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The Role of Fair Value Accounting in Promoting Accountability at the Export-Import Bank

The Export-Import Bank (Ex-Im) is the official export credit agency of the United States. One of its core duties is to step in when private-sector lenders refuse to provide financing to American businesses. Ex-Im also provides subsidized loans to foreign companies to encourage them to buy products and services from the United States. Unfortunately, current budget scoring rules do not assess the unnecessary risk exposed to taxpayers in these transactions.

In 2019, Congress reauthorized Ex-Im through 2026. While the best option would be to terminate the program, at the very least Congress should implement fair-value accounting reforms to better assess the risks present in the Bank's loan and guarantee activities.

Back at Full Capacity

In May 2019, Congress restored the Ex-Im's Board quorum and full-financing capacity as well as extended Ex-Im's authorization through December 31, 2026. This reauthorization was the result of a bipartisan deal that implemented positive reforms to the Bank such as:

Key Facts:

- Using taxpayer dollars, the Ex-Im Bank provides subsidized loans to foreign companies to encourage them to buy products and services from the U.S.
- There are fundamental problems with the Bank: it disproportionately provides aid to already successful companies, small businesses comprise a small part of its portfolio, and it interferes with the free market.
- Moreover, current budget scoring rules do not assess the full market risk exposed to taxpayers in the Bank's loan and guarantee activities. Implementing fair-value accounting reform would provide a more accurate assessment of the Bank's budgetary impact.

- Strengthening reporting requirements for companies to prove they are utilizing Ex-Im as a last-resort lender
- Enhancing disclosure requirements for any lender receiving more than 20% of the Bank's lending authority in a year
- Making Ex-Im's risk transfer program authority permanent and established a reinsurance pool with the private sector to reduce lending risks and costs

Despite the positive reforms outlined in this plan, there are still fundamental problems with the Ex-Im Bank.

Ex-Im's Goals are Not Consistent with Its Actions

In practice, the Ex-Im Bank fails to yield successful results. Over its history, Ex-Im disproportionately grants loans to a handful of already successful domestic companies such as Boeing, Caterpillar, and General Electric. Before the Bank's Board lost their quorum in 2015, 65 percent of its activities benefited only 10 companies.

During the lack of quorum, Ex-Im's power was limited by the size of loans it could back, and small businesses constituted a larger share of the Bank's portfolio. However, once back to regular order, Ex-Im fell back into its old ways. In FY 2019, with the Bank's full financing power restored, only 27.5 percent of its loans went to small businesses.

During the pandemic, small businesses felt extreme economic pressure yet Ex-Im's small-business authorizations *declined* by $177 million in FY 2020. In addition to this, only 31.4 percent of total direct export value was for small businesses. Overall, the number of companies served by the Bank decreased by 1,189. In fact, of the four economic relief programs created by the Bank during the pandemic, two were designed to assist Boeing. For instance, $510 million of Ex-Im's pandemic relief went to a joint venture between GE Aviation, a division of General Electric of the United States, and Safran Aircraft Engines, a division of Safran of France. This financial support helped Boeing purchase aircraft engines from both companies.

The Ex-Im Bank's subsidized loan program for foreign countries creates an unfair playing field for some industries in the United States. This program provides aid to foreign companies to purchase American goods and services, essentially subsidizing foreign companies that compete with U.S. airlines. The Bank's controversial loan guarantees came to a head in 2014 when Delta Airlines sued Ex-Im for providing financial support to foreign airlines in their Boeing transactions.

Advocates of Ex-Im argue that it plays a significant role in promoting competitiveness, yet the data shows otherwise. According to an NTUF issue brief, Ex-Im had minimal impact on the trade and U.S. exports. At the end of FY 2018, Ex-Im reported that it had $40 billion in pending transactions, which is 1.6 percent of all U.S. exports for the year.

The biggest concern about the Ex-Im Bank is that it relies on the American taxpayers to carry the financial burden if a company defaults on its loan. By the end of 2020, Ex-Im's total risk exposure amounted to $46.9 billion. Congress ought to shut down Ex-Im, so that the government is not responsible for picking winners and losers in the marketplace while exposing taxpayers to risk. At the very least, the American people deserve to see reform in the Bank's practices that better account for risk.

The Importance of Fair Value Accounting

Currently, the Congressional Budget Office (CBO) analyzes Ex-Im's credit transactions through the methods prescribed under the Fair Credit Reform Act of 1990 (FCRA). Under the FCRA, the value of cash flow is based on the projected yields of Treasury securities.

This method underestimates the value of loans or guarantees because it does not accurately consider the market risk of loans. Contrary to this method, fair-value accounting creates estimates based on the market rate of interest that a private entity would have to pay.

Under the FCRA, the Bank argues it would save $14 billion from 2015 to 2024. However, this total is not an accurate representation of the bank's finances. Using fair-value principles, the bank would cost taxpayers $2 billion.

Members of Congress have noticed these accounting disparities and, in response, have created legislation to counter it. For instance, Congressmen Ralph Norman (R-SC) introduced H.R. 3785, the Fair-Value Accounting and Budget Act, that would encourage transparency and accuracy in accounting to loan programs administered by the federal government. Adopting fair-value accounting principles provides a more comprehensive and accurate assessment of risk.

The CBO demonstrated the importance of implementing fair-value accounting for credit programs across the federal government in its 2020 report titled the *Estimates of the Cost of Federal Credit Programs in 2021*. This report utilized estimates of the lifetime costs of new loans and guarantees that will be issued in 2021 to highlight the disparities between the use of methods prescribed by the FCRA and fair-value. Using FCRA procedures, CBO found that new loans and loan guarantees issued in 2021 would result in savings of $41.8 billion, but when they used fair-value accounting, they found that those loans and guarantees would have a lifetime *cost* of $46.8 billion.

Conclusion

During the 116th Congress, former Representative Justin Amash (R-MI) introduced legislation to cease the authority of the Ex-Im Bank. H.R.1910, Export-Import Bank Termination Act failed to come into effect, and there has been no sign of its reintroduction in the current Congress. A related reform this year, introduced by Senators John Kennedy (R-LA) and Mike Braun (R-IN), S.474, would prohibit Ex-Im from providing financing to persons with seriously delinquent tax debt. In a press release, Senator Braun stated, "The Export-Import Bank should not serve as an ATM for tax delinquents and this legislation will address this loophole, while also rooting out potential fraud from dozens of companies."

Although the Bank's mission is to support U.S. jobs and firms, its benefits go to a select few while the risk associated with its activities affects everyone. The Bank's charter mandates that it must provide 20 percent of its lending authority to small businesses, yet it has consistently fallen short of this threshold. The Bank is still an example of corporate cronyism that ignores the plight of small businesses for large, preferred corporations.

Since the bank is utilizing taxpayer dollars, it is time to hold them accountable to the American people. The best option for taxpayers is to eliminate the Bank because the government should not have the power to manipulate the marketplace and expose taxpayers to unnecessary risk. In the meantime, Congress must mandate large structural reforms to Ex-Im such as adopting fair value accounting principles as well as diversifying the Bank's portfolio to provide better, fairer services.

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