EX-IM COALITION
SUPPORTING U.S. JOBS

Contact Us:
info@exportersforexim.org

Is Ex-Im A Risk To Taxpayers?

No, Findings Show Bank Is Profitable At Little Risk

Key Findings:

- **The U.S. Export-Import Bank (Ex-Im) earned a profit in 2014, covering its expenses and sending $675 million to the Treasury**
- **CBO's fair-value analysis can't meaningfully quantify risk and reward for Ex-Im**
- **Two major indicators of financial risk, the default rate and reserve ratio, suggest Ex-Im makes judicious loans and guarantees**

January 2015

The Ex-Im Bank Makes Money For The U.S. Taxpayer

Ex-Im Profits Reduce The U.S. Deficit

Each year the U.S. Export-Import Bank (Ex-Im) makes loans to foreign borrowers to purchase goods made in the United States. In exchange, borrowers repay their loans with interest. Along with fees, this comprises Ex-Im's revenue.

Ex-Im uses the interest and fees it receives to cover all of its own operating expenses, meaning U.S. taxpayers don't actually fund any of Ex-Im's operations. When the Bank's revenue exceeds the cost of doing business, taxpayers make money. In 2014, taxpayers made $675 million from Ex-Im. The year before that it was $1 billion (Fig. 1). Over the last two decades, taxpayers have profited more than $7 billion. That's $7 billion that went to reducing the U.S. deficit.

There aren't many government agencies that fund themselves. There are even fewer that can say they reduce the deficit. So why do some critics still believe Ex-Im is a risk to taxpayers?

Ex-Im Uses The Same Accounting Method As The Rest Of The Government

Ex-Im uses the accounting method that all government programs are required to use by law under the Federal Credit Reform Act (FCRA).

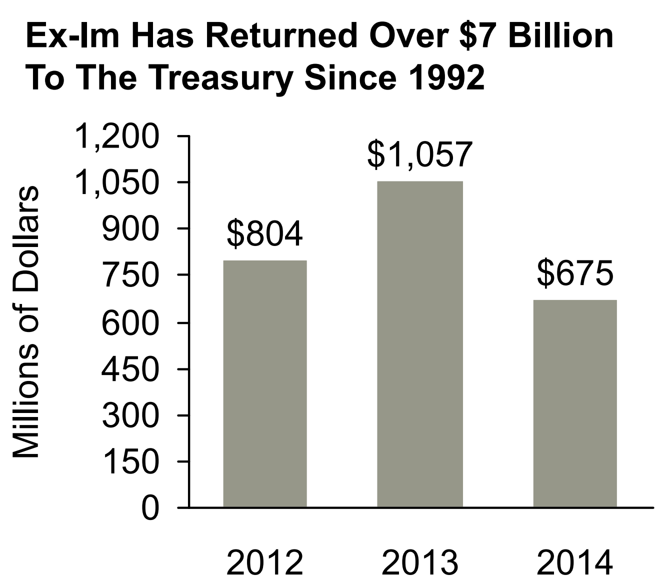
Some Ex-Im critics point to an analysis by the Congressional Budget Office (CBO) that considers an alternative accounting method called fair-value estimation. While the fair-value approach has its uses, it does not provide actual data on whether or not Ex-Im is profitable.

CBO's Analysis Attempts To Compare Ex-Im And Private Bank Loans

CBO's fair-value analysis seeks to compare Ex-Im loans and guarantees to those of private banks. If private banks generate higher returns than Ex-Im for similar loans, one can conclude that Ex-Im and taxpayers are losing out on potential profits.

However, there's a big problem with this logic – there are no comparable loans or guarantees in the private sector. Ex-Im only lends where the

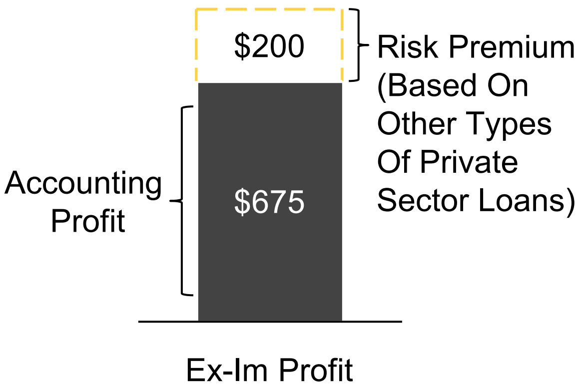
Fig 1: Ex-Im Profits



Source: Export Import Bank Financial Statements

Fig. 2: Ex-Im vs. CBO Budget

CBO Projected Foregone Risk Premiums, Not Losses



private sector is unable or unwilling in order to match foreign competition.

U.S. exporters turn to Ex-Im precisely because financing alternatives in the private sector don't exist. This happens for a variety of reasons including commercial lending regulatory constraints or customer requirements. Without a private sector equivalent, the fair-value approach becomes a guessing game. CBO didn't release the private sector loans it used to compare to Ex-Im loans, but if it did, going loan-by-loan would reveal key differences.

Foregone Risk Premiums Don't Equate To Loss

Using fair-value accounting, CBO forecasts an Ex-Im "cost" of $200 million a year over the next ten years. However, Ex-Im didn't experience an accounting loss of $200 million in the latest fiscal year, but a profit of $675 million.

What's the difference?

The $675 million is actual profit, while the $200 million reflects the projected foregone risk premium that Ex-Im could theoretically have received for making these loans. If the results of CBO's analysis were true, the risk premium is potential compensation Ex-Im could receive by charging higher rates of interest. CBO doesn't project actual losses for the Ex-Im Bank.

Big Rewards With Low Risk

While fair-value accounting is not the solution to evaluating Ex-Im, it is helpful to know the differences. Fortunately, there are two other indicators of financial risk that Ex-Im uses, the default rate and the reserve ratio.

Default Rate

The Ex-Im Bank had a default rate of .175 percent at the end of its 2014 fiscal year, while commercial banks' default rate was 2.1 percent. In other words, the Ex-Im Bank's default rate is about 12 times lower than that of the private sector.

Financial Reserves

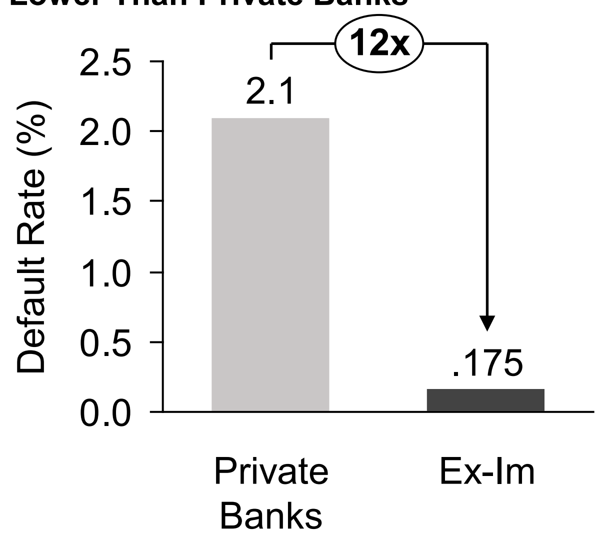
Like any good steward, the Ex-Im Bank sets aside a certain amount of the money it generates in case of default. As of Sept. 30, 2014, the most recent data for which data is available, the Ex-Im Bank's reserve rate was 4.5 percent compared to 1.6 percent for the commercial U.S. banking industry. In dollar terms, that means Ex-Im has over five billion dollars in reserves to protect against any possible losses on its $112 billion in financing.

Conclusion

The Ex-Im Bank's financial reserves, low default rate, and history of generating money for the U.S. taxpayer prove that the agency doesn't put taxpayer money at risk.

Fig. 3: Default Rates

Ex-Im's Default Rate Is 12 Times Lower Than Private Banks'



Private Banks = Comm. bank loans 90+ days past due to total loans. Ex-Im = claims paid + loans 90+ days past due to total financing.