

**OVERSEAS
PRIVATE
INVESTMENT
CORPORATION**

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Washington, D.C. 20527
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Office of the President

September 26, 1977

Honorable Paul E. Tsongas
House of Representatives
Washington, D.C. 20515

Dear Congressman Tsongas:

Legislation providing for extension of the operating authority of the Overseas Private Investment Corporation, (HR 9129), has been reported favorably by the Committee on International Relations.

Because OPIC's operations are technical and less known than those of larger Government agencies, I take the liberty of sending you the enclosed material, which provides information on the Administration's policy review of OPIC as well as the legislative hearings, organizational changes, recent events, OPIC financial condition, and a brief resume of OPIC's origin and progress to date.

I hope that this will help to familiarize you with the agency and its operations. Should you wish further information, please do not hesitate to contact us at any time.

Sincerely yours,

A handwritten signature in cursive script that reads 'Rutherford M. Poats'.

Rutherford M. Poats
Acting President

OPIC's SELF-SUSTAINING OPERATIONS

The key aspects of OPIC's self-sustaining operations have been: (a) assuring an adequate flow of net income; (b) exercising prudent risk management both in its insurance and finance operations; and (c) concluding insurance claims settlements that have avoided a drain on OPIC's financial resources. Each of these aspects is summarized below.

(a) OPIC's Income Generation

OPIC charges substantial fees for its services. Premium rates for combined insurance coverage normally are 1.5% per annum but may go as high as 3% per annum for large and sensitive projects. In contrast, the German, Dutch and Danish equivalents of OPIC charge only 0.5% per annum for the same combined coverage, the Japanese charge 0.55% per annum and the French charge 0.8% per annum. OPIC's rates on direct loans and loan guaranties track medium and long-term private lending rates, presently bring 10.5% annual interest on Direct Investment Fund (DIF) loans and 2-3% per annum on loan guaranties.

OPIC's income is used both for operating expenses and to provide funds for the payment of claims. Moreover, fees and revenues are invested in U.S. Treasury obligations and the interest used to supplement OPIC's income. The growth of OPIC's financial position over the past seven years to June 30, 1977 is shown in the following table:

<u>1971 - 1977</u>		<u>Amount</u>
<u>-- Source of Funds:</u>		<u>(In Millions)</u>
- Transferred from AID ^{1/}		\$123
- Appropriations for Reserves ^{2/}		69
- Appropriations for Capital (the Direct Investment Fund or "DIF")		40
- Revenue		
- Insurance Premiums	\$201	
- Investment Guaranty Fees	18	
- DIF Interest Income	5	
- Interest on Investments	74	
- Interest on Claims Related Assets	15	
Total		<u>313</u>
- Total Funds		<u>\$545</u>
<u>-- Application of Funds:</u>		
- Establishment of Reserves		\$164
- Increase in Reserves from Earnings		124
- Operating Expenses		50
- Insurance Claims Payments Net of Recoveries ^{3/}		108
- Investment Guaranty Payments		15
- Establishment of the DIF		40
- Increase in Capital & the DIF from Earnings		10
- Unallocated Retained Earnings		<u>34</u>
		<u>\$545</u>

-- Present Condition

	<u>6/30/70</u>	<u>6/30/77</u>	<u>Percentage Increase</u>
- Total Insurance Reserve	\$54	\$204	278 %
- Total Guaranty Reserve	41	82	100 %

Notes:

1. When OPIC was organized, \$50 million of AID's investment guaranty reserve funds were statutorily transferred to AID's housing guaranty program. OPIC subsequently requested appropriations to restore that amount.
2. In 1974 Congress amended OPIC's enabling legislation to preclude it from seeking additional appropriations for the Insurance Reserve until the balance in the Reserve falls below \$25 million. However, to assure that OPIC would have immediate access to funds to pay claims in the event that reserves were not sufficient, Congress also provided OPIC with authority to borrow up to \$100 million from the Treasury to cover claims payments. Any such loan is repayable within one year. OPIC has not used any of this borrowing authority.
3. The amount of claims payments do not represent losses since OPIC has acquired assets, primarily foreign government notes, on all but approximately \$21 million of the claims paid.

OPIC's annual net income also has risen from \$21 million for 1970 to \$49 million for the twelve month period ending June 30, 1977, an increase of 133%.

(b) Underwriting Policies

Since its inception, OPIC has operated its programs with due regard to the principles of risk management. In insurance underwriting, this includes program policies pertaining to eligibility of countries and types of projects, project analysis, host government approval of projects, country and project monitoring, country concentration guidelines and so forth. OPIC also has obtained substantial first loss reinsurance as well as co-insurance and helps structure projects to lessen risks, particularly in large and/or sensitive projects. Finance-policies include similar criteria as well as extensive project analysis, structuring and monitoring.

(c) Insurance Claims

Successful insurance claims settlements are essential to OPIC's self-sustaining ability. OPIC's corporate flexibility and claims settlement authorities, the experience of its staff, and its ability to participate in settlement negotiations -when necessary- in a technical as opposed to a political posture have been important aspects of its successful claims record. The respective amounts of AID and OPIC claims payments, compensation settlement agreements guaranteed in whole or part by OPIC, and total anticipated recoveries, as of June 30, 1977, are shown in the following table:

	<u>In Millions</u>	
-- <u>Claims Payments</u>	<u>AID</u>	<u>OPIC</u>
Payments made	\$3.9	\$144.4
Recovery of Principal		
Received	.9	37.5
Anticipated	- 0 -	85.9
Interest		
Received	- 0 -	15.2
Anticipated	<u>- 0 -</u>	<u>38.4</u>
Excess (Deficit) on Recoveries	<u>(\$3.0)</u>	<u>\$32.6</u>
-- <u>Claims Settlements</u>		
Guaranties Issued	- 0 -	\$306.8
Anticipated Losses	- 0 -	- 0 -

Deferred settlement guaranties by OPIC on expropriations, largely in Chile, constitute a contingent liability for payment by OPIC, in event of default, averaging approximately \$18 million annually over the next 10 years. Thus far, outright defaults have not occurred. OPIC's current annual income is more than adequate to cover these contingencies.

OPIC is confident that payment due under compensation settlements and notes held by OPIC will be paid as due. Average interest on OPIC held notes exceeds 7% per annum.