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The “Scoring Trap” Set by Export-Import Bank Termination

Introduction

The Export-Import Bank, commonly known as Ex-Im, is a controversial program that provides subsidies in the form of discounted loans and loan guarantees to U.S. exporters and foreign companies seeking to import goods produced in the U.S. Originally established by an executive order issued by President Roosevelt in 1934, today Ex-Im is widely derided as a dispenser of corporate welfare underwriting companies that should seek private support rather than taxpayer backing.

Representative Justin Amash (R-MI) and five cosponsors are seeking to end this egregious program once and for all with the introduction of the Export-Import Bank Termination Act. Amash’s bill, H.R. 1910, would prohibit Ex-Im from issuing any new loans or guarantees and begin the process of winding down the outstanding accounts. But attempts to end Ex-Im run into a significant “scoring trap” when submitting to analysis by the Congressional Budget Office (CBO), the agency tasked with assessing the fiscal impact of legislation considered by Congress. Because of poorly-structured rules, CBO scores elimination of this program as increasing the deficit, overlooking several factors that suggest the opposite.

In light of the many problems associated with the program, Congress should give serious consideration to ending it, or significantly reforming it if elimination isn’t possible. In order to do so without falling into CBO’s scoring trap, however, they’ll need to reform the rules for its analysis at the same time.

The Problems with Ex-Im

A frequent criticism of Ex-Im has been that most of its assistance goes primarily to large corporations. This concern has been partly alleviated due to a bureaucratic issue. Since July 20, 2015, the Bank's Board of Directors has had vacancies and as a result, it cannot approve direct loans or guarantees greater than $10 million. In a study last year, the Mercatus Center found that from FY 2007 through 2017, over one-third of all assistance provided by Ex-Im went to Boeing. Though, on the positive side, since it has been operating under a lack of a quorum, Ex-Im has made significant improvements in allocating support to small businesses. However, any businesses that are the recipients of the discounted taxpayer-backed credit then have an unfair advantage over their unsubsidized domestic competitors. The government should maintain a level playing field rather than tipping the scales in favor of protected companies.

And while supporters of Ex-Im argue that it is necessary for promoting the competitiveness of American businesses, the data shows that it has a relatively small impact on trade: Ex-Im reported that at the end of FY 2018, it had "in its pipeline almost $40 billion of pending transactions" ... which amounts to 1.6 percent of all U.S. exports for the year ($2.5 trillion).

Key Facts:

New legislation would terminate the Export-Import Bank which dispenses corporate welfare by underwriting companies that should seek private support rather than taxpayer backing.

However, under the faulty accounting rules used to score the reform proposal, ending Ex-Im appears to increase the deficit. A fair-value accounting of the program better reflects the long-term risks of the program.

If the program really does produce savings, then it stands to reason that private market entrants would help provide financing so they can reap the rewards rather than government.

Faulty Accounting Used to Score

Terminating this subsidy should be a straightforward way to eliminate corporate subsidies and taxpayers' exposure to risk from the loans. Unfortunately, the policy reform has run into a scoring issue that does not fully take into account the market risk of the loans.

Under existing law, the Congressional Budget Office (CBO) is required to review the Bank's loans and guarantees under the account method prescribed by the Fair Credit Reform Act of 1990 (FCRA). Under FCRA, the discount rate used to determine the current value of the cash flow is based on projected yields of Treasury securities with the same term to maturity. This method tends to underestimate the true value of the loans or guarantees because it does not account for the risk associated with the loans.

CBO has not yet produced a budgetary score for H.R. 1910, but in June of 2018, CBO produced a report on the lifetime costs of federal credit programs and estimated that Ex-Im's Long-Term Guarantees program would reduce the deficit by $926 million under the FCRA method. At the same time, CBO also re-evaluated the program using a more accurate fair-value accounting method that does a better job of factoring the market risk of default on the loans. Through this lens, its lifetime deficit reduction is cut in half to $471 million.

Just a few years ago, in 2014, CBO had estimated that under FCRA, the Ex-Im's total ten-year budgetary impact would reduce the deficit by $14.4 billion while its fair-value analysis pointed to a ten-year *cost* of $1.6 billion. A significant factor in the change in the score from 2014 to now is that CBO is currently using a lower discount rate "which is consistent with unexpectedly low interest rates." However, interest rates have been rising, and as they continue to rise toward historical levels, Ex-Im's budgetary figures can be expected to be back in the red, burdening taxpayers with significant costs.

Conclusion

Principles of limited government aside, all of this lays bare a simple practical truth about Ex-Im: it should be eliminated regardless of if one judges it a success or failure. If the program really does produce savings, then it stands to reason that private market entrants would help provide financing so they can reap the rewards rather than government. If the program in fact imposes significant costs on taxpayers, it should be eliminated as an expensive failure.

Short of terminating the program or allowing it to expire when its current charter runs out after September 30, 2019, there are several reforms that could be implemented to minimize the risk to taxpayers or to ensure that large businesses are not receiving the bulk of the subsidies:

- Require fair-value accounting to reflect the market risk of the loan subsidies.

- Expand risk mitigation through private backing: Pursuant to laws enacted in 2012 and 2014, the National Flood Insurance Program secured coverage reinsurance from the private reinsurance and capital markets in 2017. When the devastating hurricanes hit later that year, the policy helped NFIP cover the claims, saving taxpayers over $1 billion in additional flood-related debt. Last year, Ex-Im secured $1 billion in loss coverage for its large commercial aircraft financing transactions. Policymakers could lift the total reinsurance amount and extend it to include additional types of transactions.

- Decrease the current cap on bank "exposure" from $135 billion.

- Increase the current small business target, which is just 25 percent (in FY 2018 Ex-Im reported that small business support represented 66 percent of the total dollar value of authorizations.

- Lift the Ex-Im's U.S.-flag shipping requirement which makes U.S. goods less competitive due to fewer options and higher shipping rates associated with U.S.-flagged vessels.

These sensible steps would minimize the default risk that the federal government is exposed to via Ex-Im, but the best way to fully-protect taxpayers is to terminate the program. If Congress works to dismantle the CBO scoring trap, elimination of this flawed program could finally become a reality.

About the Author

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