

Export-Import Bank of the United States



SMALL BUSINESS REPORT TO CONGRESS MARCH 31, 2011



Report to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate

As specified in the *Charter of the Export-Import Bank of the United States as amended through P.L. 109-438, December 20, 2006, cited as the Export Import Bank Act of 1945, as amended* there is a Small Business report to be presented to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate not later than March 31st of each year.

SUMMARY

We are pleased to report that the Export-Import Bank was able to meet its Congressionally mandated 20 percent target for small business in fiscal year 2010.

Throughout fiscal year 2010, Ex-Im Bank continued to successfully support and strengthen the relationship with small business exporters, our largest group of customers. We focused on raising awareness of the unique needs of small business exporters across multiple divisions within Ex-Im Bank as well as communicating this externally to all of our partners. Ex-Im Bank partners are diverse and help us deliver our products and services to small business exporters. Our partners include financial institutions, insurance brokers, city/state partners, trade associations, and all levels of government agencies serving exporters.

America's small business exporters are also facing intensifying international competition and a lack of access to funding. The private sector is reluctant to provide credit to small businesses, due primarily to the high operational costs relative to the size of the loans. Often, this lack of access is not an issue of price – but rather an issue of access to liquidity for small businesses. Small business exporters need specialized trade financing and trade services that Ex-Im Bank offers.

Specific wording of Section 8 (f) of the Charter and the Export-Import Bank's report relating to each subsection follow:

(1) the extent to which the Bank has been able to use the authority provided, and has complied with the mandates contained, in section 2(b) (1) (E), and to the extent the Bank has been unable to fully use such authority and comply with such mandates, a report on the reasons for the Bank's inability to do so and the steps the Bank is taking to remedy such inability.

Organizational Changes - In 2010 there were a series of organizational changes made to the structure of the Ex-Im Bank. One of the primary objectives of reorganization was to improve accountability and improve the delivery of services to small business exporters. Offices responsible for the delivery of Trade Credit Insurance and Working Capital

Finance Divisions were realigned to report to the Senior Vice President for Small Business. Additional resources have been assigned to strengthen and add singular focus to woman and minority outreach, insurance broker relations, lender relations, and veterans outreach to better serve each of these constituent groups.

Authorizations – One of the Bank’s objectives is to grow small-business authorizations in the context of a reasonable assurance of repayment and in response to market demand. New small-business authorizations in fiscal year 2010 increased 15.9 percent to just over \$5 billion as compared with new small business authorizations for the same period in fiscal year 2009 of roughly \$4.4 billion. In fiscal year 2010, small-business authorizations represented 20.7 percent of total authorizations. During fiscal year 2010, the number of transactions that were made available for the direct benefit of small-business exporters increased by 21.7 percent to 3,091 transactions compared to 2,540 transactions in 2009.

Ex-Im Bank offers two products that primarily benefit small businesses: working capital guarantees and export-credit insurance. In fiscal year 2010, Ex-Im Bank authorized roughly \$1.5 billion in Working Capital Guarantees to small businesses compared to \$1.2 billion in 2009. In fiscal year 2010, Ex-Im Bank authorized more than \$2.6 billion in Export-Credit Insurance to small businesses.

Increased Lender and Broker Participation - Ex-Im Bank leverages its resources on behalf of small businesses by working with private-sector lenders, insurance brokers and other financial and trade institutions. In fiscal year 2010, 18 new lenders received Delegated Authority to provide working capital guarantees. Delegated Authority provides lenders a pre-approved credit line which allows them to approve loans and receive Ex-Im Bank’s guarantee without having to submit individual applications for approval. An additional 14 brokers serving small businesses trade insurance needs were added to the roster. At the fiscal year’s end, Ex-Im Bank had a total of 100 delegated authority lenders and 194 registered brokers helping deliver the Bank’s small-business products.

Export Initiative with State and Local Constituencies - One effective approach to developing strong partnerships is our initiatives with our City/State Partners. More than 60 Ex-Im City/State Partners in 40 states work with Ex-Im Bank and report their activity annually. Their mission is the promotion, creation and expansion of businesses in a given region by making available financing assistance and entrepreneurial services. Examples of eligible partners include: State, County, City Governments—either directly or indirectly funded; local non-profit economic development entities funded through universities and colleges; Small Business Development Centers; and World Trade Organizations.

Expanded Outreach - Ex-Im Bank increased its efforts to help U.S. small businesses learn about the export-finance solutions that the Bank offers. In fiscal year 2010, Chairman Fred Hochberg, Board Members and Ex-Im Bank staff conducted an unprecedented number of public events nationwide to increase awareness of the Bank among small businesses.

During fiscal year 2010, Ex-Im Bank's Small Business Group increased its level of outreach to small business. Ex-Im Bank’s staff participated in 477 seminars,

conferences, trade shows, focus groups, and lender / insurance broker training events in Washington, DC, and throughout the country and communicated with over 22,000 small business exporters and intermediaries. The number of outreach activities increased from 405 the previous year touching 17,000 individuals. Additionally, the Bank's staff participated in 220 events nationwide sponsored by woman-business centers, small-business associations, minority-focused chambers of commerce and other organizations. The increase in activity was spurred by the National Export Initiative (NEI) directive to Ex-Im Bank to increase the level of outreach to small business.

Ex-Im Bank had a speaking role at 94 percent of all conferences, seminars, forums and trade shows they attended. One of Ex-Im Bank's key strategic initiatives in 2010 was to increase the number of lenders, insurance brokers and City-State Partners who work with Ex-Im Bank to increase loan and insurance activity with small business exporters. Ex-Im Bank's increased outreach activities were successful in this initiative adding 45 new lending and outreach partners. This was up from 32 the previous year.

Ex-Im Bank has regional offices in New York, Miami, Houston, Dallas, Chicago, Irvine, San Diego and San Francisco. The regional office network is the vital link between exporting communities located throughout the United States and Ex-Im Bank. The regional office network provides a geographic market-focused enterprise which broadens Ex-Im Bank's reach into small-size U.S. exporting companies. The 25 regional office staff members are exclusively dedicated to supporting the Bank's small business mandates.

Ex-Im Bank offers seminars for small businesses that traditionally have been underserved in trade finance. These half-day programs provide training in use of U.S. government resources to find foreign buyers and trade-finance tools. The seminars were designed to provide small businesses with the tools they need to begin or expand exporting. Representatives of local businesses, banks, brokers, state and local officials, and trade groups learned how to access and use federal export-promotion and finance programs, particularly those of Ex-Im Bank and the SBA.

The Bank also worked closely in fiscal year 2010 with the U.S. Department of Commerce (Commerce) and the Office of International Trade of the Small Business Administration (SBA) on small-business outreach. Bank and Commerce staff jointly visited prospective exporters and worked together at international-buyer trade shows.

In order to further expand the small business accessibility to export credit, Ex-Im has initiated the following outreach initiatives:

- **Global Access for Small Business Initiative:** Ex-Im Bank is sponsoring a series of 20 forums across the country to assist small business exporters in understanding how the Bank's programs and programs at the (SBA) and Commerce can help them begin exporting or increase their international sales. In addition to presentations by successful small business exporters, the Global Access forums include panels of



Ex-Im, SBA and Commerce staff based in local United States Export Assistance Centers (USEACs) as well as one-one-one counseling by Ex-Im Bank Export Finance Managers and other federal agency representatives. These half-day events are usually free for attendees and held in collaboration with elected officials, representatives from federal and local government agencies, lenders and insurance brokers involved with supporting exporters.

- **Expanded Bank and Broker Training:** Ex-Im Bank has expanded its lender and broker training options to include monthly trainings around the country, including onsite training with banks. Also, webinars have been added to the training curriculum to help exporters, lenders and insurance brokers learn how to use Ex-Im products and services.

Operating Division Performance and Serving Small Business Concerns - Since the legislative requirement was introduced in 2006, the Small Business Group within Ex-Im has refined its strategic planning process considerably. The Small Business Committee, comprised of senior staff within Ex-Im, convenes regularly, with good attendance and participation. The Committee completed its 2009-2011 strategic plan in fiscal year 2008. Consistent with previous plans, the operating divisions responsible for implementing the small business mandate have worked diligently to improve and expand the Bank's relationship with U.S. small business exporters, including woman and minority-owned enterprises and those in rural markets. In late spring 2011, the Small Business Committee will begin to work on a 2012 – 2015 Small Business Strategic Plan.

United States Government Agency Coordination - Cooperation and teamwork among the Commerce, SBA's Office of International Trade and the Bank is very important. Frequently, Commerce and Ex-Im Bank staffs jointly call on prospective small business exporters and work together at International Buyer Program Trade Shows. Six of the eight Domestic Business Development offices are co-located with a United States Export Assistance Center (USEAC). SBA, Commerce and Bank staffs also participate in the Trade Promotion Coordinating Committee (TPCC) training and attend meetings to discuss interagency strategy.

(2) the extent to which financing has been made available to small business concerns (described in subsection (e)) to enable them to participate in exports by major contractors, including through access to the supply chains of the contractors through direct or indirect funding;

Small businesses that serve as suppliers to U.S. exporters benefit indirectly through Ex-Im Bank's long-term loan and guarantee transactions. At the close of each fiscal year, the Bank estimates the value of U.S. exports it supported that is attributable to small-business suppliers. The estimate is based on analysis of the small-business portion of long-term transactions that is known at the time of authorization. Long-term transactions typically are for \$10 million or more and/or have a repayment term in excess of seven years. For fiscal year 2010, Ex-Im Bank estimates that the total value of this indirect small-business support was \$1.7 billion out of a total estimated export value of \$14.1

billion. This represents 12 percent of the total estimated export value associated with the Bank's long-term transactions.

(3) the specific measures the Bank will take in the upcoming year to achieve the small business objectives of the Bank, including expanded outreach, product improvements, and related actions;

National Exports Initiative - President Obama's National Export Initiative has placed exports front and center in the Administration's overall strategy for economic growth -- and with good reason. When U.S. companies sell more goods internationally, they most often must produce more goods here in the United States. To produce additional goods, these companies must hire more workers. Exports matter to every state in the nation.

At this critical time in our nation's economy, state and local government leaders rightfully are focusing on economic growth and job creation. Through the Small Business Working Group of the TPCC, Ex-Im Bank is developing various strategies for supporting small businesses when they identify potential export sales. Some of those strategies included training more lenders and brokers in delivering Ex-Im Bank's export financing products.

Ex-Im Bank is also providing on-the-ground, export finance counseling and training at domestic and international industrial trade shows, where U.S. exhibitors meet directly with foreign buyers. By providing timely information about trade financing options, Ex-Im Bank provided U.S. companies the support and assurance they needed to structure payment terms in a way that can win immediate sales. Ex-Im Bank will continue to collaborate with Commerce's trade show programs, including the International Buyer Program and International Trade Fair program. Commerce's International Buyer Program is instrumental in bringing buying delegations from around the world to some of our large domestic industrial shows and arranging meetings between U.S. exhibitors and foreign buyers. Staff from Ex-Im Bank will counsel U.S. companies so they are aware of the available U.S. government financing options that could help them better structure their transactions. At large international trade shows, the same assistance will be available to U.S. exhibitors, enabling them to offer terms that will help them close a sale.

As part of the National Export Initiative one of our goals for the next year is to expand outreach and marketing efforts to small businesses and the intermediaries who serve them by developing new marketing materials that will expand Ex-Im Bank's messaging. Ex-Im Bank is also reaching out to previous small business customers of the Bank who have not used Ex-Im Bank assistance recently as well as encouraging existing customers to expand exports to additional markets.

Product Improvement - In fiscal year 2010, Ex-Im Bank developed new products and product improvements to provide small businesses with increased liquidity, simplify application processes and shorten turnaround time. One of the most effective methods for assisting small business exporters is to respond to their broad-based need for clarity, speed and simplicity.

- **Supply Chain Finance Guarantee.** The Supply Chain Finance Guarantee provides competitively-priced working capital finance to U.S. suppliers of U.S. exporters. The product is designed to inject liquidity into the marketplace by providing ready access to capital to small businesses that supply products or services to larger U.S. exporters. These small businesses are considered “hidden exporters.” The product works through approved lenders with an existing supply-chain finance program. It enables the lender to purchase accounts receivable from suppliers that are due from manufacturers who purchased their goods or services to produce exports. The suppliers are paid in approximately five days which improves their cash flow. Ex-Im Bank provides the lenders with a 90 percent guarantee of repayment by the manufacturers. In turn, the Bank requires that at least 50 percent of the credit be extended to small-business suppliers.

Ex-Im Bank approved its first Supply Chain Finance transaction in September 2010 to support up to \$100 million of liquidity from Citibank to the small business suppliers of Case New Holland (CNH), a large manufacturer of agricultural equipment. The transaction will provide funding to CNH’s small business suppliers. In 2011, Ex-Im approved a \$450 million Supply Chain Finance Guarantee for JPMorgan Chase for the benefit of the small business suppliers of Caterpillar, a large manufacturer of engines and machines. This transaction will provide funding to Caterpillar’s small business suppliers. This transaction was announced on March 29, 2011.

- **Re-Insurance.** The reinsurance product assists private-sector insurers that provide short-term export-credit insurance covering foreign receivables to predominantly U.S. small business exporters. This new product will increase the capacity of insurance companies to offer insurance to small-business exporters that have had difficulty obtaining short-term export credit since the financial crisis.

The Bank’s reinsurance product will mitigate risks for private insurers and enable them to expand their underwriting capacity for short-term small business credits. It will also help Ex-Im Bank achieve economies of scale in originating, underwriting and servicing these credits – accomplishing substantially more for small businesses with fewer resources by expanding the reach of private-sector insurers.

- **Express Insurance.** In response to the requests of exporters and Ex-Im Bank broker-partners, Ex-Im is adding a new program to its flagship Trade Credit Insurance product – Express Insurance. Express Insurance specifically targets small businesses. In fiscal year 2010, Ex-Im Bank designed an express insurance product that streamlines the application process for the Bank’s short-term export-credit insurance. The target turnaround time for a quote is 5 days, down from the current average of 15. Cutting the processing time by 2/3 and cutting the length of the actual application from 4 pages down to 2 pages and using credit scoring in the processing of new applications and renewals reduces the time frame and the complexity of insurance that small businesses need to protect their export receivables from foreign buyer and country risk.

Creation of a New Position, Director of Veterans' Relations - The purpose is to better reach out to all veterans groups and to connect export finance opportunities with their knowledge of foreign cultures, people and businesses. Ex-Im Bank hosted the Vet-Force meeting for Veteran Owned Business (VOB'S), Veteran Community Organizations (VCO'S) and various government agencies to introduce veterans to export financing. In coordination with SBA'S Georgia District Office Ex-Im's Director of Veterans' Relations was the keynote speaker at the first Veteran's Export Symposium conducted in the U.S.

(4) the progress made by the Bank in supporting exports by socially and economically disadvantaged small business concerns (defined in section 8(a)(4) of the Small Business Act) and small business concerns (as defined in section 3(a) of the Small Business Act) owned by women, including estimates of the amounts made available to finance exports directly by such small business concerns, a comparison of these amounts with the amounts made available to all small business concerns, and a comparison of such amounts with the amounts so made available during the 2 preceding years;

In fiscal year 2010, Ex-Im Bank authorized \$481 million to support exports by U.S. small businesses known to be minority-owned and woman-owned (this information can be volunteered on applications, but we cannot require it). In fiscal 2009, Ex-Im Bank authorized \$492.7 million to support exports by U.S. small businesses known to be minority-owned and woman-owned. Although support for minority owned and woman owned small business declined slightly, the total support increased by \$65.2 million when taking into account medium and large exporters in this group.

(Millions)	2008	2009	2010
Minority and Woman Owned			
Medium/Large Business	\$11.9	70.3	\$147.2
Small Business	\$456.2	\$492.7	\$481.0
Total	\$468.1	\$563.0	\$628.2

Significant emphasis is placed on events attended by small business exporters, as well as minority, rural, and woman-owned entrepreneurs. During 2010, staff from within the Small Business Group at the Bank attended 85 outreach events reaching approximately 5,500 Minority and Woman-Owned Business exporters and intermediaries. Ex-Im Bank had a speaking role at 75 percent of the events they attended in 2010.

Significant steps are being taken to boost this segment of the Ex-Im Bank business. First and foremost, during 2010, Ex-Im Bank hired as Senior Vice President of the Small Business Group a former banker with 20 years in community development experience, including 8 years with NeighborWorks America. In addition, it hired as Vice President of Marketing and Sales, a Community Reinvestment Act professional from a major bank. In addition to their managerial responsibilities, these two officers will further expand Minority and Woman-Owned Business Outreach activities.

In order to expand the reach and the service to this segment, Ex-Im is doing the following:

- **Global Access Events.** Developing at least 4 Global Access media and training events specifically for Minority and Woman-Owned Businesses.
- **Community Development Financial Institutions.** The Small Business Group has begun attending the conferences for the National Federation of Community Development Credit Unions, Opportunity Finance Network, National Community Reinvestment Coalition and events sponsored by federal regulators concerning Community Reinvestment Act initiatives. The chief objective is to expand the number of local and community development banks and other intermediaries using the Ex-Im Bank trade credit and working capital products and services.
- **Direct Calling on Minority and Woman-Owned Exporters.** In order to expedite the communication with the exporter, Ex-Im has established a “smart data-base” program. The program, which includes exporter names from the TPCC, is designed to support direct outreach to minority and woman-owned exporters through systematic cold calling by experienced Ex-Im Bank export finance officers. While targeting the use of Ex-Im Bank’s trade credit insurance, the officers are also trained and encouraged to refer exporters to the appropriate Commerce and SBA functions as reflected by the exporter’s needs.

To strengthen exports by U.S. small businesses known to be minority-owned and woman-owned, the Small Business Group has reorganized and re-focused the position of the Director of Minority and Woman Owned Business Outreach. Previously, this position was also responsible for Broker Relations. In 2010, part of the realignment of the Small Business Group, included hiring a new Director of Broker Relations in order to remove this responsibility from the Director of Minority and Woman Owned Business Outreach. This realignment has helped focus the outreach efforts and resources to better service this segment of the exporting community.

(5) with respect to each type of transaction, the interest and fees charged by the Bank to exporters (including a description of fees and interest, if any, charged to small business concerns), buyers, and other applicants in connection with each financing program of the Bank, and the highest, lowest, and average fees charged by the Bank for short term insurance transactions;

The three primary transaction types that small business exporters participate in are: Working Capital loans, Export Credit Insurance, and medium-term buyer finance. Working Capital loan fees range from 1.0 percent to 1.5 percent depending on transaction size. Ex-Im Bank insurance premiums on export credit insurance are both country risk and length of credit term based. As such rates can be as low as \$.34 (\$.34 total or /\$100) for 60-day terms in highly creditworthy countries to as high as \$4.66 for 360 day terms in highly risky countries. For the Ex-Im Bank Small Business Multi-Buyer Policy, rates are between \$.55 and \$1.15 per \$100. Medium-Term transactions are based on an Exposure Fee Calculator. A private sector risk repayment of a three year term in a highly creditworthy country would be \$.99 per \$100, whereas the exposure fee in a highly risky

country would be \$8.23 per \$100. Additional information on Ex-Im Bank fees can be found on the following websites:

- Medium Term: http://www.exim.gov/tools/fee_calc_mt.cfm;
- Short-term: http://www.exim.gov/tools/exposure/fee_advice_tables.cfm

(6) the effects of the fees on the ability of the Bank to achieve the objectives of the Bank relating to small business;

Ex-Im Bank does not compete with private-sector lenders but provides export-financing products that fill gaps in trade financing. We assume credit and country risks that the private sector is unable or unwilling to accept. We also help to level the playing field for U.S. exporters by matching the financing that other governments provide to their exporters. The Bank's charter requires reasonable assurance of repayment for the transactions it authorizes, and the Bank closely monitors credit and other risks in its portfolio. Ex-Im Bank prices transactions based on the risk assessment of the exporters and/or buyers. Ex-Im Bank fees to small business exporters are competitive and as such do not materially affect the Bank's small business objectives.

(7) the fee structure of the Bank as compared with those of foreign export credit agencies;

The interest rates and fee structure that Ex-Im Bank has offered in recent years have been consistently equal to the average rates offered by the typical major Export Credit Agencies's (ECA's).

Credits may be short-term (up to two years), medium-term (two to five years) or long term (five to ten years). They are usually supplier's credits, extended to the exporter, but they may be buyer's credits, extended to the importer. The risk on these credits, as well as on guarantees and insurance, is borne by the sponsoring government.

In the medium-term area, while the interest rates achieved with Ex-Im Bank's guarantee or insurance product were somewhat higher than long-term guarantees, these rates did not appear to be uncompetitive with other ECA-market generated rates.

For medium- and long-term transactions, Ex-Im adheres to the rules of the Organization for Economic Cooperation and Development (OECD). OECD was established in 1961 with a mission to promote policies that will improve the economic and social well being of people around the world. OECD provides a forum for the 34 member countries to work toward a shared commitment to market economies backed by democratic institutions. Consistent with all other OECD ECAs, Ex-Im Bank charges no less than the minimum premium rates for sovereign risk. For private buyer risk, Ex-Im Bank adds an internally derived incremental surcharge onto the minimum rates based on the risk of the private buyer. In September 2011, the OECD ECAs will move to a more comprehensive pricing structure where minimum rates have been established for various categories of private buyer risk. Hence, the OECD ECAs will have a common pricing structure for

both sovereign and private buyer risk. Unlike the OECD ECAs, the non-OECD ECAs have the autonomy to set their own fees for both sovereign and private buyer risk.

(8)(A) the efforts made by the Bank to carry out subparagraphs (E)(x) and (J) of section 2(b)(1) of the Export-Import Bank Act of 1945, including the total amount expended by the Bank to do so; and (B) if the Bank has been unable to comply with such subparagraphs-- (i) an analysis of the reasons therefore; and (ii) what the Bank is doing to achieve, and the date by which the Bank expects to have achieved, such compliance.

Technology Improvements - Technology is critical in reaching small businesses and providing them with timely financing products and service.

In fiscal year 2010, Ex-Im Bank enhanced its website, www.exim.gov, to streamline the home page and improve access to information, particularly for small-business users. The Bank revised and reintroduced its small-business portal, Ex-Im Small Business EDGE (<http://www.exim.gov/smallbusiness/>). The portal provides step-by-step assistance to small businesses, including an interactive guide to submitting applications, examples of success stories and contact information for Ex-Im Bank regional offices.

Information technology tools were made available to enable customers to provide feedback on the website, participate in meetings and training (Webinar) sessions, register for the annual conference, interact with regional offices and perform other functions. Ex-Im Bank continues to expand its web-based subscription service to provide customers with up-to-date Bank news.

Ex-Im Bank also participates in the government-wide "Business Gateway" initiative that integrates the content and functions of the websites of business-focused federal agencies (www.business.gov) and the U.S. government export website (www.export.gov). Additionally, the Bank participates in the "One Stop, One Form" web-based registration system for all federal export programs that is coordinated by the TPCC.

Ex-Im Online, the Bank's online business system, provides exporters, particularly small businesses, with the benefits of electronic application submission, processing and insurance-policy management. In fiscal year 2010, 82 percent of Ex-Im Bank's small-business transactions were submitted through Ex-Im Online, which represents an increase of 10 percent over fiscal year 2009.

The Bank strengthened the insurance interface between Ex-Im Online and the Bank's financial and administrative systems to improve data integrity and reduce entry duplication. A comprehensive default-notice reporting system was integrated into Ex-Im Online to provide early warning of potential defaults.

Ex-Im Bank developed a number of computer-based tools to evaluate performance metrics in fiscal year 2010 to foster high performance and innovation. These key tools were used by management to monitor authorizations, transaction-cycle times, resource allocations, exposures, claims and other measures of small-business activity.

CONCLUSION

Helping small businesses succeed is a top priority at Ex-Im Bank. We continue to place special focus on bolstering the competitiveness of U.S. small businesses that need to compete in the global marketplace. When small businesses grow their export business high-paying jobs are created. Ex-Im Bank has a long track record of developing creative solutions for small business exporters. We are in the business of creating and sustaining American jobs by supporting America's exporters.