Congress of the United States
Washington, DC 20515

October 25, 2012

The Honorable Fred P. Hochberg
President and Chairman of the Board
Export-Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, DC 20571

Dear Mr. Chairman:

While we appreciate the Export-Import Bank's submission of its statutorily required Business Plan to Congress last month, we are disappointed by the document we received. In our view, the document does not adequately address Congressional concerns regarding the Bank's operations and exposure to risk.

The Business Plan states "the Bank's risk management program is comprehensive" but only a few weeks ago the Bank's Inspector General issued a report that found "Ex-Im Bank does not have an effective risk management function" and that "Ex-Im Bank lacks a systematic approach to identify, measure, price, and reserve for its portfolio risk." The Inspector General made recommendations to remedy these weaknesses but management at the Bank has rejected several of the Inspector General's recommendations and has stated that the Bank's current practices are sufficient. Does the Bank disagree with the Inspector General's finding that risk mitigation at Ex-Im "is largely fragmented and does not address the totality of enterprise risk, nor how these risks may interrelate"?

The Business Plan also states the Bank's "monitoring function is independent of underwriting to ensure that it remains unbiased," which conflicts with the Inspector General's assertion that the Bank lacks an over-arching risk management policy that incorporates portfolio management best practices. How did the Bank determine that the monitoring function should be independent from the underwriting function? Was the Board of Directors engaged in the decision making process? How does the Bank stay abreast of up-to-date best practices used by other export credit agencies (ECAs) and why would the Bank dismiss these best practices? For example, the majority of foreign ECAs and U.S. federal agencies employ sub-limits to mitigate risk, but the Bank rejected the Inspector General's recommendation to implement "soft portfolio concentration sub-limits based on industry, geography, or asset class as internal guidance to manage risk tolerance levels and return paramaters." Does the Bank disagree that the current portfolio is subject to significant risk as a result of concentrations by industry, geography, and asset class?

The Bank's credit exposure is highly concentrated by industry, with just three industries comprising 74 percent of total exposure, but the Business Plan does not acknowledge the risks associated with a non-diversified portfolio. The largest share of this exposure is in the aircraft sector, a sector that now makes up more than half of the Bank's entire portfolio. A negative credit event in the aircraft sector could put American taxpayers on the hook for a massive bailout, but the Business Plan simply notes that "aircraft financing, the largest component, has marginally increased its share of the portfolio." The

Bank does not indicate whether it plans to mitigate this risk. Please explain how the Bank will mitigate future portfolio risk and implement industry best practices.

The Business Plan also seems inconsistent with projections provided to Congress by the Administration just this past March and in several instances the Business Plan is sorely lacking in detail:

- In March 2012, the Bank's end-of-year total authorizations for FY12, FY13, and FY14 were considerably less than the estimates and projections in the September 2012 Business Plan. What accounts for this change?

- In March 2012, the Bank's new authorization projection for FY12 was $11.2 billion, which is 31% higher than the Business Plan estimate. However, the new authorizations for FY13 and FY14 are largely unchanged in the September plan. Why did the FY12 authorization amount drop in the Business Plan, while the FY13 and FY14 authorizations remained consistent with the March 2012 report?

- In March 2012, the Bank stated "the authorization amount of aircraft transactions [in FY13, FY14 and FY15] is also expected to decrease due to the new, higher fee levels." However, the Business Plan shows an increase of $200 million for airlines and leasing companies in FY13 over FY12 and a significantly larger increase of $1.7 billion in FY14 over FY13. Why? What has changed since March? Why is there no mention of the high fees as an authorization driver in the Business Plan and why did the March estimate fail to include the drivers listed in the Business Plan?

- The Business Plan shows extremely large growth of $3 billion, or 30%, in FY14 for authorizations labeled as "Uncategorized /Other." Why didn't the Bank identify the industries within the Uncategorized/Other projection? What industries comprise this uncategorized projection?

- The Business Plan projects Trade Credit Insurance will increase by $1 billion, or 43%, in FY14. The FY14 increase follows a small decline in FY12 Trade Credit Insurance and a small increase in FY13 Trade Credit Insurance. The Business Plan attributes the FY14 increase to "a strengthened banking outreach strategy and the new products designed for underserved small business exporters." Is the Bank actively soliciting insurance customers? If so, what are the risks of soliciting new business?

- The Business Plan indicates that the Bank will request additional resources, including staff. What are the proposed staffing increases and how would the additional resources be used to manage the growing portfolio, market Bank products and reach the small business mandate? Will the projected authorization levels be affected if new resources are not provided?

- The Business Plan asserts that the Bank does not have a "carbon policy mandate." However, the Bank agreed to a legal settlement in 2008 that requires it to provide a facility of at least $250 million for renewable energy projects. Why did the Business Plan fail to acknowledge this legal mandate and discuss its implications?

Given the many questions left unanswered by the Business Plan, we are curious if, prior to its submission to Congress, the Plan was reviewed by the bipartisan Board of Directors. If not, why not?

During the debate over reauthorizing the Bank, many Members of the House and Senate expressed concern about Ex-Im's rapid growth and its ability to appropriately manage a growing portfolio. The Bank's own Inspector General recently found that "Ex-Im Bank's current risk management framework and governance structure are not commensurate with the size, scope, and strategic ambitions of the institution." The Business Plan should provide a clear path forward and assure Congress and the public that a taxpayer-financed bailout of the Bank's $100 billion portfolio will never be necessary. In the uncertain times we are now experiencing, it is crucial that the Bank's Business Plan go beyond merely business-as-usual.

Thank you for your attention to this important matter and we look forward to a written response to each of the questions above by not later than November 9, 2012.

Sincerely,

ERIC CANTOR
Majority Leader
U.S. House of Representatives

SPENCER BACHUS
Chairman
Committee on Financial Services

JIM JORDAN
Chairman
Republican Study Committee

cc: Government Accountability Office