

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

May 20, 2011

Mr. Osvaldo Luis Gratacós
Inspector General
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, DC 20571

Dear Mr. Gratacós:

The Subcommittee on International Monetary Policy and Trade will hold a hearing entitled "Legislative Proposals on Securing American Jobs Through Exports: Export-Import Bank Reauthorization," on Tuesday, May 24, 2011 at 2 p.m. EST in room 2128 of the Rayburn House Office Building. I am writing to confirm your invitation to participate at this hearing.

In your testimony, please provide your assessment of the attached discussion draft entitled "Securing American Jobs Through Exports Act of 2011." If there are other measures not reflected in the discussion draft that you believe would optimize the performance of the Bank in serving U.S. businesses, small and large, and increasing U.S. exports and promote domestic job growth, please identify them.

Please read the following material carefully. It is intended as a guide to your rights and obligations as a witness under the rules of the Committee on Financial Services.

The Form of your Testimony. Under the Rules of the Committee on Financial Services, each witness who is to testify before the Committee or its subcommittees must file with the Clerk of the Committee a written statement of proposed testimony of any reasonable length. Please also include with the testimony a current resume summarizing education, experience and affiliations pertinent to the subject matter of the hearing. This must be filed at least two business days before your appearance. Please note that changes to the written statement will not be permitted after the hearing begins. Failure to comply with this requirement may result in the exclusion of your written testimony from the record. Your oral testimony should not exceed five minutes and should summarize your written remarks. The Chair reserves the right to exclude from the printed record any supplemental materials submitted with a written statement due to space limitations or printing expense.

Submission of your Testimony. Please submit at least 100 copies of your proposed written statement to the Clerk of the Committee not less than two business days in advance of your appearance. These copies should be delivered to: The Committee on Financial Services, Attn: Committee Clerk, 2129 Rayburn House Office Building, Washington, D.C. 20515.

Due to heightened security restrictions, many common forms of delivery experience significant delays in delivery to the Committee. This includes packages sent via the U.S.

Postal Service, Federal Express, UPS, and other similar carries, which typically arrive 3 to 5 days later than normal. The United States Capitol Police have specifically requested that the Committee refuse deliveries by courier. The best method of delivery of your testimony is to have an employee from your organization deliver your testimony in an unsealed package to the address above. If you are unable to comply with this procedure, please contact the Committee to discuss alternative methods for delivery of your testimony.

The rules of the Committee require, to the extent practicable, that you also submit your written testimony in electronic form. The preferred method of submission of testimony in electronic form is to send it via electronic mail to fstestimony@mail.house.gov. The electronic copy of your testimony may be in any major file format, including WordPerfect, Microsoft Word, or ASCII text for either Windows or Macintosh. Your electronic mail message should specify in the subject line the date and the Committee or subcommittee before which you are scheduled to testify. You may also submit testimony in electronic form on a disk or CD-ROM at the time of delivery of the copies of your written testimony. Submission of testimony in electronic form facilitates the production of the printed hearing record and posting of your testimony on the Committee's Internet site.

Your Rights as a Witness. Under the Rules of the House, witnesses may be accompanied by their own counsel to advise them concerning their constitutional rights. I reserve the right to place any witness under oath. Finally, a witness may obtain a transcript copy of his/her testimony given in open, public session, or in a closed session only when authorized by the Committee or subcommittee. However, by appearing before the Committee or its subcommittees, you authorize the Committee to make technical, grammatical, and typographical corrections to the transcript in accordance with the rules of the Committee and the House.

The Rules of the Committee on Financial Services, and the applicable rules of the House, are available on the Committee's website at <http://financialservices.house.gov>. Copies can also be sent to you upon request.

The Committee on Financial Services endeavors to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, or have any questions regarding special accommodations generally, please contact the Committee in advance of the scheduled event (4 business days notice is requested) at (202) 225-7502; TTY: 202-226-1591; or write to the Committee at the address above.

Please note that space in the Committee's hearing room is extremely limited. Therefore, the Committee will only reserve one seat for staff accompanying you during your appearance (a total of two seats). In order to maintain our obligation under the Rules of the House to ensure that Committee hearings are open to the public, we cannot deviate from this policy.

Mr. Osvaldo Luis Gratacós
Page 3

Should you or your staff have any questions or need additional information, please contact Anthony Cimino at 202-225-7502

Sincerely,

A handwritten signature in cursive script that reads "Gary G. Miller". The signature is written in dark ink and is positioned above the printed name and title.

Gary G. Miller
Chairman
Subcommittee on International Monetary
Policy and Trade

SB/

cc: The Honorable Carolyn McCarthy, Ranking Member
Subcommittee on International Monetary Policy and Trade

Statement of
Honorable Osvaldo Luis Gratacós
Inspector General
Export-Import Bank of the United States

before the

United States House of Representatives
Committee on Financial Services
Subcommittee on International Monetary Policy and Trade

May 24, 2011 at 2:00 pm

Good afternoon, Chairman Miller, Ranking Member McCarthy, and distinguished members of this honorable Subcommittee.

Thank you for the invitation and opportunity to testify before you about the activities of the Office of Inspector General (OIG) and the programs and operations of the Export-Import Bank (Ex-Im Bank) as it relates to Securing American Jobs Through Exports: Export-Import Bank Reauthorization. Before I continue, I would like to thank the Almighty for this opportunity, my family, and the members of the Ex-Im OIG staff for their hard work.

I. Ex-Im Bank

The Ex-Im Bank is the official export credit agency (“ECA”) of the United States. Ex-Im Bank supports the financing of U.S. goods and services in international markets, turning export opportunities into actual sales that help U.S. companies of all sizes to create and maintain jobs in the United States. Ex-Im Bank has programs to address short, medium, and long-term needs of exporters; assuming the credit and country risks that the private sector is unable or unwilling to accept. Ex-Im Bank also helps U.S. exporters remain competitive by countering the export financing provided by foreign governments on behalf of foreign companies. At the same time, Ex-Im Bank must

safeguard taxpayer resources by determining that there is a reasonable likelihood of repayment with respect to each of its transactions.

Ex-Im Bank is experiencing unprecedented growth - achieving three straight years of record authorization levels. Ex-Im Bank is projecting another record year in FY 2011. For the first six months of FY 2011, Ex-Im Bank reported \$13.4 billion in new authorizations. Ex-Im Bank has achieved this increase with basically the same staffing level for the past decade. This not only demonstrates the commitment, knowledge, and expertise of the staff at Ex-Im Bank, but also the need in the market for government supported export financing in this very competitive and difficult credit market.

II. Ex-Im OIG

Ex-Im OIG was statutorily created in 2002¹ but the Inspector General (IG) did not officially take office until August 2007. Since reaching current staffing levels, the OIG has achieved noticeable success in performing its statutory duties. Specifically, the OIG has issued nineteen (19) audit and special reports containing over eighty-two (82) findings, recommendations, and suggestions for improving Ex-Im Bank programs and operations. Our investigative efforts have resulted in a number of law enforcement actions, including: fifty-nine (59) indictments and arrests; six convictions, fourteen (14) guilty pleas; and over one hundred and seventy eight (178) management referrals for enhanced due diligence actions. Since 2009, the total overall OIG financial impact is approximately \$209 million. Currently, the OIG is investigating thirty-seven (37) open matters representing approximately \$348 million in claims paid by Ex-Im Bank (or around 15.3% of all Ex-Im Bank claims paid as of the end of FY 2010). All of this has been accomplished with a very modest annual budget of \$2.5 million and a staff of eleven professionals.

¹ Export-Import Bank Reauthorization Act of 2002, P.L. 107-189, Sec 22 (June 14, 2002).

III. Securing American Jobs Through Export Act of 2011

Through this hearing and the reauthorization process, this honorable Subcommittee is carefully and thoughtfully considering amendments to the existing Ex-Im Bank charter. The OIG believes that some of the proposed language being considered by the Subcommittee directly impacts Ex-Im Bank challenges and weaknesses described in section IV below. Specifically, recognizing the need to improve Ex-Im Bank's IT infrastructure is an important step towards providing Ex-Im Bank with the appropriate tools to handle its mission. In order to effectively improve its IT capabilities, Ex-Im Bank should establish comprehensive IT development and implementation plans focused on available technology and benchmarked with systems used by other ECAs and private sector counterparts. The system should focus on the business needs of the different Ex-Im Bank components and be geared towards achieving Ex-Im Bank strategic goals.

Further, requiring Ex-Im Bank to develop comprehensive and clear guidance stating domestic content requirements provides Ex-Im Bank users with a clear understanding of what goods and services qualify for guarantees and insurance coverage and the level of financing. This would allow for more transparency and openness in conducting business with Ex-Im Bank. This guidance should be developed by determining the level of domestic content coverage provided by other ECAs, input from Ex-Im Bank participants (through Federal Register notices for public comments), and include clear internal policies and procedures for proper implementation by Ex-Im Bank staff (to prevent weaknesses listed in section IV below).

Proper implementation of these amendments could have a noticeable impact on Ex-Im Bank operations and future customers and clients by making Ex-Im Bank more efficient and competitive.

On a final note, the OIG respectfully petitions this honorable Subcommittee to reconsider the scope of Section 5(a)(i)(9), Report to Congress, requiring the Inspector General to provide a report on the impact of the domestic content rules on exporters. We believe that this requirement would be better served as part of Ex-Im Bank's implementation of its new guidance. The OIG would work closely with Ex-Im Bank and Congress to assess the effectiveness of data and methodologies used in the reporting to ensure that Ex-Im Bank and Congress can fully and appropriately evaluate the effectiveness of these new guidelines.

IV. Competitiveness: Operational Areas

In order to better meet export credit needs of the American exporters and improve the customer service experience of its participants while balancing its responsibilities, it is our opinion that Ex-Im Bank needs to address some operational weaknesses and challenges it is facing. We believe that addressing these operational weaknesses and challenges would provide Ex-Im Bank with a more efficient capability to create and maintain jobs in the United States. Besides increasing staffing levels to reflect the growth in authorizations, some of the challenges Ex-Im Bank needs to address are:

- *Inefficient and Ineffective Information Technology (IT) platform.* Ex-Im Bank uses an ineffective, inefficient, and fragmented IT platform and infrastructure composed of several systems and databases. These systems and databases do not effectively and accurately interface with each other - compromising data integrity, creating duplicative information, and unreliable files. Further, these systems makes data mining burdensome and time consuming.
 - Ex-Im Bank lacks an end-to-end IT system that allows for seamless management of applications/files, flow of information within the Bank, and would allow different components within the Bank to work on the same files at the same time from the same platform.
 - Ex-Im Bank lacks a centralized and comprehensive participant database that would allow the Bank to capture and track all the participants (lenders,

buyers, exporters, suppliers, brokers, agents, and others) involved at different transactions at any given moment in time. This weakness prevents Ex-Im Bank and our office from conducting effective forensic analysis to identify possible patterns in transactions.

- Because the IT platforms do not fully meet business and operational needs, Ex-Im Bank divisions and components have created subsequent data sub-systems to address the specific needs of that office or division. Some of these sub-systems require manual input of data and do not interface with Ex-Im Bank's main IT infrastructure creating additional data repositories.
- The above described IT system fragmentation creates a number of operational consequences for the Ex-Im Bank, such as:
 - Delays in approval of transactions
 - Data integrity issues (due to manual input or updates of data)
 - Multiple data storage locations
 - Burdensome and somewhat ineffective management of applications and assets
- *Develop Performance Standards and Metrics for Programs and Products.*

Ex-Im Bank has not developed annual performance plans or product performance metrics in order to properly quantify the effect and success of its products. Ex-Im Bank should develop these metrics in short and medium term products in order to determine whether:

 - The product is achieving the intended results
 - The product is reaching the intended audience
 - The marketing strategy is effective
 - The product is similar or more competitive than programs offered by other ECAs

-
- The product should be altered or eliminated
 - Acceptable levels of defaults and claims have been established
 - Levels of defaults and claims should be improved
 - Changes in original implementation strategies are needed
 - *Continue Efforts to Expand Small Business Participation.* Ex-Im Bank charter imposes a twenty (20) percent small business participation requirement of all of the authorizations every year. Ex-Im Bank has exceeded this mandate in the last two years and it is expecting to surpass it again in FY 2011. Ex-Im Bank has been able to achieve its mandate by:
 - Conducting Export Forums throughout the United States
 - Developing partnerships with different lenders, local governments, and industries
 - Creating products specifically for small businesses (Global Access, Express Insurance and Reinsurance products)
 - Continue collaboration and cooperation with other agencies, including the Small Business Administration and Department of Commerce, in order to reach out to small businesses. Enhancing export opportunities requires the participation, training, and collaboration of other federal agencies. The National Export Initiative addresses and encourages collaboration between agencies
 - *Continue Efforts to Expand Renewable Energy Products and to Create Clean Energy Export Opportunities.* Ex-Im Bank charter contains a Renewable Energy mandate of ten (10) percent of all the authorizations every year. Ex-Im Bank has not met this mandate yet, mainly because the renewable energy exports have not reached significant numbers (compared with the size of Ex-Im Bank's portfolio). Nonetheless, Ex-Im Bank has taken a proactive approach in developing renewable energy specific products such as Solar

Express, as well as reaching out to local companies such as wind and solar manufacturers.

- *Reduce the Time it takes to Approve Short and Medium Term Transactions.* Some Ex-Im Bank participants have complained in the past about the approval times and process. Reducing the time it takes to approve transactions would allow American exporters to develop better relationships with clients and customers, would encourage borrowers and sellers to use Ex-Im Bank, and would improve the services Ex-Im Bank provides to its users.

V. Other Observations from OIG Cases and Reports

Ex-Im Bank has the important responsibility of providing export financing in a very difficult credit environment while also protecting the taxpayers, the integrity of its programs, and the full faith and credit of the United States. In conducting our audits, evaluations, inspections, and investigations, the OIG has conveyed to Ex-Im Bank observations presented in transactions and programs under the OIG purview. These are:

- *Enhance Due Diligence and Credit Underwriting Practices (specifically for Short and Medium Term programs) and Training Efforts to Address Surge in Application and Decentralized Application Approval Process.* Currently, Ex-Im Bank uses a decentralized underwriting process. Given the lessons learned from the Medium Term program, the surge in the number of transactions and insufficient credit information and history from borrowers in some regions, it is vital that Ex-Im Bank enhances due diligence practices in order to better identify fraudulent transactions. With individual Delegated Authority as high as \$10 million, Ex-Im Bank needs to develop effective policies, procedures, and compliance practices to assess effectiveness of the delegations. Some of these policies should address the following:

- Uniform credit and underwriting standards to be used by all Ex-Im Bank credit officers
 - In regions where defaults and fraud experience is high, more frequent use of security interest in order to better mitigate risks associated with some of these transactions
 - In regions where defaults and fraud experience is high, and Ex-Im Bank does not have previous transactional experience with borrowers, the Bank should require independently audited financial statements
- *Require Lender Partners and Participants to Conduct, at a Minimum, Industry Standard Due Diligence on Government Guarantees and Insurance Transactions.* One of the patterns our office has observed in conducting our investigations is the lack of due diligence efforts conducted by lenders with a history of defaulted or fraudulent transactions. Even though there is an expectation that such efforts have been taken, Ex-Im Bank does not require participating lenders to conduct due diligence on their transactions. The OIG has anecdotal evidence of loan officers in lending institutions expressing their position that the lender would not spend resources on due diligence efforts when there is a government guarantee. Although the OIG is not in a position to state that this is a behavior demonstrated by all lenders, we can certainly state that this “moral hazard” issue has been prevalent in fraud cases involving multiple transactions. Effective implementation of Knowing Your Customers practices by lenders could help in minimizing or preventing the number of fraudulent cases Ex-Im Bank has experienced.
- *Improve Corporate Governance and Internal Control Policies and Practices.* One of the constant observations arising out of audits, evaluations, and investigations conducted by the OIG are the weaknesses in governance and internal controls, as they relate to business operations. Internal policies providing clear guidance to staff and establishing clear roles and authorities

are not prevalent at Ex-Im Bank. These areas need to be addressed as part of creating a better corporate governance culture.

VI. Conclusion

Ex-Im Bank has an important role in creating and maintaining jobs by facilitating exports through export finance products provided to American exporters. Three years of record exports authorization levels only support that role. While Ex-Im Bank continues to provide export credit and financing as part of its export credit agency functions, it should work to improve its operational effectiveness and efficiencies in its quest of achieving the National Export Initiative's goal of doubling exports in the next four years.

I have highlighted some of those areas based on observations and relevant work performed by the OIG in order to illustrate the importance of proper management, oversight of strategies, and to incorporate lessons learned from prior Ex-Im Bank's activities. The OIG will continue to enhance its independent oversight role as well as strengthen its efforts in preventing and detecting fraud, waste, and abuse.

Chairman Miller, Ranking Member McCarthy and members of this honorable Subcommittee, thank you once again for the opportunity to testify before you today. I would be pleased to respond to any questions you may have. Thank you!

June 3, 2011

Thank you for testifying at the May 24, 2011, Subcommittee on International Monetary Policy and Trade hearing entitled, "Legislative Proposals on Securing American Jobs Through Exports: Export-Import Bank Reauthorization."

A copy of your transcript has been provided should you wish to make any corrections. Please indicate these corrections directly on the transcript. **Due to the disruption of mail service to the House of Representatives we ask that you fax or e-mail your corrections in lieu of mailing them. Please send your corrections within (15) business days upon receipt to:**

Terrie Allison, Editor
Committee on Financial Services
Fax (202) 225-4254
terrie.allison@mail.house.gov
Phone (202) 225-4548

Rule XI, clause 2(e)(1)(A) of the Rules of the House and Rule 8(a)(1) of the Rules of the Committee state that the transcript of any meeting or hearing shall be "a substantially verbatim account of the remarks actually made during the proceedings, subject only to technical, grammatical, and typographical corrections authorized by the person making the remarks involved." We therefore ask that you keep your corrections to a minimum.

Also included are questions submitted by Representative Carolyn McCarthy. We ask that you respond to these questions in writing for the record within 15 business days. Your responses may be faxed or e-mailed. See information above.

If during the hearing you: (1) offered to submit additional material; or (2) were requested to submit additional material; please submit this material via electronic mail by sending it to terrie.allison@mail.house.gov. If you are unable to submit the material electronically, please contact the Committee staff to arrange for submission.

Rep. Carolyn McCarthy (NY-4)

Panel 2: Mr Gratacos:

Your testimony touches on the required action of the IG to report to Congress evaluating the content guideline that the Bank must adopt.

- Please explain the impact such a function could have on your resources, and if that would impact your ability to carry out the other duties your office is required to perform?

DO NOT DETACH

U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Date 6/3/11

Referred to Oswaldo Gratacós

Attached is a transcript of your remarks given before the Committee.

Listed below are the pages on which your remarks begin (and may continue on the next or succeeding pages). Please legibly indicate any corrections thereon and attach all insert or supplemental information to the proper page or pages to which it is to appear.

Clause 2(e)(1)(A) of rule XI of the Rules of the House and rule 8(a)(1) of the Rules of the Committee on Financial Services provides that the transcript of any meeting or hearing shall be "a substantially verbatim account of the remarks actually made during the proceedings, subject only to technical, grammatical, and typographical corrections."

Supplemental material supplied for the record should be of photographic quality for reproduction. Please indicate clearly, by page and line, where *supplemental requested material* is to be placed. If the requested information is sent directly to the Member requesting such information, a copy *should also* be attached to this transcript.

See pages _____

Terrie Allison

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1 RPTS KESTERSON

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3 LEGISLATIVE PROPOSALS ON SECURING

4 AMERICAN JOBS THROUGH EXPORTS:

5 EXPORT-IMPORT BANK REAUTHORIZATION

6 Tuesday, May 24, 2011

7 House of Representatives,

8 Subcommittee on International

9 Monetary Policy and Trade,

10 Committee on Financial Services,

11 Washington, D.C.

12 The subcommittee met, pursuant to call, at 2:55 p.m., in
13 Room 2128, Rayburn House Office Building, Hon. Gary Miller
14 [chairman of the subcommittee] presiding.

15 Present: Representatives Miller of California, Dold,
16 Manzullo, Huizenga, Moore, and Scott.

1000 Chairman MILLER OF CALIFORNIA. I would like to call the
1001 next panel forward. As they are seating, I would like to
1002 take time to introduce each one of them.

1003 Mrs. Donna K. Alexander is chief executive officer of
1004 the Bankers' Association for Finance and Trade -
1005 International Financial Services Association, BAFT-IFSA. Ms.
1006 Alexander formerly served on the U.S. Export-Import Bank
1007 Sub-Saharan African Advisory Committee, representing the
1008 financial services industry.

1009 Mrs. Thea Lee has served as a deputy chief of staff for
1010 the American Federation of Labor and Congress of Industrial
1011 Organizations, AFL-CIO, since 2009. She is also a member of
1012 the State Department Advisory Committee for International
1013 Economic Policy and the Export-Import Bank Advisory
1014 Committee.

1015 Mr. Osvaldo Luis Gratacos--did I do that properly or was
1016 I close?

1017 Mr. GRATACOS. Close enough.

1018 Chairman MILLER OF CALIFORNIA. Close enough, that will
1019 work. Osvaldo--is that right?

1020 Mr. GRATACOS. Yes.

1021 Chairman MILLER OF CALIFORNIA. Okay--is the inspector
1022 general for the Export-Import Bank, serving as acting
1023 inspector general since October 2009. Before his nomination,
1024 Mr. Gratacos served as the deputy inspector general and

1025 | counsel to the inspector general, where he served as OIG's
1026 | principal administrative and legal officer.

1027 | Mr. John Hardy--that is an easier one to pronounce--is
1028 | president of the Coalition for Employment Through Exports,
1029 | CEE. Mr. Hardy has spent his career, both in the government
1030 | and the private sector, on export promotion and project of
1031 | trade finance sector.

1032 | Dr. Matthew Slaughter is the associate dean for the MBA
1033 | program and the Signals Company professor of management at
1034 | the Tuck School of Business at Dartmouth College. Professor
1035 | Slaughter is a keynote speaker to many audiences and business
1036 | and policy communities and has testified before both chambers
1037 | of the U.S. Congress.

1038 | I believe, in fact, just last month, you were invited by
1039 | the minority to testify before the Domestic Monetary Policy
1040 | Committee. Is that correct?

1041 | Mr. SLAUGHTER. That is correct.

1042 | Chairman MILLER OF CALIFORNIA. Mrs. Alexander, you are
1043 | recognized for 5 minutes.

1044 | Thank you all for coming.

1274 Chairman MILLER OF CALIFORNIA. Thank you.

1275 Mr. "Gratacos"? Is that closer?

1276 Mr. GRATACOS. "Gratacos." Yeah.

1277 Chairman MILLER OF CALIFORNIA. Okay. You are
1278 recognized for 5 minutes, sir. And I apologize for
1279 butchering your name.

1280 STATEMENT OF OSVALDO LUIS GRATACOS

1281 Mr. GRATACOS. No, it is fine.

1282 Good afternoon, Chairman Miller and distinguished
1283 members of this subcommittee. Thanks for the opportunity to
1284 testify about the activities of the Office of Inspector
1285 General and the programs and operations at Ex-Im Bank.

1286 Before I continue, I would like to thank you for this
1287 opportunity, my family and members of the Ex-Im OIG staff.

1288 In my remarks, I will provide a brief history of the OIG
1289 and some of its accomplishments. Then I will discuss some of
1290 the challenges and inefficiencies Ex-Im Bank is facing in
1291 performing its mission, based on our reports and
1292 observations. Finally, I will provide some observations on
1293 some of the charter language proposed of this subcommittee.

1294 Ex-Im OIG was created by law in 2002, but the inspector
1295 general, the IG, did not take office until August 2007.

1296 | Since reaching current staff levels, about 11 folks, the OIG
1297 | has achieved noticeable success in performing its duties.
1298 | Especially, the OIG has issued 19 audits and special reports
1299 | containing over 82 findings, recommendations, and suggestions
1300 | for improving Ex-Im Bank programs and operations. Law
1301 | enforcement actions total 59 indictments and arrests, 6
1302 | convictions, 14 guilty pleas, and over 178 management
1303 | referrals for enhanced due diligence actions.

1304 | Currently, we have 37 matters under investigation
1305 | involving 534 transactions, totaling \$350 million in claims
1306 | paid by Ex-Im Bank. Since 2009, the total overall IG
1307 | financial impact is approximately \$209 million, while our
1308 | budget has remained at 2.5 per year.

1309 | Ex-Im Bank, as the official credit agency of the United
1310 | States, is experiencing incredible growth in the last few
1311 | years. In order to provide a more effective and competitive
1312 | environment, Ex-Im needs to address some of its operational
1313 | weaknesses and inefficiencies.

1314 | Some of these are: replacing an aging and ineffective
1315 | infrastructure. The current infrastructure is old,
1316 | fragmented, does not adequately support Ex-Im Bank's business
1317 | needs, limits the Bank's ability to meet the market demands,
1318 | and requires manual inputs, leading to human errors.
1319 | Currently, my office has undertaken a comprehensive audit of
1320 | IT systems, subsystems, and other infrastructures at the

1321 Bank, with the objective of looking for ways to improve the
1322 system and to look at expenditures throughout the years.

1323 Number two, Ex-Im Bank needs to reduce transactional
1324 approval times for its short- and medium-term programs.
1325 Ex-Im recognizes this inefficiency and is working toward a
1326 way to fix it. We are commencing work on an evaluation and
1327 review of the process, with the objective of improving this.

1328 Number three, develop annual performance plans to
1329 measure program and product effectiveness. This would allow
1330 Ex-Im to allocate the resources objectively, based on success
1331 or failure of its product. After discussion with my office,
1332 Ex-Im has agreed to develop this plan starting in fiscal year
1333 2012.

1334 Regarding the current language proposed by the
1335 subcommittee, we have some observations. In Section 5, this
1336 report to Congress, asking the IG to issue a report on some
1337 areas regarding domestic content rules, we respectfully
1338 petition this subcommittee to reconsider the proposed
1339 language here, in fact, because we strongly believe that some
1340 of the topics covered by the report will fall outside the
1341 statutory duties of fraud, waste, and abuse of the IG.
1342 Further, it contains potential negative budget implications
1343 for our office, given the limited budget that we have.

1344 Finally, Section 6, talking about IT improvements, it
1345 recognizes Ex-Im IT weaknesses; however, a positive outcome

1346 | is only achievable if Ex-Im Bank develops comprehensive IT
1347 | strategic and implementation plans focused on the business
1348 | needs of the Bank and the markets.

1349 | Chairman Miller and members of this subcommittee, thank
1350 | you once again for the opportunity to testify before you.
1351 | And I will be pleased to respond to any questions you might
1352 | have.

1353 | [The statement of Mr. Gratacos follows:]

1354 | ***** INSERT 1-4 *****

2299 Mr. SCOTT. Thank you.

2300 Chairman MILLER OF CALIFORNIA. Thank you, Mr. Scott.

2301 Mr. Dold?

2302 Mr. DOLD. Thank you, Mr. Chairman.

2303 Mr. Gratacos, we haven't heard from you in a little
2304 while, so I thought we would at least try to mix it up a
2305 little bit.

2306 Chairman MILLER OF CALIFORNIA. Go to the middle.

2307 Mr. DOLD. Yeah, go right to the middle. We will get
2308 right in the middle of the table.

2309 Ex-Im Bank has, what I have been told, a pretty
2310 antiquated IT system. Would you agree?

2311 Mr. GRATACOS. Absolutely, yes.

2312 Mr. DOLD. Can you tell me, do you believe that this
2313 represents a risk to the Bank?

2314 Mr. GRATACOS. Not only a risk, I mean, we have
2315 complaints about how some of the human errors have actually
2316 affected some of the transactions. When you look into the
2317 systems, they have disappeared or the buyer's name has
2318 disappeared, so when the claim is going to be submitted, it
2319 is inconsistent with the paperwork. And so we have included
2320 that as part of our audit that we conduct on the systems.

2321 We have been very outspoken on the changes needed to
2322 improve the efficiency of the Bank. I mean, if the Bank
2323 wants to meet the growth, this is one of the functions--one

2324 | of the areas they need to improve significantly.

2325 | Mr. DOLD. And you talk about growth. Do you believe
2326 | that raising the Ex-Im Bank's exposure cap from \$100 billion
2327 | dollar to \$160 billion is going to be a risk to the
2328 | taxpayers?

2329 | Mr. GRATACOS. That is a good question. I think the
2330 | risk to the taxpayers is how Ex-Im will handle the internal
2331 | management of the assets and how it conducts the underwriting
2332 | practices. I think that is a focus of the Bank regardless of
2333 | the level of authorization. And I think part of the report
2334 | that we have issued goes along these lines, trying to
2335 | highlight some of the inefficiencies or areas of improvement
2336 | in the underwriting practices across programs.

2337 | Mr. DOLD. Okay.

2338 | Dr. Slaughter, in your testimony, you recommend a
2339 | significant increase in Ex-Im's total financing cap. Can you
2340 | tell me and just, you know, elaborate on the importance of
2341 | that? And is this a big enough increase? Would you like to
2342 | see it be higher? Can you just elaborate?

2343 | Mr. SLAUGHTER. Sure, Congressman.

2344 | Again, for the U.S. To have a sustainable recovery, we
2345 | can't just build back the kinds of jobs we had before the
2346 | crisis. Part of the reason we had the crisis was low
2347 | savings, excess consumption in the United States. So, again,
2348 | I think the President's initiative, the thing about doubling

2349 American exports. But, boy, we can't just kind of hope that
2350 that happens.

2351 And one of the policy mechanisms we could have would be
2352 to substantially increase the lending cap for Ex-Im Bank to
2353 really help America, different firms, big and little, have
2354 the opportunity to grow export sales. And I think Mr.
2355 Hardy's data that he cited are pretty telling, when you look
2356 at how aggressive other countries are in their support for
2357 exports sales by their companies.

2358 Mr. DOLD. One of the things that--we have a number of
2359 small businesses. We always focus on some of the larger
2360 businesses; they seem to get a little bit more of the
2361 headlines. You get, you know, the big airplanes that are
2362 going over with Boeing or GE or something along those lines.
2363 In the 10th District in Illinois, my hometown, actually, we
2364 have a great record because over 80 percent of the loans made
2365 by Ex-Im are made to small businesses, which I think are
2366 important.

2367 What should we be doing to encourage or at least get
2368 that promotion out for small businesses? When we talk about
2369 that cap, when we talk about trying to increase exports, I
2370 view it has to be across all sectors, not just some of the
2371 larger ones.

2372 Mr. SLAUGHTER. So, I think two things. One is the
2373 focus on services. I think a lot of smaller businesses, some

2374 | of them are manufacturing but others are in a range of
2375 | activities, and they can find these niche markets abroad that
2376 | they can sell into.

2377 | And I think the observations earlier about the
2378 | information systems, I think a lot of smaller businesses,
2379 | they need those technology-mediated connections to be able to
2380 | make things work for them.

2381 | Mr. DOLD. Great.. ..

2382 | Thank you, Mr. Chairman. I yield back.

2383 | Chairman MILLER OF CALIFORNIA. Thank you.

2384 | I would like to thank you for your testimony on the
2385 | discussion draft. It was veryinformative.

2386 | The chair notes that some Members may have additional
2387 | questions for this panel, which they may wish to submit in
2388 | writing. Without objection, the hearing record will remain
2389 | open for 30 days for Members to submit written questions to
2390 | these witnesses and to place their responses in the record.

2391 | This hearing is adjourned. Thank you.

2392 | [Whereupon, at 5:00 p.m., the subcommittee was
2393 | adjourned.]

Response to Question from the
Statement of
Honorable Osvaldo Luis Gratacós
Inspector General
Export-Import Bank of the United States
before the
United States House of Representatives
Committee on Financial Services
Subcommittee on International Monetary Policy and Trade
on
May 24, 2011

Question: Your testimony touches on the required action of the IG to report to Congress (sic) evaluating the content guideline that the Bank must adopt: please explain the impact such a function could have on your resources, and if that would impact your ability to carry out the other duties your office is required to perform?

Response: Thank you for the opportunity to testify before the Subcommittee on International Monetary Policy and Trade and to respond to this question. H.R. 2072, *Securing American Jobs Through Exports Act of 2011*, Section 5(i)(7), Report to Congress, directs the Inspector General (IG) of the Export-Import Bank (Ex-Im) to conduct an evaluation of the impact on exporters and jobs of new or modified domestic content guidelines enacted by Ex-Im. This section states the reporting period for the IG report and broadly dictates the factors, elements, and areas that should be included in this report. We strongly believe that the scope of this evaluation falls outside the statutory role of the IG to detect and prevent fraud, waste, and abuse and could have U.S. Government-wide policy implications. Further, if H.R. 2072 is passed as written, the OIG is not structured or sufficiently financed to successfully produce such a report.

Impact upon the Statutory Role and Structure of the OIG: The Office of Inspector General (OIG) was been established by the Inspector General Act of 1978 to provide an independent office within federal agencies to detect and prevent fraud, waste, and abuse while improving the efficiency and effectiveness of the agencies' operations. The statutory role of the OIG, as it relates to domestic content guidelines issued by Ex-Im, is

not to determine what approach (more domestic content mandate or less domestic content mandate) may create or sustain more jobs, but the OIG role is to determine how effective and efficient Ex-Im develops and implements the guidelines and monitors the content levels represented by participants of supported exports. The language of section 5 requires the OIG to step out of its statutory role to develop an evaluation of the economic impacts of the domestic content guidelines on exporters and the job market and to recommend how to improve the guidelines to foster greater job creation. Providing guidance on an executive policy route Ex-Im should embark on and using the IG to determine the effectiveness of such guidance can be construed as an extension of the political process, something traditionally considered outside the statutory duties of the OIGs and that may affect the operational independence of its functions.

Impact upon the Financing of the OIG: In order to effectively evaluate the economic impact of the domestic content guidelines on domestic jobs, the industries and kind of jobs affected, and how these guidelines can be modified to have a better impact on maintaining jobs and job creation, this office would be required to contract for the services of consultants, economists, and other professionals who can accurately collect, analyze, and interpret the data collected from Ex-Im, exporters, manufacturers, trade organizations, labor unions, U.S. Department of Labor, U.S. Department of Commerce, U.S. Small Business Administration and other economic indicators. These are capabilities that the OIG office, with a staff of eleven (11) career professionals and a current budget of \$2.5 million per year, does not have in-house. In order to effectively monitor such a contract and prepare the appropriate report, the OIG office would have to devote 2 – 3 staff to work with these consultants. Currently, our office produces 6 – 7 audits/evaluations a year (with three auditors) and is investigating over 500 transactions/claims (consisting of 37 investigations conducted by five agents). In the years when the report is required, the OIG would have to shift resources away from areas of Ex-Im operations already identified by our office to address the reporting requirements imposed by Section 5(i)(7).

As a new office, we have struggled to receive appropriate funding to address the areas of oversight this office has identified and to address the significant growth Ex-Im has experienced in the past several years. Although budget increases have been requested by the OIG, submitted by OMB, and recognized by the U.S. Senate, this office has yet to receive a budget increase in three fiscal years. Increasing reporting requirements while limiting funding would inevitably reduce our ability to positively influence Ex-Im operations.

Summary and Alternative Approach: The OIG respectfully petitions this honorable Subcommittee and Committee to reconsider the language of Section 5(i)(7), Report to Congress, requiring the Inspector General to provide a report on the impact of the domestic content guidelines on exporters. We believe that this evaluation would be better served as part of Ex-Im Bank's implementation of its new guidelines. The OIG would work closely with Ex-Im Bank and Congress to assess the effectiveness of data and methodologies used in the reporting (similar to our current role reviewing Economic Impact guidelines used by Ex-Im)¹ to ensure that Ex-Im Bank and Congress can fully and appropriately evaluate the effectiveness of these new guidelines.

Using OIG funds to conduct an exhaustive and broad evaluation of the impact of the domestic content guidelines will negatively impair our ability to focus on the true statutory mission of the Inspector General Act of 1978, which is to protect and detect fraud, waste, and abuse.

Thank you again for this opportunity to further explain the impact this provision will have on the OIG.

¹ The OIG Economic Impact Report can be found at http://www.exim.gov/oig/documents/EIB_Report_Final_Complete_Web.pdf