



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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March 6, 1980

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To the Board of Directors *ABCOO/70*
Export-Import Bank of the United States

We have examined the statement of financial condition of the Export-Import Bank of the United States as of September 30, 1979, and the statements of income and analysis of reserve for contingencies and defaults and of changes in financial position for the year then ended. Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841, et seq.) and in accordance with Comptroller General standards for financial and compliance audits, and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported on the Bank's financial statements for fiscal year 1978.

The Bank has a policy of purchasing defaulted commercial loans and payments made under the Exporter Credit and Insurance programs for guaranteed and insured loans rescheduled under countrywide debt consolidations. In 1979, loans of the Governments of Peru and Togo were purchased as well as additional loans of the Governments of Zaire and Turkey. (See notes 1 and 6.)

The Bank states its income before providing a reserve for losses that may be sustained on loans, guarantees, and insurance. However, it retains accumulated net income after dividends as a reserve for such losses. Although the reserve increased in fiscal year 1979, the risk of incurring possible future losses increased to a larger extent. This is due primarily to increases in loan purchases and outstanding purchase agreements and principal and interest delinquencies. (See Statement of Financial Condition and notes 4, 6, and 8.) Also, the Bank's cost of borrowed funds exceeds the interest income from outstanding loans by about 1.1 percent. In addition, the Bank's exposure in Iran at September 30 and December 31, 1979, was \$380 million and \$346 million respectively. In December 1979, the Bank accelerated certain loans



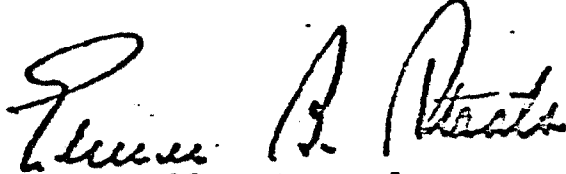
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totaling \$245.7 million which had been made to or guaranteed by the Government of Iran. (See note 4.) The effect of developments in that country on the Bank's exposure is not determinable at this time. As a result, we are unable to express an opinion on the adequacy of the reserve.

In our opinion, except for the amount reserved for contingencies and defaults, the accompanying financial statements present fairly the financial position of the Export-Import Bank at September 30, 1979, and September 30, 1978, and the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.



Comptroller General
of the United States

COMPARATIVE STATEMENT OF FINANCIAL CONDITION

	<u>September 30, 1979</u>		<u>September 30, 1978</u>
ASSETS			
Cash in U.S Treasury.....	\$ 100,000		\$ -0- *
Investment in U.S Securities...	-0-		7,700,000
Loans Receivable (Notes 4, 5 and 9):			
Current Loans - includes rescheduled loans of \$592.9 million at 9-30-79 and \$617.6 million at 9-30-78	\$11,133,200,000		\$11,032,000,000
Delinquent Loans.....	<u>620,200,000</u>	11,753,400,000	<u>468,400,000</u> 11,500,400,000
Loans Purchased Pursuant to Eximbank Guarantee and Insurance Agreements (Note 6).....		105,600,000	49,800,000
Accrued Interest and Fees Receivable (Note 4):			
Current Interest and Fees.....	223,100,000		213,600,000
Delinquent Interest.....	<u>52,400,000</u>	275,500,000	<u>31,700,000</u> 245,300,000
Other Assets:			
Deferred Debenture and Participation Certificate Expenses.....	200,000		300,000
Foreign Credit Insurance Association Receivable.....	1,300,000		3,300,000
Other Receivables.....	300,000		100,000
Miscellaneous Assets.....	<u>300,000</u>	2,100,000	<u>200,000</u> 3,900,000
Total Assets.....		<u>\$12,136,700,000</u>	<u>\$11,807,100,000</u>

* Balance at 9/30/78 : \$21,636.

September 30, 1979

September 30, 1978

LIABILITIES, RESERVE, AND CAPITAL

Borrowings (Notes 2 and 3):

Notes Payable to U.S. Treasury.....	\$ 50,000,000	\$ -0-	
Notes Payable to Federal Financing Bank.....	7,952,900,000	6,568,300,000	
Notes Payable to Private Export Funding Corporation.....	50,000,000	100,000,000	
Notes Payable to U.S. Institutions.	396,600,000	436,300,000	
Debentures Payable.....	-0-	1,043,100,000	
Certificates of Beneficial Interest Payable.....	236,900,000	311,200,000	
Participation Certificates Payable.....	<u>250,000,000</u>	<u>250,000,000</u>	
	\$ 8,936,400,000		\$ 8,708,900,000

Other Liabilities:

Accrued Interest Payable.....	72,600,000	96,000,000	
Dividend Payable to U.S. Treasury..	35,000,000	35,000,000	
Other Credits.....	<u>6,000,000</u>	<u>4,700,000</u>	
	113,600,000		135,700,000
<u>Deferred Fee Income.....</u>	9,000,000		8,500,000

Reserve for Contingencies and

Defaults (Notes 3,4,5 and 7):

accumulated from income - includes delinquent interest and delinquent capitalized interest of \$72.0 million at 9-30-79 and \$46.9 million at 9-30-78	2,077,700,000		1,954,000,000
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Capital Stock Held by U.S. Treasury
(Note 3).....

	1,000,000,000		1,000,000,000
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Total Liabilities, Reserve,
and Capital.....

	<u>\$12,136,700,000</u>		<u>\$11,807,100,000</u>
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Notes to Financial Statements on pages 5 through 11 are an integral part of this statement.

COMPARATIVE STATEMENT OF INCOME AND ANALYSIS OF RESERVE FOR CONTINGENCIES AND DEFAULTS

	Fiscal Year Ended <u>September 30, 1979</u>	Fiscal Year Ended <u>September 30, 1978</u>
Revenues:		
Interest on Loans.....	\$ 793,500,000	\$ 760,300,000
Insurance Premiums and Guarantee Fees.....	29,500,000	27,800,000
Commitment Fees and Other Income.....	<u>24,500,000</u>	<u>19,600,000</u>
Total Revenues.....	<u>847,500,000</u>	<u>807,700,000</u>
Expenses:		
Interest on U.S. Government Borrowings.....	579,700,000	458,400,000
Interest on Debenture and Participation Certificate Borrowings.....	38,200,000	113,400,000
Interest on Certificates of Beneficial Interest Borrowings.....	20,000,000	25,400,000
Interest on U.S. Institutional Borrowings.....	28,900,000	30,700,000
Other Expense, principally Interest and Amortization of Financing Costs.....	7,700,000	9,200,000
Administrative Expenses.....	13,300,000	12,600,000
Loans Charged-Off and Claims Paid, net of recoveries (Note 7).....	<u>1,000,000</u>	<u>18,900,000</u>
Total Expenses.....	<u>688,800,000</u>	<u>668,600,000</u>
Net Income.....	158,700,000	139,100,000
Less: Addition to Reserve for Contingencies and Defaults.....	123,700,000	104,100,000
Dividend to U.S. Treasury (Note 3).....	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>
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Analysis of Reserve for Contingencies and Defaults:		
Balance at Beginning of Fiscal Year.....	\$1,954,000,000	\$1,849,900,000
Addition to Reserve.....	123,700,000	104,100,000
Balance at End of Fiscal Year.....	<u>\$2,077,700,000</u>	<u>\$1,954,000,000</u>

Notes to Financial Statements on pages 5 through 11 are an integral part of this statement.

COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Fiscal Year Ended September 30, 1979</u>	<u>Fiscal Year Ended September 30, 1978</u>
<u>Funds Provided</u>		
Net Income.....	\$ 158,700,000	\$ 139,100,000
Borrowings from the Federal Financing Bank (Note 2).....	2,532,600,000	734,800,000
Borrowings from U.S. Treasury.....	1,520,600,000	1,030,100,000
Repayments of Loans Receivable.....	1,314,000,000	1,242,900,000
Repayments of Loans Purchased Pursuant to Guarantee and Insurance Agreements.....	6,500,000	1,200,000
Sales of Certificates of Beneficial Interest.....	1,500,000	23,300,000
Investment in U.S. Securities.....	7,700,000	4,900,000
Other.....	<u>3,700,000</u>	<u>(1,200,000)</u>
<u>Total Funds Provided</u>	<u>\$5,545,300,000</u>	<u>\$3,175,100,000</u>
<u>Funds Applied:</u>		
Disbursements and Other Additions to Loans, Includes Capitalized Interest 9-30-79, \$13,180,045; and 9-30-78, \$24,883,415;.....	\$1,567,100,000	\$1,222,900,000
Loans Purchased Pursuant to EIB Guarantee and Insurance Agreements.....	62,400,000	32,800,000
Accrued Interest and Fees Receivable.....	30,200,000	17,700,000
Accrued Interest Payable.....	23,300,000	2,500,000
Repayments of Federal Financing Bank Borrowings.....	1,148,000,000	90,000,000
Repayments of U.S. Treasury Borrowings.....	1,470,600,000	1,033,400,000
Repayments of Private Export Funding Corporation Borrowing.....	50,000,000	-0-
Repayments of U.S. Institutions Borrowings.....	39,800,000	17,500,000
Redemptions of Certificates of Beneficial Interest.....	75,800,000	123,300,000
Redemptions of Debentures.....	1,043,100,000	600,000,000
Payment of Dividend to U.S. Treasury (FY 1978 and FY 1977).....	<u>35,000,000</u>	<u>35,000,000</u>
<u>Total Funds Applied</u>	<u>\$5,545,300,000</u>	<u>\$3,175,100,000</u>

Notes to Financial Statements on pages 5 through 11 are an integral part of this statement.

Note 1: Enabling Legislation and Basic Accounting Principles

Eximbank is an independent corporate agency of the United States. The primary legislation governing its operations consists of the Export-Import Bank Act of 1945, as amended through November 10, 1978, and the Government Corporation Control Act.

Eximbank's accounting records are maintained on an accrual basis with the exception of write-offs of loans and payment of claims on guarantees and insurance policies. Loans are written off and charged to income when Eximbank determines that the outstanding principal balance is uncollectable. Interest on delinquent loans receivable is accrued until such time as Eximbank determines on a case-by-case basis that a particular delinquent loan should be nonaccruing. Claims, except as noted in the paragraph below, are charged to income in the year paid. Later recoveries of amounts written off or of amounts which have been paid as claims are treated as income in the year received.

In FY 1978 the Board adopted the policy of treating payments under the medium- and short-term Exporter Credit and Insurance programs as a purchase of an interest in an asset and recording such purchase as a loan receivable in those cases where a country-wide debt consolidation is considered and the materiality and prospects of repayment justify such treatment. Except for the "country-wide debt consolidation" consideration, the factors influencing such treatment are the same as those outlined under the purchase of financial guarantees, approved in FY 1977 (see footnote 6 for further details).

The commitment authority of Eximbank under the Export-Import Bank Act to lend, guarantee, and insure is limited to \$40 billion outstanding at any one time. Under the Act loans are charged against the \$40 billion limitation at 100 percent of their authorized amount. Guarantees and insurance are charged against the \$40 billion limitation at not less than 25 percent of Eximbank's contractual liability, with the proviso that the aggregate amount of guarantees and insurance so charged may not exceed \$25 billion outstanding at any one time. Thus, Eximbank's contractual commitments outstanding at any one time could reach \$58.75 billion, consisting of \$25 billion of guarantees and insurance outstanding, resulting in a \$6.25 billion charge against the \$40 billion limitation, and \$33.75 billion (additional commitments) charged at 100 percent against the limitation.

At September 30, 1979, the committed and uncommitted authority to lend, guarantee, and insure was:

Category		Charge
Loans		\$19,151.3
Guarantees	\$ 4,961.3	
Insurance	4,586.7	
	\$ 9,548.0 @25%	2,387.0
Committed		21,538.3
Uncommitted		18,461.7
Total Statutory Authority		\$40,000.0

Note 2: Borrowings from the U.S. Treasury and the Federal Financing Bank
 Eximbank does not receive any appropriated funds. It has authority, under its Act, to borrow directly from the U.S. Treasury and to have outstanding at any one time up to \$6 billion of such borrowings. Eximbank avails itself of this authority for its short-term needs on a daily basis at a 91-day Treasury bill rate. Excess cash is used to reduce these borrowings on a daily basis. The average rate for such short-term borrowings, during the period ending September 30, 1979, was 9.75 percent.

In previous years, Eximbank borrowed to meet its medium-term needs through the issuance of debentures and participation certificates, of which \$250 million are still outstanding with maturities extending to 1982, at an average interest rate of 5.10 percent.

Eximbank is now borrowing from the Federal Financing Bank (FFB) for its medium- and long-term needs. During the period ending September 30, 1979, Eximbank borrowed the following from the FFB:

Date	Amount	Rate	Final Maturity
12/01/78	\$ 330.0	9.023%	12/01/88
3/01/79	403.0	9.351	3/01/89
6/01/79	1,283.0	9.491	9/01/82
9/04/79	516.6	9.419	9/01/89

As Eximbank is usually a net borrower of funds, it is planned that net short-term borrowings from the U.S. Treasury will be repaid quarterly by borrowing from the FFB on a medium- and long-term basis at a U.S. Government agency borrowing rate appropriate to the term of the borrowing.

Note 3: United States Government Investment in Eximbank

The investment of the U.S. Government in Eximbank consists of the following:

	(\$ Millions)	
	<u>September 30, 1979</u>	<u>September 30, 1978</u>
Capital stock held by U.S. Treasury	\$ 1,000.0	\$1,000.0
Reserve for Contingencies and Defaults	2,077.7	1,954.0
Dividend Payable to U.S. Treasury	35.0	35.0
Notes Payable to Federal Financing Bank	7,952.9	6,568.3
Total	<u>\$11,065.6</u>	<u>\$9,557.3</u>

A dividend to the U.S. Treasury of \$35 million, as of September 30, 1979, was declared November 27, 1979.

Note 4: Delinquent Loans

Loans with any installments of principal or interest past due 90-days or more are classified as delinquent on the Statement of Financial Condition. The outstanding principal amount of delinquent loans is summarized on a comparative basis (see table below).

Delinquent interest of \$52.4 million has accrued and is carried as a receivable. The difference between this figure and the \$100.1 million shown represents mainly interest on loans which are non-accruing for financial statement purposes.

The delinquent loans to China were made in 1946 to the then recognized government of China. The delinquent loans to Cuba pertain to loans made before 1961, when a prior government existed.

In FY 1979 Eximbank rescheduled principal and interest installments of \$26.9 million (see footnote 5). At the time of the reschedulings, \$1.8 million (\$1.4 million principal and \$.4 million interest) was past due 90-days or more.

On December 21, 1979, Eximbank accelerated certain loans totaling \$245.7 million which had been made to or guaranteed by the government of Iran. These loans were accelerated on the basis of defaults on scheduled repayments to Eximbank or loans with cross-default clauses. Approximately \$64.9 million of loans to Iran were not accelerated because they were not in payment default and did not have any cross default provision in the respective loan agreements.

(\$ Thousands)

Country	Total Outstanding Principal	Delinquent Installments September 30, 1979			Delinquent Installments September 30, 1978		
		Principal	Interest	Total	Principal	Interest	Total
China	\$ 26,386.0	\$26,386.0	\$ 24,202.1*	\$ 50,588.1	\$26,386.0	\$23,409.0	\$ 49,795.0
Cuba	36,266.6	36,266.6	38,937.3	75,203.9	36,266.6	36,948.7	73,215.3
Liberia	1,897.2	1,350.6	-0-	1,350.6	328.6	-0-	328.6
Mexico	1,082.2	1,082.2	570.7	1,652.9	1,088.1	508.2	1,596.3
Uganda	1,818.6	1,181.3	273.0	1,454.3	787.5	182.0	969.5
Zaire	219,333.2	16,792.4	32,797.2	49,589.6	2,619.7	5,030.6	7,650.3
Other	333,458.9	3,370.5	3,311.1	6,681.6	2,837.9	1,968.5	4,806.4
Total	<u>\$620,242.7</u>	<u>\$86,429.6</u>	<u>\$100,091.4</u>	<u>\$186,521.0</u>	<u>\$70,314.4</u>	<u>\$68,047.0</u>	<u>\$138,361.4</u>

The countries listed above are not necessarily the obligor of the delinquent loans. Some of the loans are to private parties in those countries.

*Eximbank actually ceased to accrue interest on its books in 1960. At that time, interest amounted to \$9,325,442.59.

Note 5: Rescheduled Loans

From time to time Eximbank must extend the repayment date of some or all principal installments of a loan to a new schedule because the obligor or country has encountered temporary financial difficulty and the Directors of Eximbank have determined that providing relief in this manner will aid collectability and enable the obligor ultimately to service the debt.

All loan maturities which were previously rescheduled in this manner are current at September 30, 1979, except for 13 loans with an aggregate outstanding principal balance of \$192.2 million as to which principal and interest installments amounting to \$26.4 million are 90-days or more past due. These 13 loans are included in the delinquent classification on the Statement of Financial Condition. In FY 1979 Eximbank rescheduled principal and interest installments totaling \$26.9 million on loans having an outstanding principal balance of \$193.4 million.

Some reschedulings include capitalized interest, which has been previously credited to the Reserve for Contingencies and Defaults. At September 30, 1979, the Reserve of \$2,077.7 million includes \$100.0 million of such outstanding capitalized interest of which \$19.6 million is 90-days or more past due. The Reserve also includes past due interest on delinquent loans totaling \$52.4 million.

Note 6: Loans Purchased Pursuant to Eximbank Guarantee Agreements

On April 12, 1979, the Board in conjunction with a country-wide debt consolidation involving major creditors approved the purchase of certain Government of Peru loans. These purchases totaled \$3.9 million (principal only). At the time of the purchase interest of \$25 thousand was written-off. As of September 30, 1979, Eximbank had outstanding \$26.7 million of medium- and short-term guarantees and insurance which Eximbank may be called upon to purchase. The Board also approved on August 2, 1979, the purchase of \$528 thousand (\$448,790 principal and \$78,936 interest) of Government of Togo loans with an outstanding principal balance of \$527,726. At September 30, 1979, Eximbank had outstanding \$2.2 million of medium-term guarantees which Eximbank may be called upon to purchase.

During FY 1979, a total of \$36.0 million of Zaire loans were purchased. The total outstanding purchases under this rescheduling totaled \$65.5 million. At September 30, 1979, a total of \$172.8 million of guarantees and insurance to Zaire remained outstanding, some or all of which Eximbank may be requested to purchase. During this same period Zaire arrearages 90-days and over totaled \$49.6 million (\$16.8 million principal and \$32.8 million interest). As of September 30, 1979, outstanding purchases totaled \$65.5 million.

In addition, during FY 1979, a total of \$32.5 million (\$28.5 million principal and \$4.0 million interest) of Government of Turkey (G.O.T.) loans were purchased. At September 30, 1979, Eximbank had outstanding \$33.9 million of medium- and short-term guarantees and insurance which Eximbank may be called upon by the G.O.T. to purchase in accordance with the terms of the reschedulings. As of September 30, 1979, outstanding purchases totaled \$35.7 million.

Note 7: Losses, Claims and Reserve for Contingencies and Defaults

Losses, claim payments and recoveries for the FY 1979 and FY 1978 are:

	(\$ Thousands)	
	FY 1979	FY 1978
Loans written off	\$ -0-	\$ 4,824.0
Guarantee claims paid	5,432.2	14,201.7
Guarantee recoveries	(5,092.7)	(3,818.0)
Insurance claims paid	4,758.1	6,187.3
Insurance recoveries	(4,108.3)	(2,505.7)
Claims Paid, net of recoveries	\$ 989.3	\$18,889.3

The risk to Eximbank from potential losses and claims is not susceptible to accurate measurement because of the unpredictable nature of future worldwide economic and political conditions. Eximbank's entire Reserve is available to cover such losses, claims and contingencies. Eximbank has a Reserve for Contingencies and Defaults of \$2,077.7 million which is 18.0 percent of outstanding loans and 7.2 percent of world commitments. This Reserve, coupled with Eximbank's \$1.0 billion Capital, amounts to 26 percent of outstanding loans and more than 10 percent of world commitments.

Note 8: Commitments and Contingent Liabilities

Eximbank's worldwide commitments, shown below, include contingent liabilities totaling \$9,548.0 million at September 30, 1979, and \$9,406.4 million at September 30, 1978.

	(\$ Millions)	
	September 30, 1979	September 30, 1978
Outstanding Loans	\$11,859.0	\$11,550.2
Undisbursed Loans	7,292.2	5,435.1
Guarantees Contingent Liability	4,961.3	5,357.2
FCIA Insurance Contingent Liability	4,586.7	4,049.2
Total	\$28,699.2	\$26,391.7

Note 9: Maturity Schedule of Outstanding Loans Receivable

As of September 30, 1979, about 61.4 percent of the outstanding loans receivable balance of \$11,859.0 million is projected to be due over the next five years and the remaining 38.6 percent is estimated to be due thereafter, as indicated below:

<u>Fiscal Years of Maturities</u>	<u>Amount (\$ Millions)</u>	<u>Percent of Total</u>
1980	\$ 1,423.1	12.0
1981	1,440.5	12.1
1982	1,492.3	12.6
1983	1,535.2	13.0
1984	1,392.7	11.7
	<u>7,283.8</u>	<u>61.4</u>
1985-2000	4,575.2	38.6
	<u>\$11,859.0</u>	<u>100.0</u>

In addition to the \$11,859.0 million of outstanding loans there are undisbursed loans totalling \$7,292.2 million most of which are expected to be disbursed over the next 3-5 years.