GAO

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Highlights

Highlights of GAO-13-303, a report to congressional committees

Why GAO Did This Study

Ex-Im helps U.S. firms export goods and services by providing a range of financial products. The Export-Import Bank Reauthorization Act of 2012 increased the statutory ceiling on the agency's total exposure to $140 billion in 2014. The act also requires GAO to evaluate Ex-Im's growth and the effectiveness of its risk management. This report discusses (1) how Ex-Im's business changed in recent years and possible reasons for these changes; (2) how Ex-Im determines credit subsidy costs, loss reserves and allowances, and product fees, and how these processes account for different risks; (3) how Ex-Im's financial portfolio has performed and the budgetary impact of its programs; and (4) the extent to which Ex-Im has a comprehensive risk-management framework. To address these objectives, GAO analyzed Ex-Im's financial data, policies and procedures, and processes for calculating program costs and loss reserves. GAO also interviewed Ex-Im officials and other entities involved in export financing.

What GAO Recommends

Ex-Im should (1) assess whether it is using the best available data for adjusting the loss estimates for longer-term transactions to account for global economic risk, (2) retain point-in-time performance data to compare the performance of newer and older business and to enhance loss modeling, (3) report stress testing scenarios and results to Congress, and (4) develop benchmarks to monitor and manage workload levels. Ex-Im agreed with each of these recommendations.

View GAO-13-303. For more information, contact Mathew J. Scirè at (202) 512-8678 or sciremj@gao.gov.

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EXPORT-IMPORT BANK

Recent Growth Underscores Need for Continued Improvements in Risk Management

What GAO Found

From fiscal year 2008 to fiscal year 2012, the U.S. Export-Import Bank's (Ex-Im) outstanding financial commitments (exposure) grew from about $59 billion to about $107 billion, largely in long-term loans and guarantees. Factors associated with this growth include reduced private-sector financing following the financial crisis and Ex-Im's authorization of direct loans—a product not offered by export credit agencies in some other countries—to fill the gap in private-sector lending.

Ex-Im's processes for determining credit subsidy costs, loss reserves and allowances, and fees account for multiple risks. To implement the Federal Credit Reform Act of 1990 and other requirements, Ex-Im calculates subsidy costs and loss reserves and allowances with a loss model that uses historical data and takes credit, political, and other risks into account. Consistent with industry practices, Ex-Im added factors to the model in 2012 to adjust for circumstances that may cause estimated credit losses to differ from historical experience. Opportunities exist to further improve the model. For example, Ex-Im uses a 1-year forecast of certain bond defaults to predict possible changes in loss estimates from changed economic conditions. However, a short-term forecast may not be appropriate for adjusting estimated defaults for longer-term products. Ex-Im's fees are generally risk-based and, for medium- and long-term products (about 85 percent of Ex-Im's exposure), guided by international agreements that set minimum fees that account for credit and political risk.

As of December 2012, Ex-Im reported an overall default rate of less than 1 percent. However, Ex-Im has not maintained data needed to compare the performance of newer books of business with more seasoned books at comparable points in time, a type of analysis recommended by federal banking regulators. Also, without point-in-time data showing when defaults occur, the precision of Ex-Im's loss model may be limited. Ex-Im has been self-sustaining since 2008 and has generated receipts for the government. But, because Ex-Im's portfolio contains a large volume of recent transactions, the long-term impact of this business on default rates and the federal budget is not yet known.

Ex-Im has been developing a more comprehensive risk-management framework but faces operational risks. Ex-Im manages credit and other risks through transaction underwriting, monitoring, and restructuring. Ex-Im also started addressing recommendations by its Inspector General (IG) about portfolio stress testing, thresholds for managing portfolio concentrations, and risk governance. GAO's review of internal control standards and industry practices indicates that the IG's recommendations represent promising techniques that merit continued attention. Ex-Im has not yet made plans to report its stress test scenarios and results to Congress, although doing so would aid congressional oversight and be consistent with internal control standards for effective external communication. Ex-Im faces potential operational risks because the growth in its business volume has strained the capacity of its workforce. Ex-Im has determined that it needs more staff, but it has not formally determined the level of business it can properly manage. GAO internal control standards state that agencies should develop a risk-management approach based on how much risk can be prudently accepted. Without benchmarks to determine when workload levels have created too much risk, Ex-Im's ability to manage its increased business volume may be limited.