CBO'S NEW FAIR VALUE ACCOUNTING OF EX-IM BANK CREDIT PROGRAMS FOR 2015-2024 IS FLAWED AND ITS CONCLUSION WRONG

BACKGROUND

The Congressional Budget Office (CBO) issued a report estimating the cost of the credit programs of the Export-Import Bank of the United States (Ex-Im Bank), for the period 2015-2024 utilizing a controversial Fair Value Accounting (FVA) methodology.

CBO concluded under this methodology that rather than Ex-Im programs being cash positive as is recognized on a Federal Credit Reform Act (FCRA) basis ($1.4 billion each year or $14 billion over 10 years), the Bank's programs on a FVA basis would cost the government $200 million in annual losses or $2 billion over the ten year period based upon a $38 billion annual utilization.

IN JUNE 2012, CBO REPORTED THAT EX-IM BANK WOULD TURN A SMALL PROFIT UNDER THE FAIR VALUE ACCOUNTING METHOD. WHAT HAS CHANGED SINCE THEN?

THE ANSWER: NOTHING THAT WOULD JUSTIFY A DETERIORATION OF THE BANK'S FINANCIAL PICTURE.

FLAWS IN CBO 2014 COST ESTIMATE

In June 2012, CBO reported that Ex-Im Bank would turn a small profit under the Fair Value Accounting method. What has changed since then?

The Answer: Nothing that would justify a deterioration of the Bank's financial picture.

On the contrary, significant changes since the 2012 CBO study should have resulted in a lowering of risk in Ex-Im Bank programs and an increased surplus under the FVA approach. These changes include:

1. New high revenue generating rates under the Aircraft Sector Understanding (ASU) are now in effect. The CBO numbers in the latest report fail to include the new aircraft fees negotiated by the Bush Administration, which have recently gone into effect. These new fees charge higher rates than commercial lenders and have shorter tenors than what domestic airlines obtain in the private market. As a result, the Bank's aircraft lending has dropped significantly. The new rates are above market pricing for Ex-Im Bank's aircraft portfolio and thus should be reflected as a budget surplus under FVA given the significantly higher fees and near zero default rate.

2. Asset values and collateralization have become much stronger at the Bank since 2012. Collateral is now required for almost all of the Bank programs, and, indeed, covers more than 80% of the exposure of the Bank.

   As commercial lenders have improved asset value projections post financial crisis, so must CBO reflect an improving market and lower than average loss rate. It is a proven fact that Ex-Im Bank has a much lower default rate than commercial lenders, and the last figures place loan losses at .24%.

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This was the case even in the midst of the worst stress test possible in the past 80 years—the recent financial crisis. Higher asset values, higher fees, and higher recovery rates must be reflected even under FVA; the analysis does not reflect this improved situation for the Bank. And, as has always been the case, foreign borrowers remain unwilling to default to the U.S. government.

3. CBO fundamentally overstated projected usage of the Bank. CBO misreads the exposure cap as an authorization level rather than as a limit on Bank exposure. It states on page 5 of its May 2014 paper,

    > "If Ex-Im Bank's activity in 2015 matches the President's budget request for that fiscal year, CBO estimates that $37.6 billion in new loans would be made or guaranteed in the Bank's six largest credit programs."

    What CBO interprets as a budget request is actually an increase in the exposure cap level. The result is that CBO has no basis for projecting a straight line $37.6 billion in volume of Bank support on an annual basis over the ten-year period.

    The reality is that Bank volume is demand driven (outside of the small business 20% requirement). The further reality is that the Bank's volume is decreasing due to slower infrastructure growth in the frontier markets, higher fees, and the return of capital market lending to the less risky markets. This is reflected in the Chairman's May 19 message that over the first two quarters of this fiscal year the Bank has committed only $8.8 billion.

    The Bank has only come close to the annual level projected by the CBO in one year out of its lifetime—2012, when Emerging Market infrastructure and export demand was booming.

    We estimate that it is likely that the CBO usage projections for the Bank are overestimated by as much as $100 billion, over the next decade.

CONCLUSION

Even a ballpark adjustment of CBO's numbers underscores the reality that the $200 million FVA loss cited doesn't hold up. Much lower usage of the Bank subtracts $66 million from the FVA stated numbers. Higher fees on the shrinking aircraft portfolio ($160 million) yield a $26 million surplus on a FVA basis before adjusting for direct loans or higher asset quality.

We can debate a range of issues around the importance of the Bank in leveling the playing field for U.S. manufacturers. However, we do not believe a fruitful discussion can be had on the basis of a flawed and misleading accounting picture of the Bank, even one by CBO. Our leaders in Congress deserve better and more accurate data in making decisions about critical government programs like those of the Ex-Im Bank.

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