financing Options for Procuring Wide-Body Jets

Cash	Profitable airlines can use their cash flow to purchase planes without taking on new debt.
Bank loans	Banks can provide flexible terms and provide financing more quickly than other options, such as capital markets; however, since the financial crisis and resulting new regulations, banks may be more constrained in lending.
Manufacturer financing	Manufacturers may offer loans, leases, or other incentives to buyers; however, this is a very small part of the aircraft financing market.
Aircraft-backed bonds	Compared to other options, aircraft-backed bonds can be more attractive for investors, in part because the bonds can be backed by multiple aircraft owned by an airline or a leasing company.
Enhanced equipment trust certificate (EETC)	This is a special type of aircraft-backed bond that U.S. airlines and some foreign airlines have used; it takes advantage of lines of credit to cover any missed interest payments during repossession, and of bankruptcy laws which generally allow for repossession.
Unsecured bonds	Recently, several airlines and aircraft leasing companies have obtained funds to purchase aircraft with bonds on an unsecured basis.

Leasing Is an Alternative Procurement Option for Wide-Body Jets

- In addition to buying aircraft directly, airlines can lease planes from leasing companies that specialize in large commercial aircraft. Aircraft leasing companies include subsidiaries of financial institutions and publicly traded companies.
 - U.S. domestic lessors are eligible for ECA support as long as the aircraft they purchase are leased and exported to non-U.S. airlines.
- While international airlines are major purchasers of wide-body jets, aircraft leasing companies are also significant purchasers. According to Boeing data, from 2004 through 2013 over 10 percent of wide-body jet sales were to lessors.

Appendix I: Scope and Methodology

- To examine trends in Ex-Im and European ECA support for wide-body jet exports, we reviewed and analyzed industry reports and studies, Ex-Im and European ECA annual reports, and documents and data from Ex-Im and aircraft manufacturers. Some data sources did not break out wide-body jets from broader air transportation categories. We reviewed the data collection and verification processes for these data and discussed them with the relevant providers. We determined that these data were sufficiently reliable for our purposes. We also interviewed officials from Ex-Im and OECD.
- To describe relevant international agreements, we reviewed and analyzed industry reports and studies and documents—such as the 2011 ASU—produced by the OECD and private sector experts, and we interviewed Ex-Im and OECD officials.

Scope and Methodology (cont.)

- To examine financing options for procuring wide-body jets, we reviewed and analyzed reports and documents produced by Ex-Im and private sector experts and interviewed Ex-Im and OECD officials. Analysis of the economic impact of Ex-Im's aircraft financing is outside the scope of this review.
- We conducted this performance audit from November 2013 to July 2014 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.

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



EXPORT-IMPORT BANK OF THE UNITED STATES

July 2, 2014

Kimberly Gianopoulos
Acting Director
International Affairs and Trade
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Ms. Gianopoulos,

Thank you for providing the Export-Import Bank of the United States with the opportunity to comment on GAO's review: EXPORT-IMPORT BANK: Information on Export Credit Agency Financing Support for Wide-Body Jets.

We are pleased that the GAO review highlighted the trends in ECA financing support for wide-body jet exports by Ex-Im Bank and the European Export Credit Agencies from France, Germany and the United Kingdom (the "European ECAs"). Between 2008 and 2013, the European ECAs supported the delivery of 821 European manufactured Airbus large commercial aircraft. During that same time period, Ex-Im Bank supported the delivery of 789 U.S.-manufactured Boeing large commercial aircraft. Both Ex-Im Bank and the European ECAs supported approximately 26 percent of Boeing and Airbus large commercial aircraft deliveries during the period.

As indicated by the review, Ex-Im Bank provides financing support to enable Boeing large commercial aircraft to compete based on the performance, quality, technology, and acquisition & operating costs of Boeing aircraft in comparison to Airbus aircraft, and not on the availability and/or terms of the financing offered by the European ECAs with respect to Airbus aircraft.

The GAO review also noted overall Ex-Im Bank support (including Ex-Im Bank supported financings of wide-body aircraft) increased significantly in fiscal years 2009 through 2012 in the wake of the 2007-2009 financial crisis. However, by FY 2013, Ex-Im Bank authorizations for wide-body aircraft fell to only 20 percent of the total amount of Ex-Im Bank authorizations. Similarly, by 2013, a full 85 percent of Boeing and Airbus large commercial aircraft deliveries were not supported by either Ex-Im Bank or the European ECAs.

Ex-Im Bank also notes that the 2011 Aircraft Sector Understanding ("ASU") made export credit supported financing for large commercial aircraft significantly more expensive and less attractive, in comparison to both earlier versions of the ASU and to commercial financing that U.S. based airlines can obtain. In addition, to maintain this situation over time, the ASU adjusts,

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on a quarterly basis, the required risk premia charged on export credit supported aircraft financings based on the recent cost and loss experience of commercial financings. Recent comparative studies show that the higher ASU pricing makes commercial markets more attractive than ever.

Ex-Im Bank very much appreciates GAO's professionalism and courtesy throughout this review. This review has been a positive experience for the Bank.

Sincerely,



Charles J. Hall
Executive Vice President and Chief Risk Officer
Export-Import Bank of the United States

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