

## **GOAL ONE: For Qualified Transactions, Aggressively Match Financing Offers From Foreign, Officially Supported Competitors**

**Performance Goal 1.1: In FY2000, provide financing that meets all confirmed competition on qualified loan and guarantee transactions.**

**Strategies:**

- **Ex-Im Bank will follow up on allegations of competition and match all confirmed competition.**
- **Ex-Im Bank will revise its current market survey reports to develop better, more specialized information on issues that are key to Ex-Im Bank's competitiveness. With this new information, Ex-Im Bank will begin a review of each of the relevant policies including the establishment of a co-financing program.**

**Data Source: Data from Ex-Im Bank's Accounting System**

### **Actual Performance:**

Ex-Im Bank was highly successful in achieving its goal of providing financing which meets all confirmed competition on qualified loan and guarantee transactions. In 100% of the cases that faced confirmed competition in FY00, Ex-Im Bank was able to offer a financing package that the parties involved considered competitive with those proposed by Ex-Im Bank's competitor Export Credit Agencies (ECAs).

Ex-Im Bank has developed a process by which it follows up on allegations of competition so it is able to match all confirmed competition. Ex-Im Bank's credit officers are responsible for managing allegations of competition on long-term transactions. In cases where additionality is an issue or there is evidence of competition, the credit officers query other ECAs for confirmation and note the confirmations on Board memos and in credit files. In the event that an Ex-Im Bank transaction is canceled as a result of a foreign sale supported by an ECA, this information is recorded in a database.

In addition to this system for confirming and matching competition, Ex-Im Bank also revised its current market survey report so as to develop better, more specialized information on issues key to Ex-Im Bank's competitiveness vis-à-vis other ECAs. Ex-Im Bank conducted this effort with guidance from the Office of Management and Budget. The new structure was successfully applied in FY00 and provided invaluable information in the context of Ex-Im Bank's ultimately successful FY00 efforts to revise its foreign content and local cost policies and establish a co-financing program.

**Performance Goal 1.2: In FY2000, revise the overall financing program for limited recourse project finance transactions so that it can strongly compete with, in all material respects, offers made by foreign Export Credit Agencies (ECA) for such transactions.**

**Strategies:**

- Ex-Im Bank has identified procedural and attitudinal issues that affect Ex-Im Bank's ability to match foreign ECA offers in the area of limited recourse project finance. To address specific procedural concerns, the staff of Structured Finance will:
  - Work with other Ex-Im Bank divisions to review and revise the local cost disbursement procedures;
  - Develop an arrangement with other ECAs whereby the ECAs can share advisors; and
  - Review Ex-Im Bank's pricing model and bring it as close in line to the other ECAs as possible
- To address the philosophical issues raised by Ex-Im Bank customers, the staff of Structured Finance will:
  - Market Ex-Im Bank's interest in doing smaller transactions, emphasizing the fact that such transactions can be processed internally without the use of advisors; and
  - Market Ex-Im Bank's projects in Africa and participate in trips and trade missions to Africa

**Data Source: Data from Ex-Im Bank's Accounting System**

**Actual Performance:**

<b>Status of Project Finance Deals</b>					
	<b>FY96</b>	<b>FY97</b>	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>
<i>Number of Project Finance deals initiated as a Final Commitment</i>	10	4	5	5	9
<i>Number of Project Finance deals closed/completed</i>	8	8	0	1	7
<i>Number of Project Finance deals closed/completed without requiring Ex-Im Bank financing</i>	1	1	0	1	1
<i>Number of Project Finance deals lost</i>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Ex-Im Bank's project finance program is competitive with those of other ECAs. In FY00, Ex-Im Bank lost no project finance cases to its competitors.

Nonetheless, Ex-Im Bank recognizes it cannot rest on its laurels and that it must continue to evolve its programs to retain its competitive edge. In its ongoing efforts to make the project finance program more competitive with other ECAs, Ex-Im Bank initiated an arrangement to share financial advisors with SACE, the Italian ECA, on a project. The

project is ongoing, so it is too early to determine the ultimate success of the arrangement. In the context of this effort, Ex-Im Bank shared its contracting documentation with SACE, established a schedule of consultations and meetings between the institutions to discuss business issues with advisors, and undertook a joint due diligence trip to Brazil to study the project. While Ex-Im Bank has mentioned its willingness to share financial advisors with other ECAs, there have not yet been any other projects where other ECAs have been interested in hiring an advisor.

In yet another initiative designed to enhance Ex-Im Bank's competitive edge, Ex-Im Bank adjusted its pricing model to reflect changes to the Project Finance program in FY00. As an example of one of the modifications implemented, the model was changed to accommodate one fee being charged for comprehensive coverage in the pre-and post-completion periods, as opposed to the previous bifurcated two-fee approach. In addition, Ex-Im Bank consulted with other ECAs on individual transactions to ensure that all are utilizing the same assumptions when pricing the same transactions. Since the overall pricing system utilized by the OECD does not always reflect the benefits of the project structure, customers are not always fully satisfied with the results of these efforts. However, this consultation process introduces clarity and transparency to the pricing system.

To grow the volume of small project finance transactions (those deals under \$30 million) processed in FY00, Ex-Im Bank began offering to process these deals in-house. This offer acts as an incentive for exporters to use Ex-Im Bank as processing these transactions internally helps exporters avoid the expense of hiring financial advisors. In FY00, Ex-Im Bank's Structured Finance Division (SFD) actively evaluated three small project finance transactions that were ultimately authorized in FY01. Representatives from SFD, the Legal Division and the Engineering Division traveled to the projects' home country to help structure these deals and guide the inexperienced borrower through the steps necessary to move the projects forward. Furthermore, in addition to these deals, in FY00 Ex-Im Bank issued 9 additional Letters of Interest for small project financings. In FY00, Ex-Im Bank marketed its small project finance transaction program in presentations given at Ex-Im Bank training seminars and at US Government and private conferences. In addition, the program's description is now on the Ex-Im Bank website, a fact which is sure to increase its exposure. Looking ahead to FY01, Ex-Im Bank expects to develop a Fact Sheet for this program and to include the program's description in the Structured Finance brochure, which will be directly mailed to thousands of exporters in FY01.

Ex-Im Bank, through SFD, continues to maintain an active dialogue with other ECAs regarding positions on different upcoming projects, and new technologies and markets. In FY00, Ex-Im Bank participated in a Project Finance Berne Union meeting in Berlin to confer with other Berne Union members on common issues, as well as in meetings with ECAs and Multilateral Development Banks to discuss an interagency cooperation initiative driven by the World Bank and the International Finance Corporation. Informal

meetings and phone calls between Ex-Im Bank and other agencies continue to occur on a regular basis.

**Performance Goal 1.3: In FY2000, initiate the development of an overall financing program for large aircraft transactions that strongly competes with the offers that can be made pursuant to foreign ECA support for foreign manufactured aircraft.**

**Strategies:** To remain competitive, Ex-Im Bank must be creative in designing its own financing structures that will allow the US aircraft manufacturing industry to compete effectively against Airbus and the European ECAs. The objective of these more creative financing structures will be to neutralize the role of officially supported financing in an airline's aircraft purchase decision and/or to enhance the creditworthiness of certain transactions to enable Ex-Im Bank support to be issued.

Specifically, Ex-Im Bank will be working with the financial community to develop new products that will enhance Ex-Im Bank's competitive position vis-à-vis the European ECAs interest rate hold and mismatch loan structures. In designing new products, Ex-Im Bank will focus on playing to its strengths (e.g., Ex-Im Bank's 100% unconditional guarantee).

**Data Source:** Survey of exporters on the relative competitiveness of Ex-Im Bank's aircraft financing program

### **Actual Performance:**

Although Ex-Im Bank and the European ECAs each respectively support a significant number of U.S. manufactured and European manufactured commercial aircraft transactions, the form of that support differs. Despite the OECD Arrangement's attempt "to provide a framework for the orderly use of officially supported export credits" by seeking to "encourage competition among exporters from the OECD-exporting countries based on quality and price of goods and services rather than on the most favorable officially supported terms", for the past several years, Airbus and the European ECAs have continued to make financing a factor in an airline's fleet procurement decisions.

One of the most attractive features of European ECA supported financings for Airbus aircraft has been the "free" interest-rate lock<sup>1</sup>. The free interest rate lock enables the European ECAs to offer an airline purchasing Airbus aircraft a low fixed rate of interest that, depending on changes in the overall level of interest rates, could actually be below the European ECAs cost of funds. If Ex-Im Bank were to also offer this feature, Ex-Im Bank believes this potentially could be very expensive to the U.S. Government and therefore believes it should not be incorporated into Ex-Im Bank's aircraft finance program. Instead, during FY 2000, Ex-Im Bank focused on developing new, alternative financing structures that would be competitive with the European ECA supported financings without requiring any significant incremental allocation of Ex-Im Bank's limited program budget.

In FY00, Ex-Im Bank was successful in developing several new, alternative financing structures that are designed to take advantage of one of the strengths of the U.S. official export credit system: the comprehensive Ex-Im Bank guarantee (i.e., an unconditional

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<sup>1</sup> So long as an airline has signed an Airbus purchase contract, the "free" interest rate lock provides the airline with the ability to fix the interest rate up to three years in advance of the delivery of the aircraft at no charge. At the time the aircraft is delivered, the airline has the option of financing the purchase of the aircraft at the pre-established fixed interest rate or at the then prevailing interest rate.

guarantee of 100% of the principal and interest of Ex-Im Bank supported financings). Rather than duplicating what is offered by the European ECAs, Ex-Im Bank developed two new financing products that are intended to be responsive to the needs of foreign airlines and thereby make Ex-Im Bank supported financing for U.S. manufactured aircraft more competitive, on an overall basis, with European ECA supported financing for European manufactured aircraft. Some of these new financing products may be difficult for the European ECAs to duplicate, as the majority of the European ECAs do not currently offer an unconditional 100% guarantee similar to Ex-Im Bank. Specifically, Ex-Im Bank developed two new financing structures: (i) the Jet Fuel Indexed Rate and (ii) the Adjustable Floating Rate Note (the "AFRN").

Under the Jet Fuel Indexed Rate structure, Ex-Im Bank permits the Ex-Im Bank guaranteed lender to offer an airline the option of having the interest rate margin on an Ex-Im Bank guaranteed loan fluctuate in the inverse relationship with the price of jet fuel. Under this structure, should the average price of jet fuel increase above a specified price, the airline's financing costs will decrease from what they otherwise would have been because a lower interest rate "margin" or "spread" will apply to the Ex-Im Bank guaranteed loan. Conversely, if jet fuel prices decline below the specified price, the airline's financing costs will increase because a higher interest rate margin will apply. Offering a Jet Fuel Indexed Interest Rate serves as a competitive financing tool by providing a foreign airline with a mechanism that can help the airline better manage some of the volatility associated with two of its largest costs (fuel prices and interest rates) and at the same time improves the creditworthiness of the airline by reducing some of the volatility in the airline's earnings at little or no incremental cost to Ex-Im Bank.

Under the AFRN structure, Ex-Im Bank permits the airline to document a 12-year Ex-Im Bank guaranteed floating rate aircraft transaction as a series of shorter but "extendable" Ex-Im Bank guaranteed floating rate loans and notes, which in the aggregate will provide for a 12-year repayment term. The AFRN structure requires the interest rate margin on the Ex-Im Bank guaranteed floating rate loan to be reset at predetermined dates based upon the then prevailing "margin" or "spread" over U.S. Treasury bills for Ex-Im Bank guaranteed loans. The principal advantage of the AFRN structure is that it results in an airline paying lower interest rates on Ex-Im Bank guaranteed loans because it enables an airline to access a new, potentially very large group of capital market investors which have a lower cost of funds than traditional Ex-Im Bank guaranteed lenders. From Ex-Im Bank's perspective, the lower interest rate offsets, to some extent, some of the advantages of the European ECA financing products (i.e., the free interest rate lock) thereby maintaining the competitiveness of Ex-Im Bank supported U.S. manufactured aircraft against European ECA supported Airbus aircraft. In addition, the lower interest rate improves, to some extent, the creditworthiness of the transaction at little or no incremental cost to Ex-Im Bank.