MEMO: Export-Import Bank

The Export-Import Bank of the United States (Eximbank) is an independent agency of the United States Government whose primary function is to aid in financing and to facilitate exports of U.S. goods and services. The Bank supplements and encourages export activity where private sources are unable or unwilling to do so. Financing is also available for preparation studies conducted by U.S. firms involving engineering, planning, and/or feasib ility for large capital projects.

Eximbank was made an independent agency in 1945 by the Export-Import Bank Act of the same year. Its receipts and disbursements were removed from the U.S. budget and its overall loan grarantee and insurance authority was increased by the Export Expansion Finance Act of 1971.

The Bank is authorized to have outstanding at any one time, not more than $20 billion. $1 billion of capital stack is allowed and the Bank may borrow from the U.S. Treasury on its own obligation up to $6 billion outstanding.

The whole idea is that export credit availability is as an important competitive tool as pricing, quality, and service.

There are over 20 individual programs for crdit but basically, the Bank provides: 1)direct credit to borrowers outside the United States; 2) Export credit guarantees; 3) Export credit insurance; and 4) Discount loans. All programs are tied to the ultimate export of American goods and services.

During FY 1974, the Bank authorized a record $3.8 billion in the form of 353 direct loans to borrowers in 75 coutries. That represents approximately $8 billion in U.S. exports. The typical financing pattern involved a cash payment of 10% of the U.S. contract price, an Eximbank loan for 45%, and a private loan or loans, sometimes guaranteed by Eximbank, for the remaining 45%.

The Private Export Funding Corporation (PEFCO) of the Export-Import Bank, mobilizes private capital to assist in financing U.S. exports. The stock is owned mainly by U.S. commercial banks and industrial corporations. PEFCO purchases debt obligations issued by buyers of U.S. exports which are unconditionaly guaranteed by Eximbank. The purchases are financed through the sales of its own securities to private investors. The corporation deals with medium or long term maturities and have dealt with individual loans raging from $1 million to $76 million.

Credit is made available to small and medium size purchasers of U.S. equipment and services via the Cooperative Financing Facility (CFF). Through the facility, the Eximbank arranges loans with foreign branches of American banks of financial institutions (cooperating institutions - CI) at their own risk. The Eximbank loans the CI half of the funds and the CI comes up with the rest. The bulk of the Eximbank loans are less than $50000 and are usually based on a 5 year maturity. The loans make financing easier for small and medium size businessmen and allow them to do business with their own banks. The CFF allows the CI to expand their lending capacity and helps the U.S. exporter with little experience in overseas financing get a start.

Over half of all the transactions authorized in 1974 were through Eximbank's Exporter Credit Programs. That accounts for about 1/3 of the dollar value of the exports supported. Under this program, assistance is limited to guarantees and insurance issued to private U.S. exporters and commercial banks to assure them of repayment on credits they authorized.

The programs work with short to medium term maturities and do not involve direct financing by the Eximbank. The average guarantees are less than $100,000 and the risks are shared by Eximbank, private banks, FCIA, and the exporter himself.

Commercial risk includes the insolvency of the buyer or protracted default. Political risk involves transfer delays in currency conversion, cancellation of export or import licenses, expropriation, confiscation, or losses due to war,revolution or civil disturbances.

One of the major Exporter Credit Programs is the Commercial Bank Exporter Guarantee . Their purpose of this program is to encourage and assist greater participation by banks in supporting U.S. exporters who must provide deferred credit terms on their sales. Commercial banks make loans to exporters and Eximbank guarantees the commercial and political risks. Political-risks-only guarantees are also available. Unlike other arrangements which require non-recoursing financing for the exporter, commercial banks are permitted to take recourse on the exporter for the commercial risks under the political-risks-only guarantee.

The other major Export Credit Program is the Foreign Export Credit Insurance Association (FCIA) which consists of some 50 major national marine, casualty and property insurance companies. Member companies insure against commercial risk and are reimbursed partially by the Eximbank. Political risk is assumed totally by Eximbank.

One area of special interest to small businessmen is FCIA's program of prequalification of foreign buyers. With more than 30,000 foreign buyers now prequalified, the small, as well as the large exporter may be able to obtain a telephone approval for insurance covering its export sale.

In 1966, the Export-Import Bank introduced a Discount Loan Facility. The purpose is to stimulate export financing by U.S. commercial banks by providing a source of funds during periods of non-liquidity. More banks are using this facility but in decreasing dollar amounts.

Finally, the Bank is prepared to extend to either a U.S. or non-U.S. lessor, a guarantee of payments by a lessee for the lease of U.S. equipment outside of the United States on either a non-payout or full-payout basis. The lease transaction must result in an export of the U.S. equipment. In fact, all actions of the Export-Import Band are tied to the increase of American exports.