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EXAMINING ALLEGATIONS OF CORRUPTION AT THE EXPORT-IMPORT BANK

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH,
JOB CREATION AND REGULATORY AFFAIRS

OF THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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EXAMINING ALLEGATIONS OF CORRUPTION AT THE EXPORT–IMPORT BANK

Tuesday, July 29, 2014

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC GROWTH, JOB CREATION, AND REGULATORY AFFAIRS,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:05 a.m., in Room 2154, Rayburn House Office Building, Hon. Jim Jordan [chairman of the subcommittee] presiding.

Present: Representatives Jordan, DeSantis, Duncan, Meehan, Lummis, Collins, Meadows, Bentivolio, Cartwright, Duckworth, and Connolly.

Also Present: Representatives Issa, Woodall, and Mulvaney.

Staff Present: Molly Boyl, Deputy General Counsel and Parliamentarian; David Brewer, Senior Counsel; Sharon Casey, Senior Assistant Clerk; Steve Castor, General Counsel; Brian Daner, Counsel; Adam P. Fromm, Director of Member Services and Committee Operations; Linda Good, Chief Clerk; Michael R. Kiko, Legislative Assistant; Mark D. Marin, Deputy Staff Director of Oversight; Ashok M. Pinto, Chief Counsel, Investigations; Jessica Seale, Digital Director; Andrew Shult, Deputy Digital Director; Jonathan J. Skladany, Deputy General Counsel; Rebecca Watkins, Communications Director; Jaron Bourke, Minority Director of Administration; Courtney Cochran, Minority Press Secretary; Jennifer Hoffman, Minority Communications Director; Tim Lynch, Minority Counsel; Brian Quinn, Minority Counsel; and Katy Teleky, Minority Staff Assistant.

Mr. JORDAN. The committee will come to order. I want to thank our witnesses for being here. We'll get to you in just a minute. We're going to start with opening statements, and begin by recognizing the chairman of the full committee, the gentleman from California, Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman. Thank you for holding this very important hearing today. Our witnesses are here because it's important the American people understand that with a pattern and a history of, and I use the word "corruption" in parentheses, but inappropriate behavior, questionable loans, a number of scandals that have made the American people question whether or not the term "bank" is appropriate for the Export-Import Bank.

Ex-Im Bank is not just a government program or subsidy. It is, in fact, a longstanding entity that is intended to help us compete in our exports around the world, it's intended to make American

products that would not otherwise be produced and exported possible, but it is, in fact, a program that comes with a cost. Any time the American people have a question about whether or not the risk is worth the reward. Mr. Chairman, I'm one member who believes that the risk and reward should be positive.

Americans compete around the world with countries who play by different rules. There are countries, like China, that will simply buy their way into a market. They will bribe individuals in government to gain rights and capabilities. Even countries as advanced as France are known to fail to meet the anti-corruption laws that America observes. So for that reason, it's important when Airbus has an opportunity to sell to America, that Boeing have an opportunity to have an even playing field. No company should be forced to move out of the country in order to access plans and financing that would be available to them—would not be available to them if they were within this.

Having said that, our jurisdiction is not on renewing the Ex-Im Bank; our jurisdiction clearly is on waste, fraud and abuse and the organization—or organizational strategies necessary for the American people to have a feeling of confidence in the Export-Import Bank. That does mean that we have to look at failures related to corruption and failures related to does this entity make loans possible where they otherwise wouldn't be possible, or is it often used for very high numbers for entities that would, in fact, otherwise still have a sale.

This committee only a few weeks ago looked at an embassy program that went awry in Papua New Guinea. We do not blame the Ex-Im Bank for the failure of that construction project, but a deciding factor in the mid-construction change was, in fact, an Ex-Im Bank-sponsored loan program that was going to cause natural gas to be liquefied in Papua New Guinea and then sent to China.

I, for one member, have serious questions about whether or not a company that is American flagged, but ultimately global, can receive income from one country, sell it to another country, and then claim that the risk should be on the American taxpayers.

So as we look at both the loan portfolio, the loan criteria, and the integrity of the organization, I hope we'll do so with a positive attitude that this is a longstanding program that has merit, but that, in fact, we have an obligation to see lives up to the highest standards, not of a bank, not of a government entity, but of a program designed on behalf of the American people to promote positive job growth here in America through our products being competitive around the world.

And for that reason, Mr. Chairman, you are showing great leadership here today in giving the Bank and others an opportunity to make their case for how they can do better on behalf of the American people, and I thank you for that, and yield back the balance of my time.

Mr. JORDAN. I thank the chairman.

I would now yield to the ranking member of the subcommittee, the gentleman from Pennsylvania, Mr. Cartwright.

Mr. CARTWRIGHT. Thank you, Mr. Chairman. And I welcome our witnesses on today's panel. Today's hearing is intended to examine recent allegations of corruption at the Export-Import Bank, an

independent, self-sustaining agency with a history of supporting U.S. jobs by financing the export of American goods and services. I do look forward to today's testimony on the bank's anti-corruption and anti-fraud efforts, the bank's process for responding to employee integrity issues, and how it does maintain high ethical standards that Congress and the American public expect from all government agencies. However, I am concerned that this hearing today has been called, in a rush to judgment, intended to tarnish the reputation of the Bank and its employees in an attempt unduly to influence a vote on the bank's reauthorization.

Four Ex-Im Bank employees are currently under investigation. Details of those investigations cannot and should not be discussed at this hearing, because congressional oversight is not supposed to jeopardize ongoing personnel actions or criminal investigations. I hope that the chairman will agree to instruct members not to jeopardize unintentionally the investigations by pressing for certain details of alleged misconduct.

Nonetheless, both Chairman Jordan and Chairman Issa have stated that these incidents, which we have very limited detail about, suggest a broader culture of corruption at the Bank, but the facts do not support that conclusion. Each of these investigations followed a formal referral for investigation that originated in the Ex-Im Bank's general counsel's office, and to date, every case of alleged fraud that the IG has referred for prosecution concerns outside entities which were seeking to steal taxpayer funds, not bank employees.

Now, the fact that outside parties attempted to defraud the Bank does not indicate that there is a culture of corruption inside the Bank. Calling the Bank corrupt for crimes committed against it is what we call blaming the victim.

Now, let's talk about what this hearing is really about, and that is the reauthorization of the Ex-Im Bank. This issue, for the first time in modern memory, has become controversial, not because of the issue before us today, but because the Tea Party faction of the Republican Party is holding this reauthorization hostage. This hearing seems to be designed to influence this important upcoming vote with propaganda and political theater.

A large group of Democrats as well as sensible moderate Republicans, many of whom I am proud to call my friends, understand the contribution that the Export-Import Bank makes to our communities by providing support for jobs and investments in small businesses all across America. It helps our domestic manufacturers compete with companies that are getting help from their own country's export banks overseas. We have to level the playing field for our companies, because other countries are putting their thumbs on the scale in favor of their own manufacturers. If we don't level the playing field for our companies, our companies and our workers face unfair disadvantage.

The Bank supports businesses in every state in the union. In my district alone, I'm very happy that the Bank supports 10 companies and 639 jobs. In fact, in Pennsylvania, the Bank supports $5.5 billion in exports. Nationwide, the Bank has supported 1.2 million American jobs, generated billions for the government, and costs the U.S. taxpayers nothing. In fact, we make money on the deals. On

average, 87 percent of bank transactions benefit small business exporters of U.S.-made goods and services. These are deals that could not and would not be done by the private sector alone, and are the perfect example of the kinds of public-private partnerships we need to get our economy going again, get our businesses thriving again and get our people back to work.

And speaking of getting back to work, I would note that this is the first hearing on the Economic Growth, Job Creation and Regulatory Affairs Subcommittee that has even tangentially anything to do with job creation, and therefore, I appreciate—having—appreciate the chairman having this hearing at all.

I do hope the chairman will join with me and other Republican and Democratic members who are calling for a reauthorization of a bank that supports U.S. jobs by financing the export of American goods and services. In fact, an op-ed by William E. Brock, labor secretary under President Ronald Reagan shows how far away from the tenets of President Reagan the modern Republican Party has drifted. He said, as a Republican, I would prefer that the private sector carry the entire load of supporting our international competitiveness, but the world market is not a level playing field, and the Bank is absolutely vital for companies involved in the global economy. Having worked closely with Mr. Reagan on trade issues, I am confident that he felt the same.

And, Mr. Chairman, I ask unanimous consent to enter this oped by Former Secretary Brock into the record.

Mr. JORDAN. Without objection.

Mr. CARTWRIGHT. Thank you, Mr. Chairman, and I yield back.

Mr. JORDAN. I thank the gentleman for his statement.

According to a recent report—well, let me do one other thing first. I ask unanimous consent that Mr. Mulvaney, the gentleman from South Carolina, be allowed to participate in today's hearing.

According to a recent report in The Wall Street Journal, at least four bank employees are under investigation for accepting bribes and steering Federal contracts to favored companies. In fact, fraud within and against the Bank may be far more widespread. The acting Inspector General of the Bank has informed the committee that there are at least 40, 40 active and ongoing investigations of fraud. And I would just as an aside highlight, after the ranking member's opening statement, that what better time, what better time to discuss real concerns at the Export-Import Bank than when we're looking at the issue of reauthorization. I think this would be the appropriate time to have this kind of hearing and look at these very issues.

In a hearing last month before the Financial Services Committee, Mr. Hochberg testified, "The article that was in yesterday's Wall Street Journal, in my opinion, is actually a good article, because it says to our staff and to the exporter, if you're doing anything funny, any funny business, we are on to you." But just a few years ago the Export-Import Bank was at the center of the most high profile corruption scandal, Abscam, when former congressman, William Jefferson, was caught with $90,000 in his freezer. As part of that investigation, an Ex-Im Bank employee admitted to taking a $100,000 bribe from a Nigerian businessman seeking financing

from the Bank. Apparently, the Bank's employees need regular reminders that it's wrong to accept bribes.

The allegations are appalling, but they are hardly shocking. The sole purpose of the Ex-Im Bank is to hand out billions of dollars to private companies in the form of direct loans, loan guarantees and credit insurance. Given such massive government largesse, the Bank is a natural target for fraud and its employees are natural targets for bribery and corruption. What is shocking is how the Bank has managed that risk.

One of the witnesses before the committee today is alleged to have accepted bribes from a south Florida exporter known as Impex Associates. Ex-Im Bank has a long history with Impex Associates, approving over 22 deals stretching from 2002 to 2011. In 2006, a 70-page lawsuit filed in Federal court laid out in excruciating detail how Impex Associates was nothing more than a massive scheme to defraud the Bank. Even after the whole world knew that Impex Associates was bilking the American taxpayer, it took the bank's management 3 years, 3 years to suspect there was anything wrong and refer the matter to the Inspector General. In fact, during those 3 years, the Bank approved five more deals with Impex, subjecting taxpayers to up to $40 million in liability.

According to the 2013 Federal Employee Survey, the Bank's staff have little faith in its leadership. When asked if, "my organization's leaders maintain high standards of honesty and integrity," only 42 percent of the employees at the Bank said yes; when asked whether they could, "disclose a suspected violation of any law, rule or regulation without fear of reprisal," only 50 percent of the Bank employees said yes. That's the culture that exists at the Bank, that's why it's appropriate we have this hearing at a time when we're looking at the issue of reauthorization.

President Obama famously said that when the American people lose faith in the ethical standards of government employees, all is lost.

In the private sector, if half of the employees of a company lost faith in their leadership, there would be big problems with that company. Unfortunately, that is what appears to be the case today with the Export-Import Bank. That's why we're having this hearing.

And with that, I would yield back our time and recognize—is there anyone else on the Democrat side who—is Mr. Cummings? Anyone else wish to make an opening statement? Anyone else on the Republican side wish to make an opening statement?

We will now go to our—members have 7 days to submit opening statements for the record. We'll now go to our witnesses. We have first Mr. Johnny Gutierrez, who's the former official in the short-term trade and finance division—trade finance division, excuse me, of the Export-Import Bank; we have the Honorable Fred Hochberg, who's chairman and president of the Export-Import Bank of the United States; and Ms. Diane Katz, who is a research fellow in the regulatory policy division at the Heritage Foundation.

I want to thank you all for being here. We know it's not always easy to do this, but we appreciate you being here with us.

Pursuant to committee rules, all witnesses will be sworn in before they testify. If you'll please stand and raise your right hand.

Do you solemnly swear or affirm that the testimony you are about to give will be the truth, the whole truth and nothing but the truth, so help you God? Let the record show that each witness answered in the affirmative.

You guys know how this works. You're given 5 minutes, more or less, right around the 5 minute mark, to make your opening statement. I know some of you submitted those already in written form. I'd like to thank you all for being here. And we will start first with Mr. Gutierrez.

WITNESS STATEMENTS

STATEMENT OF JOHNNY GUTIERREZ

Mr. JORDAN. Mr. Gutierrez, you have not provided us with any written testimony before today's hearing. Do you wish to make an opening statement?

Mr. GUTIERREZ. Upon advice of counsel, I hereby invoke my privilege against self-incrimination under the Fifth Amendment to the United States Constitution, which protects the innocent as well as the guilty.

Mr. JORDAN. We certainly respect that right you have, Mr. Gutierrez, under our wonderful Constitution.

Mr. Gutierrez, as an official in the Export-Import Bank's short-term trade finance division, you are uniquely qualified to provide testimony that will help the committee better understand allegations of corruption and fraud at the Export-Import Bank. To that end, I must ask you to consider answering the questions, so if you'll just bear with me.

Mr. Gutierrez, while you were at the Export-Import Bank, did you accept any gifts or items of value from either Geraldo Diaz or Impex Associates?

Mr. GUTIERREZ. Upon advice of counsel, I hereby invoke my Fifth Amendment privilege against self-incrimination.

Mr. JORDAN. I just have a couple questions, Mr. Gutierrez, and then we'll let you go here.

Mr. Gutierrez, The Wall Street Journal reported that you and three other Export-Import Bank employees accepted gifts and kickbacks and improperly awarded contracts to favored companies. Are you aware of any other employees at the Export-Import Bank who accepted gifts or items of value from companies or individuals seeking export financing?

Mr. GUTIERREZ. Upon advice of counsel, I hereby invoke my Fifth Amendment privilege against self-incrimination.

Mr. JORDAN. Just one last question, Mr. Gutierrez. Are you prepared to answer any questions here today about anything you did while you were at the Export-Import Bank?

Mr. GUTIERREZ. Upon advice of counsel, I hereby invoke my Fifth Amendment privilege against self-incrimination.

Mr. JORDAN. Does the ranking member have questions for Mr. Gutierrez?

Mr. CARTWRIGHT. Not at this time.

Mr. JORDAN. Mr. Gutierrez——

Mr. ISSA. Mr. Chairman? I would ask before you dismiss the witness that—instruct counsel to meet with our counsel to see wheth-

er or not there is or could be a proffer prior to dismissal, since Mr. Gutierrez is here pursuant to a subpoena. I would rather do that than to try to make contact later.

Mr. JORDAN. We're going to excuse Mr. Gutierrez. If—Mr. Gutierrez, if there's a chance you and your counsel could visit briefly with our counsel and—after you're dismissed, we would appreciate that. So we'll just take a short recess. Mr. Gutierrez, you're dismissed.

A couple, 2-minute break here, and we'll maybe rearrange the table a little bit, and then we'll be right back for our opening statements from Mr. Hochberg and Ms. Katz.

Mr. Gutierrez, thank you for being here today. The witness is dismissed.

[recess.]

Mr. JORDAN. Mr. Hochberg, you are recognized for 5 minutes.

STATEMENT OF HON. FRED P. HOCHBERG

Mr. HOCHBERG. Thank you. Chairman Jordan, Ranking Member Cartwright and committee members, thank you for inviting me here to testify before you today.

Ex-Im Bank is the official export credit agency of the United States. We operate exclusively in cases where the private sector is unwilling or unable to provide support, and to level the playing field against foreign competition. I am proud of our 400-plus employees, too, each and every day. Ex-Im Bank has supported 1.2 million private sector jobs in the U.S.—U.S. jobs since 2009, including 205,000 in fiscal 2013 alone. The Bank operates at no cost to taxpayers, and in fiscal 2013, the Bank generated $1,057,000,000 for U.S. taxpayers above and beyond the cost of all operations and loan loss reserves. The $1 billion goes towards deficit reduction.

We report on default rate to Congress every 90 days. As of June 30th, Ex-Im's default rate was.194 percent, or in other words, less than one-fifth of a percent. The private sector average rate, as calculated by the Fed, is currently three to four times that amount.

Today's hearing concerns ethics and how the agency addresses this important area of public trust. The Bank is fully committed to transparency and expects the highest ethical standards from all employees, and I look at this in three distinct areas: One, a culture of ethics starts at the top. I personally and the management team at the Bank are fully committed to running an ethical agency and operating at the highest ethical standards in government. Anything less than this is unacceptable.

Second, a committed culture of ethics must also have a strong ethical training and compliance program to ensure that all employees understand and internalize regulations and ethical expectations.

And third, lastly, because we don't live in a perfect world, an effective monitoring enforcement program must also exist. We work very closely with the Inspector General to monitor and enforce ethical concerns or breaches. One of my first orders of business when I joined Ex-Im was to establish a regular meeting with the Inspector General. I continue to meet with him privately each and every month.

Before joining Ex-Im, I ran a business, a small business, in fact, for 20 years and I know what it means to meet a weekly payroll. I also know that the only way for an organization to be successful is to operate at a high ethical level and have zero tolerance for fraud, waste or abuse.

Additionally, let me add that the agency's ethics program are fully compliant with all laws, regulations and policies that govern this aspect of our work. We are committed to comprehensive ethics training for all employees—in fact, we have a manual right here—and foster an environment where employees are encouraged to ask questions and report suspected unethical behavior.

Here are just seven examples of what we're doing: all new employees receive the manual ethics training upon arrival; they also receive mandatory annual ethics training thereafter; three, Ex-Im thoroughly reviews all financial disclosure reports, required to be filed by all employees on an annual basis; four, we conduct background checks on all of our employees and contractors that work at the Bank; five, we also periodically conduct background re-investigations on employees who have access to sensitive information and those who hold high level security clearances; six, we provide advice to employees to avoid any potential conflicts of interest; and lastly, we work closely with and refer matters, as appropriate, to the Inspector General.

As I mentioned, I meet monthly with the Inspector General and we review the status of audits and other ongoing investigations and periodic reports to Congress. I am only informed of an investigation at the discretion of the Inspector General.

Ex-Im Bank fully respects the authority of Congress to provide oversight of the Bank, and we strive to comply with all congressional requests to the fullest extent possible without compromising ongoing investigations. I know that every member of this panel shares my concern about not interfering with an ongoing criminal investigation. The last thing I want to do is interfere with the ability of law enforcement officials to fully and successfully prosecute wrongdoing.

I know there is intense interest in the allegations mentioned in the recent newspaper article. So as not to compromise the ongoing criminal investigations, privacy interest and due process rights, I can only say the following: Three individuals are no longer employed by the Bank and a fourth has been placed on administrative leave.

I want to reiterate, the Bank has zero tolerance for ethics violations. And I look forward to answering your questions.

[Prepared statement of Mr. Hochberg follows:]

WRITTEN TESTIMONY OF FRED P. HOCHBERG - PRESIDENT AND CHAIRMAN EXPORT-IMPORT BANK OF THE UNITED STATES BEFORE THE HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM, SUBCOMMITTEE ON ECONOMIC GROWTH, JOB CREATION, AND REGULATORY AFFAIRS

"EXAMINING ALLEGATIONS OF CORRUPTION AT THE EXPORT-IMPORT BANK"
July 29, 2014

Chairman Jordan, Ranking Member Cartwright, and distinguished members of the Subcommittee, thank you for inviting me to testify before you today.

About Ex-Im Bank

Ex-Im Bank is the official export credit agency of the United States. The mission of the Bank is to empower U.S. companies of all sizes to turn export opportunities into real sales that help maintain and create U.S. jobs and strengthen the national economy. Operating in cases where the private sector is unable or unwilling to provide financing and in instances of leveling the playing field from foreign government-backed competition, the Bank achieves its mission by equipping businesses with competitive export financing through its loan, guarantee, and insurance programs.

I am proud of the job our 400+ employees do each and every day. Ex-Im Bank has supported nearly 1.2 million private sector U.S. jobs since 2009, including 205,000 jobs in FY 2013 alone. The Bank operates at no cost to the taxpayers, and in FY 2013, the Bank generated more than $1.057 billion for the U.S. taxpayers above and beyond the cost of all operations. This $1 billion goes toward deficit reduction. We report our default rate to Congress every 90 days. As of June 30th, Ex-Im's default[1] rate is 0.194 percent.

Keeping small businesses – the engine of our economy – at the forefront of U.S. exports is at the core of our work at Ex-Im Bank. When small businesses are empowered to reach the 95 percent of consumers who live outside our borders, more jobs spring up in America that would otherwise go to competitor countries – and that does wonders for our economy. In 2013, the Bank financed

[1] This default rate is different than the default rates published in the annual Budget Appendix due to differing definitions. The reported rate in the Budget Appendix reflects projected defaults over the life of the loan while the default rate report as required in Section 8B of the Bank's charter reflects actual defaults at a particular point in time.

a record 3,413 small businesses - nearly 90 percent of Ex-Im's total transactions. In addition, Ex-Im financed more small businesses over the last five years than the prior eleven years combined.

Leveling the Playing Field

Two principles guide our work: leveling the playing field for U.S. exporters, and filling in gaps when the private sector is unable or willing to provide financing support. Ex-Im Bank recently released our Annual Competitiveness report to Congress illustrating the increasingly competitive global environment in which U.S. exporters must operate. There are some 59 other Export Credit Agencies (ECAs) around the world which finance exports benefitting their countries. Ex-Im Bank support is a vital force for leveling the playing field and empowering U.S. exporters to compete for global business on factors such as quality, innovation, and price, rather than on opaque financing terms. However, critics of Ex-Im Bank argue that we should not engage in helping to level the playing field for U.S. businesses and that the private sector alone should handle this. There is no question in my mind that when the private sector can provide financing which is competitive with the rest of the world, it should. Ex-Im Bank does not compete with private sector lenders; in fact, all applicants must provide a valid reason for requesting Ex-Im Bank support.

Filling the Gaps

We also exist to fill in the gaps to finance transactions that would not otherwise take place because commercial lenders are either unable or unwilling to provide financing support. This was particularly true after the Asian financial crisis (1997), the terrorist attacks of September 11 (2001), the SARS outbreak (2003), the financial crisis of 2008-2009 and other global disruptions. Often, commercial lenders do not want to provide financing for small business exports because the dollar value is too low. In general, commercial lenders are up against their lending caps in a particular region or industry sector and they will only provide the export financing if Ex-Im Bank will guarantee the loan. In these instances, Ex-Im Bank will step in to fill the gap and is able to salvage the transaction, turning a lost opportunity into real sales that support good American jobs here at home. Small businesses constantly face pressures, but it is almost always the case that during such crises, small businesses are the most impacted.

A Commitment to Ethics at Ex-Im Bank

Today's hearing concerns ethics and how the agency addresses this important area of public trust. A culture of ethics starts at the top. I, personally, and the management team at the Bank are fully committed to running an ethical agency and operating at the highest ethical standards in the

government. Anything less than this is unacceptable. A committed culture of ethics must also have a strong ethical training and compliance program to ensure that all employees understand and internalize regulations and ethical expectations. Lastly, because we do not live in a perfect world, an effective monitoring and enforcement program must also exist. We work very closely with the Inspector General to monitor and enforce ethical concerns or breaches. One of my very first regular meetings that I established at Ex-Im was with the Inspector General. I continue to meet with him privately each month to discuss matters at the Bank.

Before joining Ex-Im, I ran a small business for 20 years and know what it means to meet a weekly payroll. I know that the only way for an organization to be successful is to operate at a high ethical level and minimize fraud, waste, and abuse. I have applied these lessons learned from the private sector to my current position as President and Chairman of Ex-Im Bank. Additionally, let me add that the agency's ethics program is fully compliant with all laws, regulations, and policies that govern this aspect of our work. We are committed to comprehensive ethics training for all employees and foster an environment where employees are encouraged to ask questions and report suspected unethical behavior. Among other duties, the Ethics staff:

- Reviews 265 Confidential Financial Disclosure (450) forms and 28 Public Financial Disclosure forms (278) and conducts conflicts reviews
- Conducts reviews of outside activity requests from Bank employees
- Reviews employee outside employment requests, such as part-time teaching
- Provides advice to employees on questions about ethical questions
- Provides advice on post-employment restrictions for current and former employees
- Provides travel guideline advice
- Monitors the Bank's "Ethics Advice" email account which was created to provide employees quick and discreet ethics advice on basic ethics questions.

All new employees are provided introductory ethics training upon arrival and mandatory training thereafter. On a regular basis, we invite the Office of Special Counsel (OSC) to conduct Hatch Act training as well. The ethics staff ensures 100% participation of all GS-11 and above employees (above and beyond the minimum requirement mandated by the ethics regulations) by tracking who attends and following up with employee supervisors to ensure attendance. Employees who are unable to attend live sessions take an electronic course through the AGLearn online learning program.

Last year, the Bank introduced the Quick Series "Ethics Guide for Federal Government Employees" a pocket sized guide to provide a quick reference for employees to refer to ethics rules. We incorporated the use of the guides into the 2013 training module, and we distribute the

guides to all new employees. The guides have been well-received by the staff and resulted in increased employee engagement in ethics rules.

Ex-Im's ethics staff is the primary point of contact for ethics inquiries from Bank employees. Ethics officials, including the Designated Agency Ethics Official (DAEO), who is the Bank's General Counsel, and the Alternative Designated Agency Ethics Official (ADAEO), who is the Bank's Assistant General Counsel for Administration, are available to all managers and supervisors to respond to any ethics inquiries as they arise. Ex-Im ethics staff is constantly engaged in an on-going dialogue regarding the efficacy of the current ethics program and ways to improve the program.

Ex-Im ethics staff collects, thoroughly reviews, and maintains public financial disclosure reports (SF-278) and confidential financial reports (SF-450). Since 2013, Bank employees electronically filed these reports using FDOnline. The FDOnline system is a secure, web-based system hosted by the Department of Commerce's National Technical Information Service that provides for more streamlined collection and review of financial disclosure reports. The Bank also conducts periodic background checks on employees on a set schedule.

Because of the frequent monitoring and the strong ethics culture in the Bank, financing disclosure compliance is 100 percent. The financial disclosure process includes a comparison of the individual's holdings to a current list of entities doing business with the Bank. When appropriate, the ethics staff sends a letter to the employee about the potential conflict and advises them how to proceed in the event the employee becomes involved in a transaction involving that entity.

With respect to conflicts of Board members, the Secretary of the Board reviews the Board Member's potential conflicts list before every Board meeting and compares those entities to the entities involved in the transactions before the Board. If a conflict exists, the Board member exits the room before the matter is presented to the Board and returns after the vote on the matter is taken.

Recent Ethics Allegations

Working closely with the Inspector General, I was informed about an on-going, confidential investigation that could potentially involve criminal and other charges. Therefore, I was shocked and dismayed when I read about allegations on the front page of the *Wall Street Journal*. Furthermore, because of our ethical culture, there was wide-spread shock, disappointment, and dismay at the article from the employees at Ex-Im Bank who work hard every day on behalf of the taxpayers and U.S. exporters. Simply put, the Bank expects the highest ethical standards from all employees.

Ex-Im Bank fully respects the authority of Congress to provide oversight of the Bank, and we strive to comply with Congressional requests while not compromising on-going law enforcement investigations and administrative personnel proceedings. The Bank has consulted with the Inspector General regarding the Committee's request to disclose the names of the four individuals referred to in the *Wall Street Journal* article. The Inspector General, whose office is conducting the investigation, shares concerns that disclosure could interfere with on-going investigations. On the advice of the Bank's Inspector General and its General Counsel, certain information is being withheld to preserve the integrity of the on-going criminal investigations and to preserve the due process and privacy rights of individuals.

With respect to the four individuals mentioned in the *Wall Street Journal* whom are known to the Bank to be subject to on-going criminal investigations or administrative personnel actions, the Bank can say, without identifying these individuals by name, that three of the individuals are no longer employed by the Bank and the fourth has been placed on administrative leave pending the results of the on-going personnel action and/or criminal investigation. We look forward to a full accounting of the facts once the Inspector General's investigation is complete so that we can evaluate the situation and, as necessary, build on the steps already taken to assure that Ex-Im's already robust ethics program is as strong as possible.

With respect to the Committee's recent document request, Ex-Im Bank has complied with the request to the extent possible on very short notice and given the on-going investigations. To date, the Bank has produced more than 1,700 pages of documents responsive to the Committee's requests. The Bank will continue to work to accommodate the Committee's informational needs without jeopardizing criminal investigations or the resolutions of on-going personnel matters.

I thank the Committee again for the opportunity to appear before you today. I want to reiterate that the Bank has a zero tolerance policy for ethics violations and we will prosecute to the fullest extent of the law. I look forward to answering your questions and concerns.

Mr. JORDAN. We now recognize Ms. Katz.

STATEMENT OF DIANE KATZ

Ms. KATZ. Chairman Jordan, Ranking Member Cartwright and members of the subcommittee, thank you for having me here today to testify. My name is Diane Katz and I am a research fellow in regulatory policy at The Heritage Foundation. The views expressed in this testimony are my own and should not be construed as official positions of The Heritage Foundation.

As you are aware, the charter of the Export-Import Bank expires on September 30th. Proponents of reauthorization assert that the Bank sustains American jobs, fills gaps in export financing, and levels the playing field against subsidies provided by foreign governments; however, there is abundant evidence to the contrary and the academic literature is virtually unanimous in concluding that export subsidies are detrimental.

The Office of Inspector General and the Government Accountability Office have repeatedly documented mismanagement and dysfunction within Ex-Im, including insufficient policies to prevent waste, fraud and abuse. This pattern of carelessness with taxpayer dollars is evident in the multitude of criminal cases involving the Bank.

As the chairman noted, employees say that ethical conduct is not among Ex-Im's strengths. In a 2013 government survey, only 42 percent of bank employees agreed with the statement, my organization's leaders maintain high standards of honesty and integrity.

In a 2013 review of direct loans, the Office of Inspector General identified the Bank's non-compliance with even the most basic Federal procedures, noting "Bank personnel failed to document applicants' eligibility and application requirements and disregard mandatory checks on applicants' character and financial integrity."

Operational deficiencies appear to have worsened as bank financing has surged. Ex-Im's portfolio has increased by 94 percent since 2008. As noted by the Inspector General, this rapid growth raises concerns as to Ex-Im's inability to manage and monitor its portfolio.

Failures in management and monitoring are evident in dozens of cases of fraud. Based on a review of government data, The Heritage Foundation documented 124 investigations initiated between October 2007 and March 2014, as well as 792 claims involving more than a half billion dollars. There also have been 74 administrative actions since April 2009 in which bank officials have been forced to halt transactions based upon investigative findings.

A lack of due diligence was explicitly cited in the disappearance of $577 million related to the Bank's financing of a massive natural gas project in Papua New Guinea. The Inspector General noted that Ex-Im did not fully vet the relevant persons and entities connected with the project.

Similar lapses were cited in the Bank's financing of the Bolero mine project in Mexico, which defaulted within months of receiving a $420 million loan. According to the Inspector General, project vulnerabilities "were not sufficiently addressed in Ex-Im Bank's due diligence efforts."

In other cases, the Bank has engaged in literally dozens of transactions with an individual or a company before discovering that taxpayers were being defrauded. For example, from 2008 through 2010, Jose Quijano acted as an exporter in 96 fraudulent loan transactions insured by the Ex-Im Bank. Between 2004 and 2007, Ismael Garcia acted as the purported exporter in at least 31 fraudulent transactions involving $23 million in loans. From 2004 through 2007, Jose Velasco and others submitted false documents for 13 Ex-Im loan guarantees. The Bank subsequently paid $18 million in claims on the defaulted loans. Between 2004 and 2009, Luis Moy acted as the exporter in 11 fraudulent Ex-Im Bank insured or guarantied loans totally $11.2 million.

Fraud and corruption are not the only risks to taxpayers related to Ex-Im. The Government Accountability Office reported that the Bank appears to be relying on inappropriate risk modeling that could produce inaccurate estimates of subsidy costs and losses.

Ex-Im officials also are skirting requirements for determining the effect of export subsidies on domestic firms. Specifically, the Bank omitted relevant data and analysis beyond that considered necessary to support staff recommendations for financing.

Despite promises to improve matters over the years, bank officials continue to neglect due diligence, misstate losses, and exaggerate benefits. These failures are important to acknowledge as you consider whether to reauthorize the Bank or allow its charter to expire. Thank you.

Mr. JORDAN. Thank you, Ms. Katz.

[Prepared statement of Ms. Katz follows:]

Testimony of Diane Katz
Research Fellow, The Heritage Foundation
Before the House Committee on Oversight and Reform
Subcommittee on Economic Growth, Job Creation and Regulatory Affairs
July 29, 2014

Chairman Jordan, Ranking Member Cartwright, and Members of the Subcommittee, thank you for inviting me to testify this morning. My name is Diane Katz. I am a Research Fellow in Regulatory Policy at The Heritage Foundation. The views expressed in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

The charter of the Export-Import Bank (Ex-Im), last authorized in 2012, expires on September 30. Proponents of renewal assert that the bank sustains American jobs, fills gaps in export financing, and levels the playing field against similar subsidies provided by foreign governments. However, there is abundant evidence to the contrary.[1] The academic literature is virtually unanimous in finding that subsidies, in general, and export subsidies, in particular, are detrimental to the economy.[2]

The Export-Import Bank's Office of Inspector General (OIG) and the Government Accountability Office have repeatedly documented mismanagement and dysfunction within Ex-Im, including insufficient policies and procedures to guard against waste, fraud, and abuse."[3] This pattern of carelessness with taxpayer dollars is evident in a multitude of criminal cases involving bank operations, as detailed below.

Background

The Export-Import Bank of the United States was incorporated in 1934 by President Franklin D. Roosevelt to finance trade with the Soviet Union. Congress later constituted the bank as an independent agency under the Export–Import Bank Act of 1945. Its authorization, last extended in 2012, will expire on September 30.

[1] For details, see Diane Katz, U.S. Export–Import Bank: Corporate Welfare on the Backs of Taxpayers, Heritage Foundation Issue Brief No. 4198, April 11, 2014, http://www.heritage.org/research/reports/2014/04/us-exportimport-bank-corporate-welfare-on-the-backs-of-taxpayers ; Diane Katz, The Export–Import Bank: A Government Outfit Mired in Mismanagement, Heritage Foundation Issue Brief No. 4208, April 29, 2014, http://www.heritage.org/research/reports/2014/04/the-exportimport-bank-a-government-outfit-mired-in-mismanagement; Diane Katz, Export–Import Bank: Cronyism Threatens American Jobs, Heritage Foundation Issue Brief No. 4231, June 02, 2014, http://thf_media.s3.amazonaws.com/2014/pdf/IB4231.pdf; and, Veronique de Rugy, Mercatus Center at George Mason University, http://mercatus.org/export-import-bank .

[2] Salim Furth, The Export-Import Bank: What the Scholarship Says, Heritage Foundation Backgrounder No. 2934 (forthcoming).

[3] Export-Import Bank, Office of the Inspector General, Semiannual Report to Congress: April 1, 2013 to September 30, 2013, http://www.exim.gov/oig/upload/OIG_Report_FA13_508.pdf

The bank provides loans and loan guarantees as well as capital and credit insurance to facilitate U.S. exports.[4] The financing is backed by the "full faith and credit" of the U.S. government, which means taxpayers are responsible for losses that bank reserves fail to cover.

The 2012 Reauthorization Act set Ex-Im's exposure limit at $120 billion in 2012, with additional increases to $130 billion in 2013 and $140 billion in 2014. Last year, the bank authorized a total of $27.3 billion in financing, bringing the bank's lending portfolio to $113.8 billion. Officials report that Ex-Im's exposure remains within statutory limits. However, the Government Accountability Office, in a recent report, documented "weaknesses" in Ex-Im's forecasting, and concluded that "Ex-Im Bank's forecast of exposure could be higher than the exposure limit set by Congress for 2014."[5]

U.S. exports topped $2.3 trillion in 2013, the fourth straight year of record levels.[6] The Ex-Im bank financed just 1.6 percent of total exports last year.[7] The fact that more than 98 percent of exports do not rely on Ex-Im subsidies indicates that there is no shortage of private investment to finance trade.[8]

Very large corporations are the primary beneficiaries of Ex-Im financing. Just10 companies profited from 75 percent of Ex-Im subsidies in FY2013.[9] These major beneficiaries include Boeing (market cap of $91 billion); General Electric (valued at $267 billion); Bechtel (2013 revenues of: $39.4 billion); and Caterpillar (with 2013 sales and revenues: of $55 billion).

A Record of Fraud and Corruption

Advocates of the Export–Import Bank claim that its taxpayer-subsidized financing is a safe—and lucrative—investment for taxpayers.[10] However, the bank's Office of Inspector General and Government Accountability Office (GAO) have repeatedly documented transgressions in bank operations, including inadequate due diligence and insufficient risk management.

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[4] The bank provides foreign firms, both state-controlled and privately held, with loans and other forms of credit to purchase U.S. exports.

[5] Government Accountability Office, Export-Import Bank: Additional Analysis and Information Could Better Inform Congress on Exposure, Risk, and Resources, May 30, 2013, www.gao.gov/products/GAO-13-620

[6] U.S. Dept. of Commerce, U.S. Exports Reach $2.3 Trillion in 2013, Set New Record for Fourth Straight Year, Feb. 6, 2014, http://www.commerce.gov/news/press-releases/2014/02/06/us-exports-reach-23-trillion-2013-set-new-record-fourth-straight-year

[7] Veronique de Rugy, There Are Better Ways to Help US Exporters Compete Abroad Than the Ex-Im Bank, Mercatus Center at George Mason University, July 2, 2014, http://mercatus.org/publication/there-are-better-ways-help-us-exporters-compete-abroad-ex-im-bank

[8] Veronique de Rugy, There Are Better Ways to Help US Exporters Compete Abroad Than the Ex-Im Bank, Mercatus Center at George Mason University, July 2, 2014, http://mercatus.org/publication/there-are-better-ways-help-us-exporters-compete-abroad-ex-im-bank

[9] Veronique de Rugy, The Biggest Beneficiaries of the Ex-Im Bank, Mercatus Center of George Mason University, http://mercatus.org/sites/default/files/derugy-exim-exporters-final.pdf

[10] Written testimony of Fred P. Hochberg, President and Chairman, Export-Import Bank of the United States, before the Senate Committee on Banking, Housing and Urban Affairs, January 28, 2014, http://www.banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=35cd28bf-9349-43ce-829f-92d7f3971a6f

Serious procedural failures increase the likelihood of fraud and corruption. In a 2013 review of direct loans, the Office of Inspector General identified noncompliance with basic Federal and agency policies.[11] According to the report,

> (B)ank personnel fail to document applicants' eligibility and application requirements and disregard mandatory checks on applicants' character and financial integrity. Also, loan officers did not always perform or document performance of required tasks intended to ensure (1) borrower eligibility and compliance with Ex-Im Bank credit policies and standards, (2) completeness of loan applications, (3) collection and maintenance of all required documents, and (4) that comprehensive Character, Reputational and Transaction Integrity (CRTI) due diligence reviews were completed and documented prior to loan approval. These conditions occurred in part as a result of inadequate record-keeping and reliance on institutional knowledge instead of policies and procedures.

In testimony last month before the House Committee on Financial Services, Inspector General Osvaldo Luis Gratacós stated that bank management has consistently failed to establish internal controls over business operations, noting that "clear guidance to staff and establishing clear roles and authorities have not been prevalent at Ex-Im Bank."[12]

Such operational shortcomings have worsened as bank financing has surged. Ex-Im Bank's portfolio has increased by 94 percent since 2008 (from $58.4 billion in FY2008 to $113.8 billion in FY 2013). As noted by the inspector general, "This rapid growth in Ex-Im Bank's total portfolio exposure raises concerns as to Ex-Im's ability to manage and monitor this significant portfolio growth."[13]

Failures in management and monitoring are evident in dozens of cases of fraud and other wrongdoing. Based on a review of OIG data, The Heritage Foundation documented 124 investigations initiated between October 2007 and March 2014, as well as 792 separate claims[14] involving more than a half-billion dollars. There also have been 74 administrative actions[15] since

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[11] Export-Import Bank Office of Inspector General, Export-Import Bank's Management of Direct Loans and Related Challenges,, September 26, 2013, http://www.exim.gov/oig/upload/OIG-Final-Report-Audit-of-Ex-Im-Bank-s-Management-of-Direct-Loans-and-Related-Challenges-09-26-13-2.pdf

[12] Statement of Honorable Osvaldo Luis Gratacós Inspector General Export-Import Bank of the United States before the United States House of Representatives Committee on Financial Services June 25, 2014, http://exim.gov/oig/reports/upload/Gratacos-Written-Statement-House-Financial-Services-Committee-June-2014-Final.pdf

[13] Statement of Honorable Osvaldo Luis Gratacós Inspector General Export-Import Bank of the United States before the United States House of Representatives Committee on Financial Services June 25, 2014, http://exim.gov/oig/reports/upload/Gratacos-Written-Statement-House-Financial-Services-Committee-June-2014-Final.pdf

[14] Not all claims opened or closed in the period are related to cases opened or closed in the period, but may be related to other active investigations. The referral of a claim to the OIG for investigation does not establish the existence of fraud and not all claims included in a case under investigation are necessarily fraudulent until proven so.

[15] Administrative actions are responses by Ex-Im Bank to stop transactions, cancel policies, or protect funds at risk based upon investigative findings.

April 2009, in which bank officials were forced to act internally on the basis of investigations by the Office of Inspector General.

A lack of due diligence was explicitly cited by the OIG in its review of the bank's $3 billion financing of a liquefied natural gas project in Papua, New Guinea, sponsored by ExxonMobil and other major energy firms.[16] The inspector general was unable to validate some $577 million in costs financed by the Bank, noting that "the overall level of character, reputational and integrity due diligence conducted for this transaction could have been more comprehensive ... It did not fully vet the ... relevant persons and entities connected with the project." Transparency International currently ranks Papua New Guinea as 144 on a scale of 177 in its Corruption Perceptions index (with 177 being the most corrupt).[17]

Similar lapses were noted in the bank's $420 million financing of a copper-cobalt-zinc mine in Mexico, which defaulted within months of receiving the loan.[18] According to the OIG, project vulnerabilities "were not sufficiently addressed in Ex-Im Bank's due diligence efforts, nor sufficiently evaluated in the internal documents submitted to the Board of Directors for consideration."[19]

In a number of criminal cases,[20] the bank has engaged in multiple transactions with an individual or company before discovering that taxpayers were being defrauded. For example:

- From 2008 through 2010, Jose L. Quijano, through Gangaland USA, LLC, acted as an exporter in ***96 loan transactions*** insured by the Ex-Im Bank and received approximately ***$3.6 million*** in proceeds. Quijano admitted that he and others falsified financial statements, waybills, purchase orders, and bills of lading to falsely represent that purchases and the exporting of U.S. goods were for buyers in South America. All of the loans involving Gangaland were fraudulent and no U.S. goods of any kind were shipped to South American buyers.

- From 2003 through 2009, Guillermo O. Mondino assisted foreign buyers to create fraudulent loan applications, financial statements, purchase orders, invoices, and bills of lading to falsely represent the purchase and export of U.S. goods to buyers in South and Central America. After receiving more than ***$24 million in Ex-Im Bank insured loan proceeds***, Mondino diverted about $6.4 million of the loan proceeds.

- Between April 2004 and November 2007, Ismael Garcia acted as a purported exporter in at least ***31 fraudulent transactions*** involving $23 million in loans insured by Ex-Im Bank. Garcia retained some $1.1 million of the proceeds, and sent the balance to co-conspirators

[16] Export-Import Bank Office of Inspector General, Report on the PNG LNG Project Financing, June 18, 2014, http://www.exim.gov/oig/reports/upload/PNG-LNG-INSPECTION-REPORT-508-Final-Redacted.pdf
[17] Transparency International, http://www.transparency.org/
[18] The bank subsequently restructured the loan.
[19] Export-Import Bank Office of Inspector General, Report on Minera y Metalurica del Boleo S.A., September 30, 2013, http://www.exim.gov/oig/upload/REDACTED-Report-on-Minera-y-Metalurica-del-Boleo-SA-Report-Final-OIG-INS-13-01-130930.pdf
[20] All cases were excerpted from semiannual reports of the Office of Inspector General.

and foreign buyers in Mexico. Ex-Im Bank paid out nearly ***$18 million in losses*** on the defaulted loans.

- From April 2004 through November 2007, Jose Velasco and others prepared and submitted false commercial invoices, bills of sale, and bills of lading for goods purportedly purchased and shipped using the proceeds of ***13 Ex-Im loan guarantees***. The bank subsequently paid ***$17.9 million in claims*** on the defaulted loans.

- Between 2004 and 2009, Luis E. Moy acted as the exporter in ***11 fraudulent Ex-Im Bank insured or guaranteed loans totaling $11.2 million***. Moy and others conspired to make false statements about the purchase of U.S. manufactured equipment, supplied false invoices, and falsified other records to fraudulently represent to the lending bank and Ex-Im Bank the purchase and export of U.S. goods to various buyers in Mexico.

- Leopoldo Parra and others defrauded Ex-Im Bank by engaging in 18 fraudulent and fictitious loans. Parra and his co-conspirators submitted false documents stating that U.S. goods had been purchased by and shipped to various buyers in Mexico. Parra retained for his own personal use and benefit approximately ***$809,007***.

Mismanagement of Risk

Fraud and corruption are not the only risks to taxpayers related to Ex-Im dealings. Financing exports entails financial and political risks, including changes in interest rates, currency fluctuations, political unrest, and international conflicts. With hundreds of millions of taxpayer dollars at stake, one might reasonably assume that Ex–Im applies rigorous risk analysis to its lending. But according to the inspector general, "Ex–Im Bank lacks a systematic approach to identify, measure, price and reserve for its portfolio risk."[21]

The Government Accountability Office also reported that the bank appears to be relying on inappropriate risk modeling that could produce inaccurate estimates of both subsidy costs and potential losses.[22]

The bank does assign a risk rating to each transaction. However, it does not assess the relationships between all the various risks in its portfolio. For example, aircraft transactions account for nearly half of the balance sheet exposure, but each new airline transaction is assigned a risk rate in a vacuum—failing to account for the bank's inordinate investment in that single sector of the economy.[23] The lack of thorough analysis is particularly problematic for taxpayers

[21] Export-Import Bank Office of Inspector General, Report on Portfolio Risk and Loss Reserve Allocation Policies, Sept. 28, 2012, http://exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf
[22] Mathew J. Scire, U.S. Government Accountability Office, "Recent Growth Underscores Need for Improved Risk Management and Reporting," testimony before the Committee on Financial Services, U.S. House of Representatives, June 13, 2013.
[23] Export-Import Bank Office of Inspector General, Report on Portfolio Risk and Loss Reserve Allocation Policies, Sept. 28, 2012, http://exim.gov/oig/upload/Final-20Report-20Complete-20Portfolio-20Risk-20120928-1.pdf

because Ex–Im financing is heavily concentrated in two geographic regions (Asia and Latin America) and three economic sectors (airlines, oil and gas, and power).[24]

Ex–Im also does not analyze the risk of the "sub-portfolios" mandated by Congress—which include small business, sub-Saharan Africa, and renewable energy—although their performance likely differs from the overall portfolio.

Without accurate risk assessments, the bank cannot determine the appropriate level of capital reserves that are prudent. A future shortfall could provoke a bailout.

Hidden Losses

Congress and taxpayers have been told repeatedly that Ex-Im returns surplus revenue to the U.S. Treasury.[25] However, the non-partisan Congressional Budget Office reports that if the bank followed more accurate accounting, its ledger would show a cost to taxpayers of $200 million/year, or $2 billion over 10 years.[26] That is because the bank calculates its future revenue from loan repayments based on interest rates tied to Treasury securities. But unlike private banks, which follow much stricter accounting rules, Ex–Im does not adjust the amount of anticipated revenue for changes in the market that could actually reduce future repayments.

The difference between the accounting method used by Ex–Im and the more accurate method applied by the CBO in its report involves factoring for the risk of defaults related to the bank's generous financing. The bank calculates its future revenue from loan repayments based on interest rates tied to Treasury securities. But unlike private banks, Ex–Im does not adjust the amount of anticipated revenue for changes in the market that will reduce future repayments.

Ex–Im has incurred losses, too, accumulating a deficit of $5.3 billion in the 1980s.[27] The losses largely resulted from the bank paying higher interest for the money it borrowed to finance new deals than it was earning from the borrowers it previously financed. Bank officials compounded the problem by overstating revenue—i.e., reporting delinquent interest payments as income (to be collected in the future). By late 1984, problem loans tripled as a percentage of the bank's retained earnings.[28]

This practice, which artificially increases the appearance of "profit," is no small matter. As noted by the Congressional Budget Office, "That appearance creates a budgetary incentive to expand

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[24] Export-Import Bank, Annual Report 2013, April 2014, http://exim.gov/about/library/reports/annualreports/2013/annual-report-2013.pdf

[25] Written testimony of Fred P. Hochberg, President and Chairman, Export-Import Bank of the United States, before the Senate Committee on Banking, Housing and Urban Affairs, January 28, 2014, http://www.banking.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=35cd28bf-9349-43ce-829f-92d7f3971a6f

[26] Congressional Budget Office, Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024, May 2014, http://www.cbo.gov/sites/default/files/cbofiles/attachments/45383-FairValue.pdf

[27] U.S. General Accounting Office, Export-Import Bank's 1989 and 1988 Financial Statements, June 1990, http://gao.gov/assets/220/212761.pdf

[28] U.S. General Accounting Office, Export-Import Bank's 1989 and 1988 Financial Statements, June 1990, http://gao.gov/assets/220/212761.pdf

the programs beyond the scale that would be chosen if the budget reflected their costs at market value."[29] It also means that the bank's accounting methods could lead Congress to act in ways lawmakers might not otherwise if they knew the actual state of Ex–Im finances.

Ignoring Effects on Domestic Firms

Ex-Im officials also are skirting the bank's charter requirement for determining the potential effects of export subsidies on domestic firms. A review by the inspector general found that the bank did not address directly several elements of economic impact contemplated by the Charter, omitted relevant data and analysis beyond that considered necessary to support the staff's recommendation, did not state the limitations and qualifications of the data, assumptions, estimates, methods and analysis, did not fully address the sensitivity of the staff's conclusions to possible changes in assumptions and estimates that could be reasonably anticipated.[30]

Indeed, none of the Ex–Im personnel interviewed by the IG's office possessed professional training or expertise related to economic impact analysis.[31] Moreover, the bank does not consider the impact of any finance deal involving less than $10 million, which excludes some 80 percent of Ex–Im transactions.

All of this means that bank officials dole out billions of taxpayer dollars to foreign firms without a meaningful consideration of the impacts on American workers and the businesses that employ them.

Many industries are subject to booms and busts. Neither one typically results from a single cause but instead is a product of myriad factors, including changes in demand, currency fluctuations, and innovation. But government policy can dampen gains and exacerbate losses, which is the case with export subsidies. Ex–Im financing of coal mining in Colombia, copper excavation in Mexico, and airplanes for India has been identified as contributing to losses among domestic firms.[32]

The following Ex–Im deals have been cited by lawmakers and industry experts as examples of just some of the billions of dollars in taxpayer subsidies that put domestic firms at a competitive disadvantage:

[29] Congressional Budget Office, Fair-Value Accounting for Federal Credit Programs, March 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-05-FairValue_Brief.pdf

[30] Export–Import Bank of the United States, Office of Inspector General, Evaluation Report Relating to Economic Impact Procedures, September 17, 2010, http://www.exim.gov/oig/upload/EIB_Report_Final_Complete_Web.pdf

[31] Export–Import Bank of the United States, Office of Inspector General, Evaluation Report Relating to Economic Impact Procedures, September 17, 2010, http://www.exim.gov/oig/upload/EIB_Report_Final_Complete_Web.pdf

[32] Export–Import Bank of the United States, Office of Inspector General, Evaluation Report Relating to Economic Impact Procedures, September 17, 2010, http://www.exim.gov/oig/upload/EIB_Report_Final_Complete_Web.pdf

- Australia's Roy Hill mine ($694 million). The mine's expected output (over the life of the financing) is expected to displace nearly $600 million worth of U.S. iron ore exports and cause a reduction of some $1.2 billion in U.S. domestic sales.[33]

- South Africa's Kusile Coal power plant ($805 million); India's Sasan coal power plant and mine ($917 million). Notwithstanding the Obama Administration's war on coal,[34] Ex–Im has been a generous source of public financing for coal projects abroad.[35] These and other projects have exacerbated a 70 percent decline in coal prices since 2008.[36]

- Mongolia's Oyu Tolgoi copper mine ($500 million). The copper from this open-pit and underground mine competes with excavations in Arizona, Utah, New Mexico, Nevada, and Montana just as global refined copper production is expected to exceed demand by more than 390,000 metric tons this year.[37]

- Papua New Guinea's Liquid Natural Gas Project ($3 billion). Despite regulatory challenges faced by U.S. producers of liquid natural gas, Ex–Im approved $3 billion in financing for development of gas fields, on-shore and off-shore pipelines extending 400 miles, a gas liquefaction plant, and marine export facilities.

- Air India ($3.4 billion). The financing will guarantee the purchase of 27 Boeing aircraft intended for international service, including U.S. destinations. According to the Air Line Pilots Association, Air India will enjoy rates and terms that are not available to U.S. airlines, giving it a cost advantage of about $2 million per airplane. Surplus seat capacity resulting from Ex–Im airline subsidies—totaling about $50 billion between 2005 and 2011—has resulted in the loss of approximately 7,500 U.S. jobs.[38]

Conclusion

As detailed herein, government authorities have documented a variety of problems with bank operations, including mismanagement, dysfunction, fraud and corruption. Such problems invariably arise when government assumes a function far beyond its proper purview. Despite promises to improve operations, bank officials continue to neglect due diligence, underestimate

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[33] Senators Amy Klobuchar (D–MN), Al Franken (D–MN), Carl Levin (D–MI), and Debbie Stabenow (D–MI), letter to Export–Import Bank chairman Fred Hochberg, July 12, 2013, https://www.franken.senate.gov/?p=press_release&id=2505

[34] Nicholas D. Loris, "War on Coal: A House Bill to Stop the Regulatory Assault," Heritage Foundation Issue Brief No. 3733, September 19, 2012, http://www.heritage.org/Research/Reports/2012/09/War-on-Coal-A-House-Bill-to-Stop-the-Regulatory-Assault

[35] In 2013, the bank authorized $633.6 million in financing related to four new fossil-fuel power plants.

[36] Thomson Reuters, "Thermal Coal Prices to Drop Further on Oversupply, Weak Demand," March 20, 2014, http://uk.reuters.com/article/2014/03/20/energy-coal-prices-idUKL6N0MH30Y20140320

[37] Press release, "Copper Market Forecast 2013–2014," International Copper Study Group, October 2013, http://www.icsg.org/index.php/press-releases/finish/113-forecast-press-release/1605-2013-10-icsg-forecast-press-release

[38] Air Line Pilots Association, "Leveling the Playing Field for U.S. Airlines and Their Employees," http://www.alpa.org/publications/ALPA_White_Paper_Leveling_the_Playing_Field_June_2012/ALPA_White_Paper_Leveling_the_Playing_Field_June_2012.html

costs, misstate losses, and exaggerate benefits. These failures are important to acknowledge as Congress considers whether to reauthorize the bank or allow its charter to expire.

However, even if the bank were managed expertly, there would be no justification for reauthorization. There is simply no shortage of private financing for exports, as is evidenced by record levels of U.S. trade. Instead, Congress should reduce corporate tax rates and regulatory burdens to benefit *all* American businesses.

Mr. JORDAN. We'll now go to questions. The gentleman from Florida, Mr. DeSantis, is recognized.

Mr. DESANTIS. Good morning, Chairman Hochberg. When did you become aware of Mr. Gutierrez's alleged corruption?

Mr. HOCHBERG. There are four employees who are under investigation. And on advice of counsel and after talking to the Inspector General not to jeopardize their case, I'm really not able to talk about a criminal investigation while it's going on.

Mr. DESANTIS. So you can't even say when you were apprised of it just in terms of how we evaluate your role in running the agency, not even getting into the criminal charges?

Mr. HOCHBERG. My—the Inspector General's already been concerned that too much information has leaked about this. He has—he wrote a letter to——

Mr. DESANTIS. Okay. Well, let me—I take your point. Was this the first time you've been made aware of possible corruption by the Export-Import Bank employees in your tenure?

Mr. HOCHBERG. Yes. I've been at the Bank for 5 years. This was the first year.

Mr. DESANTIS. So you were not aware of any other instances of employee corruption since you've been at the Bank?

Mr. HOCHBERG. Well, there are four cases that have been raised in the newspaper. I'm familiar with those four.

Mr. DESANTIS. Now, at the June 25th Financial Services hearing, Chairman Jordan referenced that you said that yesterday's Wall Street Journal article, in my opinion, is actually a good article.

Did the Export-Import Bank need a reminder by The Wall Street Journal that it's explicitly illegal to accept bribes?

Mr. HOCHBERG. No.

Mr. DESANTIS. And I bring that up, because most American's don't know what the Export-Import Bank is, but a lot of Americans do remember, and this was—I guess, the misconduct would have been before you got there, but it came to a head in 2009. There was a Member of Congress that the FBI found thousands of dollars in his freezer, Congressman Jefferson. That was a very high profile scandal.

And so I guess my question is, you know, why are we here again? It's been just 5 years since the Export-Import Bank was at the center of one of the biggest corruption scandals in Congress certainly in decades, and yet it's back on the front page of The Wall Street Journal. So how is that a good thing?

Mr. HOCHBERG. What I tried to say, Congressman, is that we work closely with the Inspector General. We have set a high ethical standard at the Bank. We work closely with all employees to provide ethics training. We instituted a multi-day course this year that was oversubscribed. Over 50 people have taken it so far. We're going to be extending that. We have a high ethical standard there. On the other hand, enforce—the reason we have to have enforcement is not everybody plays by the rules, not everybody follows the rules, and when that does happen—and in this case, in the cases we're talking about, employees at the Bank referred each and every one of those to the general counsel and to the Inspector General——

Mr. DESANTIS. So the source of those—the four instances that The Wall Street Journal referenced, the source of that were employees referring that, or did those start in the context of a fraud investigation?

Mr. HOCHBERG. It started with employees saying that something doesn't look right in this transaction on this area of the Bank.

Mr. DESANTIS. Okay. Because according to your letter to the committee, the alleged wrongdoing by Mr. Gutierrez was discovered during a fraud investigation. I think that's what you're saying. There as a transaction, people say, hey, there may be something wrong. So basically the foreign company may be committing a fraud or the domestic company against the Ex-Im Bank.

Now, as I understand it, there are at least 40 outstanding fraud investigations of bank transactions that are outstanding. Is that correct?

Mr. HOCHBERG. I don't know about the precise number. I can say this, Congressman: We—there only have been four employees. There will always be at a bank of our size a number of transactions that will be under suspicion or will be investigated.

Mr. DESANTIS. No. I understand that. And I agree with that, but my point is simply that if we have 40 fraud investigations, it seems as if that is kind of the way in which some of the employee misconduct can be discovered, and so if there are substantial number of outstanding fraud investigations, it stands to reason that there very well may be more instances of employee misconduct.

I'm going to ask you this: You noted in your testimony that the Ex-Im Bank serves to kind of level the playing field, you have all these foreign countries that engage in subsidies for their domestic industries. And I guess my question is for you is, why are we worried about foreign nations engaging in industrial policies? It just seems to me that, I understand why that would be politically attractive, but economically it seems like it would be counterproductive, because you basically have central planners who are allocating capital rather than allowing private individuals. And so if China wants to go down that road, China may not be experiencing the growth that they would have if they were leaving private capital to allocate itself based on the private ownership. So how would you respond to that?

Mr. HOCHBERG. We live in a world right now—and we have to partly accept the world we live in. We live in a world where there is state-directed capitalism in many, many countries; China's one, but it's not the only one.

We want to make sure that when American companies are competing—if they compete against another company, it's one thing; if they compete against China, Inc., or Korea, Inc., or Russia, Inc., and so forth, sometimes those companies are backed by those governments, we want to make sure if, only if our financing is needed to level the playing field, that we step in. We only step in in those rare occasions where we're needed to.

Mr. DESANTIS. My time is expired. I yield back to the chairman.

Mr. JORDAN. The gentleman from Pennsylvania, the ranking member, Mr. Cartwright, is recognized.

Mr. CARTWRIGHT. Thank you, Mr. Chairman.

Mr. Hochberg, I thank you again for appearing here today, and I just want to run over a few important facts with you. First of all, am I correct that the Ex-Im Bank supports 1.2 million American exporting jobs?

Mr. HOCHBERG. Yes, that's correct.

Mr. CARTWRIGHT. Okay. At no cost to the taxpayer?

Mr. HOCHBERG. That's correct, no cost to the taxpayer.

Mr. CARTWRIGHT. And this is a function, to address my colleague, Mr. DeSantis' concern: How many other countries—it's something like 40 other countries in the developed world that have the equivalent of the American Ex-Im Bank. Isn't that true?

Mr. HOCHBERG. There are actually 59 other export credit agencies around the world.

Mr. CARTWRIGHT. 59 others in the world. And if we didn't have ours to help American companies compete, the playing field would be much less level than it is today. Am I correct in that?

Mr. HOCHBERG. That is totally correct.

Mr. CARTWRIGHT. All right. Well, nevertheless, we do have this Wall Street Journal article about four cases of potentially criminal misconduct, and I want to talk about that. With respect to those, I understand that on the advice of the Bank's counsel, you're not able to discuss the details of those cases. Am I correct in that?

Mr. HOCHBERG. That is correct.

Mr. CARTWRIGHT. Now, we asked the acting Inspector General whether he would be able to discuss the circumstances of those four individuals, and in a letter we received from him yesterday, he explained as follows: "Disclosure of such information could seriously prejudice law enforcement efforts by alerting potential defendants to which potential witnesses and sources of information the government has obtained."

To your understanding, Mr. Hochberg, is that the same reason why you were advised not to discuss the details of those cases?

Mr. HOCHBERG. Precisely.

Mr. CARTWRIGHT. All right. But, Mr. Hochberg, I'm guessing it is a matter of some frustration to you that you cannot share more information about the allegations of misconduct concerning these four individuals. Is that right?

Mr. HOCHBERG. Yes. I mean, they're under investigation. I don't have all the facts, so I would only be making conjecture.

Mr. CARTWRIGHT. And I share your frustration, Mr. Hochberg, but I understand why we can't do that here. It would be a scandal if something this committee did allowed potential defendants to avoid prosecution. And while I understand you can't share with us the details about those four individuals, the question is, what, if anything, can you tell us about any employment action the Bank has taken against these individuals to date?

Mr. HOCHBERG. There are four employees who are subject to an investigation, three of which have been separated from the Bank, one is still on administrative leave, because it was only discovered in the last 6 or 8 weeks. Each one of those is subject to a potential criminal investigation and criminal charges. So we are working with the Inspector General, Department of Justice, that is doing a full investigation.

Mr. CARTWRIGHT. Now, in terms of timing, Mr. Hochberg, as I understand it, the Bank took employment action against these individuals before The Wall Street Journal article first appeared. Am I correct in that?

Mr. HOCHBERG. Oh, yes, months before.

Mr. CARTWRIGHT. So at the time The Wall Street Journal reported back in June of this year that the Bank has suspended or removed four individuals for misconduct, the Bank was not only aware of the allegations, but it had already taken action. Correct?

Mr. HOCHBERG. That's totally correct.

Mr. CARTWRIGHT. In a letter we received from the Inspector General yesterday—and I do ask for unanimous consent to enter this letter into the record.

Mr. JORDAN. Without objection.

Mr. CARTWRIGHT. He explains that, to date, he has not found evidence of widespread employee misconduct or any systemic employee involvement in fraud schemes at the Bank.

My question is, in those instances in which employee misconduct has been alleged to have occurred, where did the tips come from and who asked the IG to investigate?

Mr. HOCHBERG. In each of those cases, they came from other employees, who either referred the matter initially to their supervisor or the general counsel, and then later they were on referred to the Inspector General.

Mr. CARTWRIGHT. Would that be a healthy indicator that the ethical training that you've mentioned and reporting that the Ex-Im Bank has developed over the years has been working?

Mr. HOCHBERG. Yes. I mean, I would obviously prefer to have no fraud at the Bank, but I—if we're going to—if it comes up, the fact that our employees are alert to it and want to root that out is something I admire in our employees.

Mr. CARTWRIGHT. And would you briefly explain why a commitment to ethics is important to you in the culture at the Ex-Im Bank.

Mr. HOCHBERG. Very simply, I mean, we operate at the public trust, we're here to level the playing field and to support jobs, and so it's important that everybody at the Bank operate at the highest ethical standards. It starts with top management, it continues through the training we do and making sure we have a culture that when people see something that's awry or suspicious, that they alert the proper authorities so they can take a look at it.

Mr. CARTWRIGHT. Well, thank you, sir. And I'm going to yield back to the chairman.

Mr. JORDAN. I thank the gentleman. We'll—before recognizing the other gentleman from Pennsylvania, I would just ask unanimous consent to enter into the record the CBO study, Fair Value Accounting, which estimates that the Bank will cost taxpayers $2 billion over the next few years. Without objection, that will be put into the record as well.

Mr. JORDAN. We'll now recognize the gentleman from Pennsylvania, Mr. Meehan.

Mr. MEEHAN. I want to thank the chairman. I thank our witnesses today for their presence here in helping us to identify a lit-

tle more clarification of just one of the issues I know that's being raised right now, but let me just do some background in general.

Mr. Hochberg, the Export-Import Bank, it does, what, about $50 billion a year now in loans? Is that accurate?

Mr. HOCHBERG. That's a little high. We're——

Mr. MEEHAN. It's a little high?

Mr. HOCHBERG. Last year we did $27.4 billion.

Mr. MEEHAN. Oh, is that right? Okay. I'm looking at a different statistic, but I see——

Mr. HOCHBERG. Well, export supported, so in other words—because we don't do 100 percent of any loans——

Mr. MEEHAN. Right.

Mr. HOCHBERG. —so export supported. Last year we did $27.4 supporting about $36 billion worth of exports.

Mr. MEEHAN. And most of those were—we see frequently discussions about big companies that are reportedly part of this process, but am I accurate in saying that—Mr. Bentivolio and I are having a little trouble here getting eye contact with his—but am I accurate in my understanding that actually about 90 percent of those loans go to small businesses?

Mr. HOCHBERG. Yes. That's correct.

Mr. MEEHAN. So those are job creators back in the communities, and people—you—at the outset of your testimony, you identified that the reason that you're in this market is that they were not able to get financing at traditional bank markets. Do you have a second where you could explain that?

Mr. HOCHBERG. Certainly. I mean, you know, one, I was a small business owner myself in a family business for 20 years, and I remember this personally and I see this when I meet with small business owners around the country: It is always more difficult for a small business owner to get financing, ever more so when they also have customers overseas and they're exporting. It's still more foreign. We're becoming more of an export Nation, but generally speaking, it's even more difficult when they're exporting.

Mr. MEEHAN. The—Ms. Katz, I know you raised some points about confidence within the institution. I'm not—I did have to laugh to myself. You were concerned because 42 percent of the employees within the institution seemed to have confidence in the standards of honesty, integrity. What do you think the percentage of American citizens would be if they asked about the sense of confidence of honesty and integrity of Members of Congress today.

Ms. KATZ. I'm not sure that's—that's the right standard, Congressman, that I would use.

Mr. MEEHAN. I just—the people are cynical about a lot of things you see these days, but I just sort of say that facetiously. But very seriously, I mean, I'm as concerned as anybody about the concept of fraud at an institution like this, but as a former Federal prosecutor, I have to say to you that the concept of fraud at any institution in which there's transactions that take place is really not that foreign a concept; in fact, we deal with it on a regular basis. Unfortunately, it seems to be human nature.

Would you explain to me why we can't resolve these issues by effective investigations and prosecutions like we do in many parts of our society?

Ms. KATZ. We do resolve many of them, dozens of cases in the—with respect to the Bank; however, I think that we——

Mr. MEEHAN. Dozens? Sorry. Have there been dozens of prosecutions?

Ms. KATZ. Certainly.

Mr. MEEHAN. There have been dozens? Okay.

Ms. KATZ. Oh, certainly, if not more than that. I think, you know, the—the issue is that there is a record of mismanagement within the Bank and a lack of standards within the Bank that create an environment that is particularly ripe for fraud and other wrongdoing, and that's the concern. I don't think that it's good enough to say, well, there's corruption everywhere or there's fraud everywhere, and therefore we can expect it at the Bank.

I think the expectation should be that our public institutions are doing everything in their power to minimize the amount of fraud and corruption that exists, and I don't think that that's necessarily the case here.

Mr. MEEHAN. Ms. Katz, I—or Mr. Hochberg, I——

Mr. HOCHBERG. Well, let——

Mr. MEEHAN. Let me ask a question and then you can respond to it. I mean, I had a period where I actually had the responsibility to sit on the corporate fraud task force in my previous time as a U.S. Attorney, because we were seeing this kind of issue throughout corporate institutions all the way—one of the resolutions, of course, were—in addition to increased prosecutions were the beginning of better compliance, the beginning of better kinds of internal controls.

Mr. Hochberg, now aware of some of the concerns, are you prepared and are there steps in place to begin to put the kind of compliance programs and internal controls that would give the taxpayers confidence that decisions that are being made are being made on the merits and not for any kind of nefarious purposes?

Mr. HOCHBERG. We are continually—excuse me. We have an auditing firm, an outside auditor, Deloitte and Touche, we have an audit committee, we have the General Accountability Office, the Inspector General, all of which give us recommendations on how to make the Bank run better, how to run better, more efficiently with less incidents or less potential fraud, waste or abuse, and we have taken those recommendations and we're continue working to improve that.

I do want to make one comment. When Ms. Katz said there are dozens, there are only four employees. There may be companies we look at on the outside trying to defraud the Federal Government, but that's separate from employees. So I think we just need to make sure those are really two separate issues.

Mr. MEEHAN. Well, thank you for drawing that clarification.

And, Mr. Chairman, my time is up.

Mr. JORDAN. Thank the gentleman.

The gentlelady from Illinois, the Honorable Ms. Duckworth is recognized.

Ms. DUCKWORTH. Thank you, Mr. Chairman. And I'd like to thank my colleague from Pennsylvania, Mr. Meehan, for mentioning the Ex-Im Bank's support for small businesses. In fact, last summer, over 100 businesses attended a forum just in my one dis-

trict alone in Schaumburg, Illinois, to learn more about the benefits of Ex-Im Bank. Since then, the businesses in my district have told me time and again how the Bank's services keep them competitive in the global marketplace.

Ex-Im Bank is a job creator and it plays a critical role in the economy in my home State of Illinois, which is the fifth largest exporting state in our country. At no cost to the taxpayers, it supported 1,600 jobs in my district alone and more than 200,000 across the country. And, in fact, 2 weeks ago, with grave concerns for the Ex-Im Bank, the National Association of Manufacturers local chapter in my district asked for a meeting with me, where they brought up the importance of renewing the Ex-Im Bank's charter. And, in fact, attending that meeting, in addition to the vice-president of technology, factory automation at Bosch Rexroth Corporation, I also had the president of the National Marine Manufacturers Association, which is a collection of small businesses who build pleasure boats for the entire—around the Nation.

And one particular business in my district, Quality Float Works, in Illinois, who just won a $3 million contract with the nation of Saudi Arabia to provide some services and yet they cannot get the loan guarantee that they need for the million dollars in supplies and equipment. They will lose this contract that they've been competing for for many, many years, and it equates to an entire shift that they would add to their factory, people that will be out of work in my district if they can't get this loan guarantee from the Ex-Im Bank.

In short, the Bank is critical to small businesses, manufacturers and job creators in my district and all over the United States. I agree that no organization is immune from having bad actors within its ranks at some point. The question is what processes does the organization have in place to ensure that bad actors are caught and held accountable.

I wanted to clarify something that Ms. Katz said. She said that of the dozens and dozens of cases that have been—have been referred to prosecution, but in fact, the Office of the Inspector General has said that, and—has not found any evidence of systemic corruption among Ex-Im Bank employees. According to the OIG, bank employees have not been implicated in any of the 70 instances in which fraud was referred to prosecution.

And my understanding, Mr. Hochberg, is that these four employees that are currently under investigation were actually discovered by the Bank itself. Is that not correct?

Mr. HOCHBERG. That is correct.

Ms. DUCKWORTH. Could you—could you talk a little bit about the Bank's role in the global economy? What are our competitors doing? Would U.S. businesses fall behind without the Ex-Im Bank?

Mr. HOCHBERG. Thank you, Congresswoman. And we actually do issue, and just recently issued to Congress the end of June an annual competitiveness report. This is a report that is mandated by Congress where we survey customers and exporters and other export credit agencies to see how competitive we are. As I mentioned to Congressman Cartwright, there are 59 other export credit agencies and government agencies supporting exports around the world. We are in a period of the most brutal competition for exports and,

hence, jobs. Country after country is trying to export their way out of their economic malaise, and so U.S. companies, and again, 90 percent of the companies we work with are small businesses as defined by the SBA, have a very tough time getting both the financing and competing head to head.

So we make sure if the private sector isn't there and there is a reasonable assurance of repayment, that we can step in and make sure that sale happens and supports jobs in our country, not overseas.

Ms. DUCKWORTH. One of the things, Mr. Hochberg, that Quality Float Works told me about their concern with Saudi Arabia and this one contract in particular that they've been fighting for 3 years to finally win is the slow pay aspect. Can you talk a little bit about what Ex-Im does in terms of helping small businesses be able to survive after they provide services for people that do pay but are slow?

Mr. HOCHBERG. That is a particular problem. It's a particular problem in a number of countries, the one you mentioned, and I've heard that frequently mentioned.

What we do is we provide—we provide insurance. So a customer, a U.S. company, the way they buy theft insurance or fire insurance, we will sell them credit insurance so they can insure their receivables, so that they know they're going to get paid, and they can also give dating. So if they provide, say, 60 or 90-day terms to their customer, once they have the receivable insured by the U.S. Government, they can go to their bank and borrow against it. It becomes a collateral, part of what they call their borrowing base, so then they can get the cash flow, and we could also assist in that. We provide a 90 percent guarantee, if needed by a local bank, to make the loan, to give them working capital so that they have the cash flow to fulfill the order.

Ms. DUCKWORTH. Thank you. I'm out of time. I yield, back, Mr. Chairman.

Mr. JORDAN. Thank the gentlelady.

Mr. Hochberg, does Mr. Gutierrez still—is he still employed at the Ex-Im Bank?

Mr. HOCHBERG. He is not an employee.

Mr. JORDAN. What were the financial terms of Mr. Gutierrez's dismissal from the Bank?

Mr. HOCHBERG. He was dismissed from the Bank early——

Mr. JORDAN. Is he receiving any compensation now, any taxpayer compensation now, any compensation from the Bank?

Mr. HOCHBERG. He is not.

Mr. JORDAN. All right. Mr. Hochberg, there have been four people identified in the Wall Street Journal as being part of this—being under investigation, four employees. Are the other three also—have the other three also been dismissed from the Bank?

Mr. HOCHBERG. Three, including Mr. Gutierrez, has been dismissed. One is on administrative leave pending investigation.

Mr. JORDAN. And the one on administrative leave is still receiving compensation from the Bank?

Mr. HOCHBERG. That is correct.

Mr. JORDAN. All right. Can you tell me who the other three individuals are? Can you name those other three?

Mr. HOCHBERG. I cannot name them. I've been asked, since they're under criminal investigation—Mr. Jordan, as you know, you're an attorney, I don't want to jeopardize that case so they cannot be prosecuted to the full extent of the law?

Mr. JORDAN. Who has specifically told you that you can't tell us—identify who those individuals are?

Mr. HOCHBERG. Well, you—the letter from the Inspector General——

Mr. JORDAN. No, no. I'm asking you, did the Inspector General say to you, Mr. Hochberg, don't tell Congress the names of the other three individuals under investigation? Did he explicitly tell you that, make that statement to you?

Mr. HOCHBERG. I was told by our counsel——

Mr. JORDAN. I'm not asking about your counsel, I'm asking about the Inspector General.

Mr. HOCHBERG. Not to discuss this. Yes, he said not to discuss this.

Mr. JORDAN. He said not to disclose the names of the other three individuals under investigation, one on paid leave, still receiving compensation? He said don't tell who—don't tell the American people, don't tell Congress who they are?

Mr. Hochberg. They're under investigation. And you know and I know I cannot discuss this.

Mr. JORDAN. What statute says you can't?

Mr. HOCHBERG. I'm trying a make sure that—if they've done wrongdoing, I want them to be prosecuted and removed, and to the full extent of the law.

Mr. JORDAN. Is there any law that says you can't disclose to a congressional committee doing appropriate investigation about an agency where there is fraud, alleged fraud, alleged bribes taking place, and you can't disclose those names? Can you name the statute?

Mr. HOCHBERG. Mr. Chairman, I would certainly——

Mr. JORDAN. Because I can't name one.

Mr. HOCHBERG. I'm not an attorney, but I'm not going to——

Mr. JORDAN. I'm not either.

Mr. HOCHBERG. —jeopardize the case.

Mr. JORDAN. But I know there's no statute.

Mr. HOCHBERG. I am not going to jeopardize the case because I would like these employees, if they are guilty, to be found guilty and to be prosecuted to the full extent of the law.

Mr. JORDAN. So do we, but we'd also like to know that information when we're doing an investigation.

We had this debate—just last week, Mr. Gowdy raised this same question. We always—oh, we can't give you information, we can't give you documents because there's an ongoing investigation.

Well, we'd like to know, when will you—when do you think you will be able to tell us who those other three are?

Mr. HOCHBERG. Mr. Jordan, I will read you what the Inspector General said. "A longstanding policy and practice of Federal law"——

Mr. JORDAN. I want to know what the Inspector General told you. I'm not asking the Inspector General, Mr. Hochberg; I'm asking you.

Did the Inspector General specifically tell you, don't tell this committee who is under investigation? Did he say that to you?

Mr. HOCHBERG. I am reading from this letter, and I am not disclosing that information——

Mr. JORDAN. I can read a letter. I'm asking you. You're the witness today under oath. I'm asking you, why can't you tell us who the four people are? We know one, and he just took the Fifth. We'd like to know the other three.

Mr. HOCHBERG. I cannot disclose those names to the public.

Mr. JORDAN. I mean, when do you think you will be able to? Sometime after September 30th? Not before September 30th?

Mr. HOCHBERG. It depends if they're indicted. If they're indicted, it becomes a public—then it becomes public information.

Mr. JORDAN. Let's go to this. Let's change gears. Did you give $10 million—did the Export-Import Bank give $10 million to Solyndra in 2011?

Mr. HOCHBERG. No, we did not.

Mr. JORDAN. Our understanding is $10 million in loan guarantees occurred. John Scott, former vice president of Solyndra, touted the expedited manner in which Ex-Im Bank granted Solyndra loan guarantees, stating it benefited from a "fast due-diligence process."

The Export-Import Bank did not help in any way financing Solyndra?

Mr. HOCHBERG. Well, that wasn't the original question. We financed a company in Belgium that purchased products from Solyndra.

We generally do long-term financing of foreign buyers who are looking at U.S. goods versus Chinese goods versus foreign goods, and to—and if they require——

Mr. JORDAN. So you did help with Solyndra.

Mr. HOCHBERG. No, we financed a Belgian company that——

Mr. JORDAN. No, I understand how it works. I understand how the Export-Import Bank works. But it was tied to Solyndra, correct?

Mr. HOCHBERG. It was—they made a purchase from Solyndra, that's correct.

Mr. JORDAN. Well, yeah, that's how the Bank works.

So how about Abound Solar? Did you do a $9.2-million loan guarantee to Abound Solar?

Mr. HOCHBERG. I'd have to look at what the—look, we make loans, Mr. Chairman, to the foreign buyers who's buying from U.S. companies.

Mr. JORDAN. Right. I understand. Both Abound Solar and Solyndra went bankrupt. We have had—this committee has done a lot of examination of the loan guarantee program. And we just—I just found it amazing that you were also tied in with the very companies in the loan guarantee program which lost taxpayer money to Solyndra, Abound Solar, Beacon Power, and others, that you've given money to the—to benefit those same companies.

Let me go back to you, Ms. Katz, real quickly. You mentioned the number 74 in your testimony. Tell me about that again.

Ms. KATZ. Those are administrative actions that were reported taken by the Inspector General following integrity investigations at the agency.

Mr. JORDAN. Closed investigations where they found——

Ms. KATZ. Well, what's referred to—there's not a lot of transparency, as you might imagine, with these things. But administrative actions are responses by the Ex-Im Bank to stop transactions, cancel policies, or protect funds at risk based upon investigative findings.

Mr. JORDAN. All right. Thank you.

Last thing before I run out of time here, Mr. Hochberg. Again, just for the record, no one—the Inspector General didn't explicitly tell you not to share with Congress the identities of the other three individuals under investigation, yes or no?

Mr. HOCHBERG. I have been advised not to disclose the names of the individuals who are under investigation, not——

Mr. JORDAN. Okay.

Mr. HOCHBERG. —to jeopardize their case.

Mr. JORDAN. And who was that? Who advised you not to? Your counsel?

Mr. HOCHBERG. Our counsel.

Mr. JORDAN. Ex-Im counsel?

Mr. HOCHBERG. And working with the Inspector General.

Mr. JORDAN. Who advised you, counsel or Inspector General?

Mr. HOCHBERG. Mr. Jordan, both. I met with the—I meet with the Inspector General on a regular basis. I meet with him every month, as I mentioned to you. And when these have come up, he has said not to discuss them.

Mr. JORDAN. All right. I thank the gentleman.

I will yield now to Ms. Kelly. The gentlelady is recognized for 5 minutes.

Ms. KELLY. Thank you, Mr. Chair.

I'm glad that this panel is here today because I know how critical Ex-Im is to my district. Three hundred and one companies and 36,000 jobs in my State depend on Ex-Im reauthorization.

So, Ms. Katz, I'd like to speak about your testimony. I'd like to know a little bit more about the research that went into your assertions, because you seem to rely on reports from the IG and GAO as the basis for your assertions.

Did you personally conduct any type of investigations into allegations of fraud or corruption at Ex-Im Bank?

Ms. KATZ. I reported on what the Inspector General has issued and his reports to Congress, as well as the Government Accountability Office. And I believe that both of those bodies are considered to be pretty reputable when it comes to their reports.

Ms. KELLY. Did you interview whistleblowers with direct knowledge, for instance?

Ms. KATZ. No, I did not.

Ms. KELLY. Okay. So you personally didn't do any investigation.

Ms. KATZ. I just do data analysis.

Ms. KELLY. Okay.

Did you ever speak with the IG to understand their assessment as to whether the Bank, in fact, is rife with fraud or corruption?

Ms. KATZ. I didn't need to do that. Based on the numbers that the IG reported, it was pretty evident what the degree of fraud is, as they reported it.

Ms. KELLY. Okay. So let me get this straight. You have testified that there is a record of fraud and corruption at Ex-Im Bank, and you haven't personally conducted any investigation into such allegations, nor have you ever spoken to the IG for their views on whether such a record exists. Is that right?

Ms. KATZ. Well——

Ms. KELLY. Is that right?

Ms. KATZ. —Representative, their views are pretty plain. And if you'd like to see the reports——

Ms. KELLY. I'm just asking you, is that right?

Ms. KATZ. If you would like to see the reports in which they make those views plain, then I'd be happy to send those to you.

Ms. KELLY. But is that right, what I'm asking you?

Ms. KATZ. Are you asking me——

Ms. KELLY. I'm asking you——

Ms. KATZ. —am I a police detective? I'm not.

Ms. KELLY. No, I didn't ask you that. I just asked you have you personally conducted any investigations or if you've ever spoken to the IG. That's all I'm asking.

Ms. KATZ. I have not spoken to the IG. I've read his—the office and IG's reports. And I don't do criminal investigations, but I do do data analysis.

Ms. KELLY. Okay. Thank you.

Ms. KATZ. Uh-huh.

Ms. KELLY. It would seem to me that, on this issue of whether the Ex-Im Bank is rife with employee fraud and corruption, this committee should be hearing from the folks who have firsthand knowledge about any such investigations, namely the IG.

Fortunately for us, the IG sent a letter, which has been talked about. And when we take a look at the letter, the IG expressly states that, since 2009, in the 71 indictments his office has secured against individuals who attempted to defraud the Bank, none were against employees of Ex-Im Bank.

Ms. Katz, do you agree that it's important for the public to understand that none of the indictments the IG has secured have involved Ex-Im Bank employees?

Ms. KATZ. Well, the public should have all information about the Bank.

Ms. KELLY. But do you—I just need you to answer that question.

Ms. KATZ. I think I am. The fact that there haven't been indictments doesn't necessarily mean that there hasn't been corruption.

Ms. KELLY. Right. But it doesn't mean that there has, either.

It seems, to me, pretty relevant that there are no criminal indictments or information for corruption at the Bank since 2009 and that all criminal prosecutions have been brought against companies and individuals outside the Bank who seek to steal taxpayers' dollars.

Ms. KATZ. My testimony dealt with fraud cases specifically. I don't think that I made any allegations with reference to employee corruption. I was very careful about that.

Ms. KELLY. Another thing the IG notes in his letter to the committee is that, to date, his office has not developed evidence of widespread employee misconduct or systematic employee involvement in fraud schemes at the Bank.

And just so we're clear, up until today, were you aware that the IG's Office found no evidence of any systemic employee involvement in any fraud scheme? Or are you just learning that today?

Ms. KATZ. I'm aware of the fraud investigations that the IG has undertaken, and that's where my focus has been.

Ms. KELLY. Okay. Thank you.

I yield back.

Mr. JORDAN. Thank the gentlelady.

The gentleman from Maryland, the ranking member of the committee, is recognized for 5 minutes.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

Mr. Hochberg, there is a Bloomberg article dated July 25th, 2014, entitled "House to Subpoena Ex-Im Worker as Time Runs Out for the Bank."

I ask unanimous consent that it be admitted into the record. Mr. Chairman?

Mr. JORDAN. Without objection.

Mr. CUMMINGS. Thank you very much.

Mr. JORDAN. And in that article, Chairman Issa says, "Many of us support the concept of making sure there's an availability of funds to support competitiveness in exports, but we have to make sure that the American people believe it's being spent fairly and honestly."

Republican Members are concerned about what they have called a culture of corruption at the Bank based on one Wall Street Journal article identifying four incidents of employee misconduct. However, we know that since 2009 the IG has secured 71 indictments or criminal charges against parties who have attempted to defraud the Bank, none of which were against employees of the Ex-Im Bank.

That tells me a very simple fact: that they exist across the government—and we see this across government. There are individuals who create business entities whose sole intent is to defraud the government, and in this case defraud the Ex-Im Bank. There seems to be a legitimate oversight concern for the outside parties that are attempting to defraud the Bank, and that is very, very important.

Mr. Hochberg, I would like to discuss some of the antifraud efforts at the Bank and the results of those efforts. And I want to go through these things because I think that we need to be clear on the record of what's going on at the Bank and what's not. Because there are people whose careers are—could be tainted based on inaccurate information.

One indicator of fraud is the default rate. Is that correct? Is that one of the things that you all look at?

Mr. HOCHBERG. Yes, sir.

Mr. CUMMINGS. Currently, your default rate is approximately 0.2 percent. Is that correct?

Mr. HOCHBERG. Actually, yes, a drop less than that even.

Mr. CUMMINGS. I'm sorry?

Mr. HOCHBERG. Slightly less than that.

Mr. CUMMINGS. What is it?

Mr. HOCHBERG. It's 0.194 percent, less than one-fifth of 1 percent.

Mr. CUMMINGS. Mr. Hochberg, in your testimony, you state that the Bank works with its IG to establish an effective monitoring and enforcement program for fraud and ethical misconduct. The IG has notified the committee that it works with the Bank employees to identify potential fraud schemes in the early stages.

Do you agree that Bank employees play an important role in detecting fraud?

Mr. HOCHBERG. Without question.

Mr. CUMMINGS. And why do you say that?

Mr. HOCHBERG. Well, because in these four cases with the other employees, it was detected by employees. And our employees go through a rigorous ethical training, as I mentioned, upon joining the Bank. We actually even have a handy guide they can keep at their desk.

We have a seven-member staff that is the ethics department in the legal counsel's office that fields questions: How do I deal with situations? Is this an ethical behavior?

We also just began conducting this year training, how to detect fraud in outside agencies, outside contractors, outside entities.

Mr. CUMMINGS. So this is a big—it sounds like this is a big deal for you all.

Mr. HOCHBERG. It's a very big deal. Listen, the public trust is essential for us doing a good job. And so we take that very seriously, I take that very seriously, and so does our ethics staff.

Mr. CUMMINGS. Now, the IG also stated that the most common fraud schemes involve outside parties obtaining loans through false representations and submission of false documents. Is that correct, Mr. Hochberg?

Mr. HOCHBERG. That is correct.

Mr. CUMMINGS. However, Republicans ignore this fact and instead choose to examine allegations of corruption reported in the Wall Street Journal with no other information.

I'm concerned with the evidence of outside parties attempting to defraud the Bank. These were incidents which were revealed following an IG investigation based on referrals by Bank employees.

Mr. HOCHBERG. That's correct.

Mr. CUMMINGS. So it is concerning that my Republican colleagues almost ignore the evidence of misconduct by outsiders and the role of Bank employees in identifying potential fraud. Instead, the majority focuses on what appears to be a few isolated incidents.

And don't get me wrong. If somebody is doing something wrong, we ought to deal with that. But, again, I just wanted to make sure the record is clear.

And just one other thing, Ms. Katz. In answering Ms. Kelly's question, Congresswoman Kelly's question, did I hear you say you made no allegations of employee corruption? Is that—I wrote it down. Is that what you said?

Ms. KATZ. Yes, sir.

Mr. CUMMINGS. Very well.

Thank you very much, Mr. Chairman.

Mr. JORDAN. I thank the gentleman.

Isn't it true, Ms. Katz, that when you do the outside fraud investigation, that's when you find out that there may be some problems on the inside? Isn't that how it normally works, Ms. Katz?

Ms. KATZ. Well, certainly if there is widespread fraud, it should raise questions or at least concerns that the internal——

Mr. JORDAN. But isn't that how Mr. Jefferson was identified? Isn't that how these four individuals who are now being talked about today were identified? There was an outside concern, and then that caused the focus on the inside, and you found employees who were doing some things wrong.

Ms. KATZ. Yes.

Mr. JORDAN. Okay. I mean, that's why—I mean, it's all important, but that's what leads to potential wrongdoing on folks on the inside.

Ms. KATZ. Exactly.

Mr. JORDAN. The gentleman from South Carolina is recognized for 5 minutes.

Mr. MULVANEY. Thank you, Mr. Chairman. I thank both you and the ranking member for allowing me the courtesy of being here today.

This is not my first Export-Import Bank hearing. As you can probably imagine, we've had several over in House Financial Services. So it's not the first time I've heard some of the numbers that we've discussed today, some of the testimony that we've discussed today.

But I just want to encourage, you're not hearing both sides of the story. We hear, for example, Mr. Cartwright correctly pointed out in his opening testimony that 87 percent of the transactions at the Export-Import Bank involve small business. There's a flip side to that, which is that they're supposed to have 20 percent, just 20 percent, of their volume go to small business. They've missed that target regularly. So while the transactions are high, the number of dollars that actually go to small business are very small, and smaller than they're obligated to be by law.

We heard Mr. Hochberg talk about how he's only interested in leveling the playing field. Fair enough. Only one-third of the Bank—what the Bank does actually goes toward leveling the playing field. You could get rid of two-thirds of the Bank tomorrow and still have the one-third of the Bank that is actually used to level the playing field.

Finally, Mr. Cartwright correctly mentioned out that oftentimes this has not been controversial. I don't have to remind my Democrat friends, it was actually then-Senator Barack Obama in 2008 who said that this was corporate welfare that needed to be cut back. So there are two sides to those stories.

What I want to focus on most now today, though, is jobs, because we hear a lot of talk in here about jobs. And I think if we take a close look at how the Bank talks about jobs, we might get some insight into the—let's call it the unhealthy culture at the Export-Import Bank, what Ms. Katz calls, I think correctly, this record of mismanagement.

Let's look at how they talk about jobs. The GAO in May of 2013 was extraordinarily critical of how the Bank talked about jobs. They were concerned with how the Bank counted. For example, they don't make distinctions between full-time and part-time work. They don't make distinctions between domestic jobs and international jobs. They haven't figured out a way yet to count the jobs

that, for example, are created by Boeing in Japan, and that goes into the number.

They expressed concern, the GAO did, about the language that they use. They say "support" jobs. No one knows what that means. It's not "create" jobs. And I don't think anybody is taking the position, at least Mr. Hochberg is not, that he's created 1.2 million jobs. We use this nebulous term called "support" that no one really knows what it means, and the GAO says that that's troublesome.

But it's why they count the jobs that I want my colleagues to think about the most. The GAO report asked the Bank, why do you report this? Are you obligated by statute to tell Congress about the number of jobs that you support? And the GAO said, no, one of our board of trustees members asked us to start doing that a couple years ago so that we could make it clear to Congress the good that we do.

I suggest to you that it's possible that maybe they fudge the numbers a little bit and that it's insight into what is going on at the Bank. And my contention is that what we see here is why—this is a bureaucracy, a bureaucracy that is not primarily interested in helping small business or creating or supporting jobs, but a bureaucracy that's first and foremost interested in justifying its own existence and maintaining its own level of funding.

Ms. Kelly asked a good question of Ms. Katz, if she talked to the IG, she talked to the GAO; she has not. I have. We had that opportunity in House Financial Services. The GAO and the IG over the last 4 years have identified 76 difficulties within the Bank, 76 shortcomings, some of which may have led to some of the outside fraud that we talked about today.

One of the things the Bank was not doing is actually making sure that the outside lenders were doing credit checks on people who were using the Bank facilities—same thing that Fannie Mae and Freddie Mac were not doing before the housing crisis.

Seventy-six meaningful things that the IG and the GAO said were wrong at the Bank. Half of them have not been fixed in the last 4 years. Nine of them the Bank doesn't even admit are a problem, and they're refusing to try and fix them.

So I think that, as we take a look over what the culture is at the Bank and how the Bank operates and why the Bank operates, leads to my question, which is this, Mr. Hochberg: the thing that we did not have at Financial Services, which is the results of the Federal Employee Viewpoint Survey results, which say that only 42 percent of your employees have a—think that the organization's leaders maintain high standards of honesty and integrity, and just about half feel like they can disclose suspected violations of law.

You've been there 5 years. The Obama administration has been in charge for 5 years. Where does this come from, if not from the top?

Mr. HOCHBERG. Congressman Mulvaney, I appreciate your coming here and providing these questions because you have here and at the Financial Services Committee.

I take very seriously the Federal Employee Viewpoint Survey. We do it every year. We encourage our employees to fill it out.

There are many areas the Bank excelled. There are a number of areas of dissatisfaction. We have a lot of dissatisfaction on work-

load. The workload more than doubled in the last few years. People do not have the resources. Congress has added those resources.

And when you look at the survey, when you look at both positive and neutral, if you put those two together, Ex-Im had about a 75-percent rating. Government-wide was 80 percent. We're short——

Mr. MULVANEY. Where does the 42-percent——

Mr. HOCHBERG. We are definitely short——

Mr. MULVANEY. Where does the 42-percent approval rating, positive approval rating, on leaders' high standards of honesty and integrity come from, if not from the top?

Mr. HOCHBERG. This is an area we're working on. This is not—it's an area for improvement. There are areas in this survey we excelled and some areas that need improvement.

Mr. MULVANEY. We could go further if you want to, and I could ask you about the approval rating on "I have a high level of respect for my organization's senior leaders," 38 percent. "How satisfied are you with the policies and practices of your senior leaders," 24.8 percent.

It comes from the top, doesn't it? You've had 5 years to work on those types of things, haven't you?

Mr. HOCHBERG. Congressman Mulvaney, we have a high ethical standard. We have seven people in our ethics department. I look at our default rates, I look at our performance to Congress, I look at our financial performance. We have 25 years of unqualified clean audits from outside, independent auditors, from PricewaterhouseCoopers for a number of years and Deloitte Touche. They would indicate if there was a problem at the Bank; they would show up in those numbers.

Mr. MULVANEY. Thank you very much. I've already overstayed my time.

Mr. Chairman, Mr. Ranking Member, I would encourage you if you decide to further pursue this to bring in the IG and bring in the GAO and ask them about what they think, if they think the Bank has lived up to their expectations in getting their house in order.

And I appreciate the time and the effort——

Mr. CUMMINGS. Mr. Chairman?

Mr. JORDAN. The gentleman from Maryland.

Mr. CUMMINGS. I ask unanimous consent that he be allowed—Mr. Mulvaney is on—I'm not on Financial Services. But he has made a lot of allegations. And I just—I saw you scribbling stuff. I would just like to hear what his answer is. Because, I mean, we had wonderful testimony from Mr. Mulvaney.

Mr. JORDAN. I——

Mr. CUMMINGS. I'd like to hear it from the witness.

Mr. JORDAN. —agree. Mr. Hochberg can respond.

Mr. HOCHBERG. Thank you.

Well, there are a number of allegations. There's a lot going on here. Let me try and respond to the few notes I took.

One, this year, about 22, 23 percent of all dollars are going to small-business entities, so in excess of the 20 percent that is required by Congress, that is a "should reach" by Congress. We have put more efforts into reaching small businesses and do more with small businesses in terms of dollar volume than the Bank has ever

done. We have done more loans to small businesses in these 5 years than in the previous 8 years combined. So I am——

Mr. JORDAN. Is that 22 percent a direct—defined as directly going to small business, or is that routed through larger corporations who then work with small businesses?

Mr. HOCHBERG. No, that actually is direct.

Mr. JORDAN. Okay.

Mr. HOCHBERG. If you add——

Mr. JORDAN. I just want to be clear.

Mr. HOCHBERG. If you add the indirect, which I believe actually should be part of it—it's something we've asked Congress to allow because, frankly, large companies in district after district—Congresswoman Duckworth——

Mr. JORDAN. Are you saying the GAO is wrong? Mr. Mulvaney cited the GAO said that it wasn't 20 percent. You're saying they're wrong?

Mr. HOCHBERG. This year, this year, the year we're in, we're 9 months into the year, we're at 22, 23 percent.

Mr. JORDAN. All right.

Mr. HOCHBERG. That was one question.

In terms of the jobs number, GAO actually did not—they validated our methodology. We used the Bureau of Labor Statistics. We don't make up these numbers. We actually use hard data from the Bureau of Labor Statistics and apply it to the actual exports that we do. That's where the number comes from. What GAO asked us to do was to provide greater transparency on the methodology, but they did not dispute the methodology.

We have 78 recommendations from the Inspector General. We have closed 33 of those. We have sent another 20 that are being—in discussion with the Inspector General. We have 16 that are actually open that are in discussion, working with GAO—with the Inspector General, what are the recommendations, understanding how we could implement them, whether we need systems or people or change in methodology. And we have two that are, quote/unquote, "unresolved" that we're actually having a debate with the Inspector General whether they're warranted or not.

So 2 out of 78 actually have any degree of contention whatsoever. We have accepted, otherwise, all the other recommendations of the Inspector General and have put them into place.

Mr. JORDAN. But 38 have been implemented. Is that the number you gave, 38 out of 78?

Mr. HOCHBERG. Thirty-three are actually closed.

Mr. JORDAN. Okay.

Mr. HOCHBERG. Which means totally closed.

Mr. JORDAN. So they're done.

Mr. HOCHBERG. —in process of being implemented. And as I said, only two are being discussed.

Mr. JORDAN. And when did you receive these recommendations?

Mr. HOCHBERG. They come—they've been over the years. Some of them take——

Mr. JORDAN. Over several years?

Mr. HOCHBERG. Some of them take technology, some of them take IT support to change, so—but we've been working diligently. I mean, the Inspector General has said that we have fulfilled their

requirements. And I have not had an objection from the IG saying that we have not been cooperative, haven't worked with them, haven't accepted their recommendations.

Mr. JORDAN. Yeah, so you've done 33 of the 78. You've completed 33 of the 78. You've received——

Mr. HOCHBERG. Thirty-three are closed. The rest we're in the process of closing.

Mr. JORDAN. But that's what we look at. We look at getting to the finish line and actually getting the job done. Thirty-three of 78 I think was Mr. Mulvaney's point. That's less than half.

Mr. HOCHBERG. Less than half have been totally closed, and——

Mr. JORDAN. Right.

Mr. HOCHBERG. —the others are in the process.

Mr. JORDAN. I understand what you're saying, but I'm just saying, to Mr. Mulvaney's point——

Mr. HOCHBERG. Mr. Chairman, there will always be items in the works. We'll never get to zero.

Mr. JORDAN. I understand that.

Mr. HOCHBERG. It is impossible to get to zero.

Mr. JORDAN. I understand that. I understand that. But we want to be clear and define these things accurately.

The gentlelady from—did the gentleman have another point to make?

Mr. HOCHBERG. The only other point I would make, actually——

Mr. JORDAN. Because usually just the Members get to filibuster, not the witness, but I'm letting you go.

Mr. HOCHBERG. You're a very kind chairman, sir.

Mr. JORDAN. All right.

Mr. HOCHBERG. In the last decade, some of the items that Ms. Katz was referring to, we have processed over 33,220——

Mr. JORDAN. Let me ask you about this. Let me just do one thing, since we've got this extended dialogue with you and Mr. Mulvaney. And I'll let Mick jump back in if he—Mr. Mulvaney jump back in if he'd like.

But he raised the issue that half the employees who took the survey said they can't trust their leadership. Now, you've got a page and a half about ethics and training and all this stuff in your written testimony. I read it last night. You make a big—you made a big deal of it when you made your opening statement. You made a big deal to a number of Members.

So you can trumpet all that you want, but the fact remains half the people who work for you who took the survey said, I'm not really confident in sharing information about dishonesty and potential problems, I'm not comfortable sharing that.

Mr. HOCHBERG. Mr. Chairman, half—half—if you add also those who are neutral, said they didn't have a real opinion on it, it's 75.

Mr. JORDAN. Well maybe because they're scared, too.

Mr. HOCHBERG. No, but it's 75 percent, and the Federal Government average is 80 percent. We're below the average. I would like to get——

Mr. JORDAN. Well, if you add it that way, yeah, if you mix this and that and come up with everything else——

Mr. HOCHBERG. Well, no, but let's look—listen, I'm looking at the facts——

Mr. JORDAN. —apple pie and butterflies.

Mr. HOCHBERG. —I'm looking at the facts, and I'm saying, yes, we're below the Federal average. I'd like to get higher. But let's put it in——

Mr. JORDAN. But the people who, the people who did the survey——

Mr. HOCHBERG. Let's put it in context. Let's put it in context.

Mr. JORDAN. —a bunch of them said, I don't want to answer. And 50 of them—50 percent who did said, you know what, I don't have much trust. That's a problem. That is a real problem.

So maybe this—maybe we wouldn't have all this fraud, these investigations, if you could have people who were willing to come forward and feel confident that they could give that information to the folks that they work for.

Mr. HOCHBERG. Well, I go back——

Mr. JORDAN. All I'm saying is that's a concern.

Mr. HOCHBERG. I go back to what the Inspector General said in his letter to the committee yesterday: There is no—not developed any evidence of widespread employee misconduct or systematic employee involvement——

Mr. JORDAN. Maybe those same people are afraid to talk to him.

The gentlelady from Wyoming is recognized for——

Mrs. LUMMIS. Thank you.

Mr. JORDAN. Excuse me 1 second.

Does the gentleman from South Carolina have an additional——

Mr. MULVANEY. Just to follow up on Mr. Cummings' inquiries. I appreciate the information, Mr. Hochberg, and I obviously appreciate the back-and-forth, something we don't get to do on the other committee.

I do want to read the executive summary of just one of the things, the GAO summary regarding the jobs. I'm going to read verbatim from the very closing of the summary. It's one sentence.

"Because of a lack of reporting on the assumptions and limitations of its methodology and data, congressional and public stakeholders may not fully understand what the jobs number that Ex-Im reports represents and the extent to which Ex-Im's financing may have affected U.S. employment."

And there's a couple other things, but I won't go line by line.

I guess my point was very similar to what the chairman's was. If you've got a circumstance where 40 percent of—only 40 percent of the people working at a place are comfortable in blowing the whistle and you're relying on those people to bring waste, fraud, and abuse to your attention, then it's likely that you're missing at least half of the waste, fraud, and abuse.

And that you're right, you did rely on—I think you mentioned earlier you relied on people within your organization to bring the current four circumstances to your attention, which is great. But when you've got a culture where a majority of people are afraid to bring that to your attention, it makes me worry, as a Member of Congress who has some oversight over this particular institution, that you are not catching enough of it.

Mr. HOCHBERG. Well, it is not a majority that said that. If you take those who said they have the confidence and those who are neutral, don't either feel one way or another——

Mr. MULVANEY. Mr. Hochberg, if I take the neutral people and put them on the other side, then there's 60—then I get my 60 percent. I mean, the bottom line is only 42 percent of the people said they were comfortable doing that. You could take the people in the middle, you're absolutely right, and move them either way. That's why you don't count them.

Mr. JORDAN. Great point.

The gentlelady from Wyoming is recognized for 5 minutes.

Mrs. LUMMIS. Thanks, Mr. Chairman.

And I'd like the staff to put up the Impex timeline, because I'm going to concentrate on the Impex issue, Mr. Hochberg.

So let's walk through the Bank's relationship with Impex Associates. That's the Florida exporter that is alleged to have bribed Mr. Gutierrez.

Do you know when the Bank first approved a deal with Impex Associates? Looks to me like it was 2002.

Mr. HOCHBERG. 2002.

Mrs. LUMMIS. Okay. And when did the Bank's Office of General Counsel refer Impex Associates to the Office of Inspector General for investigation of fraud?

Mr. HOCHBERG. I—well, first, it was before my time. You know, I did not join the Bank until 2009.

Mrs. LUMMIS. Okay. Well, it looks to me like it was December 2009, from this chart.

And the basis for the referral was that the alleged buyer never existed and that the transaction was suspected to be fraudulent, right?

Mr. HOCHBERG. You're more familiar with that—as I said, this was referred to the Inspector General in—and our general counsel in 2009.

Mrs. LUMMIS. Okay. And, in fact, reading the details of this referral, it says, "Impex Associates has been the exporter on more than 10 Ex-Im Bank-financed insurance and guaranteed transactions, and at least 6 of these transactions have resulted in claims to date." Now, I think that that's up on the slide, as well.

So the Bank was paying out taxpayer money on 60 percent of Impex deals, and it didn't suspect anything?

Mr. HOCHBERG. Congresswoman, first of all, Ex-Im Bank got an Inspector General in 2007. This came—this was referred to the Inspector General, that was when the office was established, in 2009. And under my tenure and once the Inspector General was there, that's when this issue came to a head.

Mrs. LUMMIS. Okay. So——

Mr. HOCHBERG. You have over 6, 7 years beforehand when it went undetected by staff, general counsel of the Bank, and so forth.

Mrs. LUMMIS. That's amazing, that it went undetected. In fact, it's kind of stunning. Because Impex's fraud was open and it was notorious. There was a lawsuit, 2006 Federal lawsuit, Vyasulu v. Diaz, and it had a 69-page complaint laying out in precise detail exactly how Impex Associates is a scheme to defraud the Export-Import Bank.

This lawsuit was publicly filed in open court. How could it have been missed?

Mr. HOCHBERG. Congresswoman, it's before my time at the Bank. I was not there until 2009. I can't really opine on what happened in 2006, '07, or '08 before I arrived at the Bank.

Mrs. LUMMIS. But that doesn't make the sins of Ex-Im in not monitoring this stuff forgivable. It only makes you forgivable.

How did the Bank go on to approve seven more transactions for loan guarantees and insurance?

Mr. HOCHBERG. I was not at the Bank. I cannot answer that question.

Mrs. LUMMIS. Now, what have you done, then, to make sure this never happens again?

Mr. HOCHBERG. Well, I believe we have a—contrary to some members of this committee, we have a culture of ethics. We have actually ethics training. I've got seven people in our general counsel's office and, plus, the general counsel, as well.

As I mentioned, we have an ethics manual that every new employee does. We review that every year. We have offered courses—employees this year started; they were oversubscribed—where employees can actually help them detect fraud on behalf of outside entities so that companies like an Impex—that employees are more alert to what should they be looking for in those transactions.

Those are the kinds of things we've put in place.

Mrs. LUMMIS. Well, what they should be looking for, at least, at a minimum, is open court records that document precisely the fraud that was perpetrated on Ex-Im Bank.

I have additional time I would like to yield to the chairman.

Mr. JORDAN. I thank the gentlelady for yielding.

Mr. Hochberg, did you, did the Bank itself investigate how Mr. Gutierrez's name became public?

Mr. HOCHBERG. The Inspector——

Mr. JORDAN. Well, let me ask it first this way. How did his name get public?

Mr. HOCHBERG. I have no idea.

Mr. JORDAN. And, now, did you investigate how it went public?

In our earlier exchange, you told me that counsel told me I can't talk about it, can't disclose the names, OIG, the Inspector General said, you know—advised us not to do that, at least in a letter; he didn't say it to you directly. So you made a big deal of this.

If you care so much about that not becoming public, did you investigate how one name did get public?

Mr. HOCHBERG. I had a discussion with the Inspector General, and they are looking into how this became public.

Mr. JORDAN. No, did you, inside, internally, did—you made a big deal, these seven lawyers you've hired, this big pamphlet you've held up several—or booklet you've held up several times, two and a half pages of your testimony talking about ethics, even though half the people are nervous about the folks above them and feel like they can't be honest.

You made a big deal of this, and so it seems to me, if something went public that wasn't supposed to go public, you'd be all over it, you'd investigate that. And you're telling me you didn't investigate it?

Mr. HOCHBERG. No, I did—I said I spoke to the Inspector General about it and said, how are we getting to the bottom of this?

Mr. JORDAN. Did your lawyers, did these seven people in ethics, did all this—did they look into it? Not the Inspector General; did you guys look into it? It's one thing to have the Office of the Inspector General look into it. It's another thing if you guys internally look at it. Did you do that?

Mr. HOCHBERG. We referred this to the Inspector General because it was a——

Mr. JORDAN. You didn't do any of your own internal investigation?

Mr. HOCHBERG. We referred it to the Inspector General.

Mr. JORDAN. Do you know today, testifying before Congress, how Mr. Gutierrez's name became public, how the Wall Street Journal got his name and said he's under investigation for bribery and fraud? Do you know how that got public?

Mr. HOCHBERG. I do not.

Mr. JORDAN. No idea.

Mr. HOCHBERG. I do not.

Mr. JORDAN. And does anyone else outside the Inspector General's Office, to your knowledge, at the Export-Import Bank know how his name became public?

Mr. HOCHBERG. At the current time, no.

Mr. JORDAN. All right.

The gentleman from Georgia is recognized for 5 minutes.

Mr. COLLINS. Thank you, Mr. Chairman.

Mr. Hochberg, I just have, you know, some questions here. Let's go over—I think there's a lot of concern, as noted in this hearing, about the Bank and some of its dealings and some of the things we're reading in the headlines. So let's just start with a few things, and we can do that, okay?

According to the CBO, over the next 10 years, Ex-Im's six largest programs will generate $14 billion under the government standard accounting framework. However, when CBO applies the private-sector accounting framework, the fair value accounting method, CBO projects the Bank to lose $2 million.

I want you to discuss that process. Because, from my perspective, this is what a lot of my constituents say, there's government accounting, then there's real accounting. And this is something that I would like an answer on.

Mr. HOCHBERG. Well, thank you, Congressman.

You know, the government accounting system that was put in the FCRA, the Federal Credit Reform Act, in 1990, went into effect in 1992, that's the accounting system that the U.S. Government runs on. We can—you know, I ran a company for 20 years. You can't pick and choose your accounting system. That's the accounting system that the government uses.

Fair value accounting is an alternate approach to accounting. It is not—it is not force of law, it's not what Congress has passed. So we abide by the accounting system that's in place.

The swing you mentioned from if you change accounting systems assumes one other gross statement, and that is that nothing else changes. Well, things could change. We could change our fee structure, we could change the way we operate to make sure that we're still self-sustaining.

Mr. COLLINS. So——

Mr. HOCHBERG. It assumes nothing changes.

Mr. COLLINS. Okay. And I appreciate it, but I guess my question here is, okay, you go from $14 billion under—yes, we're going to—but a $2-million loss. Which is real?

Mr. HOCHBERG. Well, under the current——

Mr. COLLINS. Are you going——

Mr. HOCHBERG. Under our current accounting systems, $14 billion by GAO—by, yes, GAO is—CBO is the correct number. But the fact of the matter is, Congressman, in October of this year, unmistakably we sent to Treasury one billion, fifty-seven million dollars. Over the last 2 years, we have sent to Treasury cash of $2 billion. That's unmistakable. Whether you change the accounting system or not, the cash is still there.

Mr. COLLINS. Okay.

Following up on some other issues, Mr. Hochberg, the Wall Street Journal article, 2010, "The Bank changed how it disclosed financing deals and no longer discloses all the small-business loans it originates."

This is something that seems to be a thread today on a lot of other issues, not just this hearing but others, that transparency and accountability are things that the people are clamoring for. We see this in scandals all over the place.

My question is, what is your rationale for reducing transparency and disclosure in this area?

Mr. HOCHBERG. Well, Congressman, I'll also refer you to this competitiveness report that we issue. We are cited as being, by our competitors, being the most transparent export credit agency in the entire world. And, frankly, the biggest readers of this document each week, each year, is not just Members of Congress, it's the 59 other export credit agencies, because we have greater transparency on our loans through the Federal Register, our environmental record, and so forth.

Mr. COLLINS. That's wonderful. But then, if that be true, that's great, it's a nice little book, but why not disclose it all? Why did we change the method? Why do we not disclose them—disclose all the small-business loans it originates?

Mr. HOCHBERG. I am unfamiliar with——

Mr. COLLINS. This is a 2010 Wall Street Journal article that discussed this.

Mr. HOCHBERG. Well, I'd be happy to get back to you on that. I'm not familiar with this precise——

Mr. COLLINS. Okay. And if you would, then I'll submit the questions into the record. I'd like a written response on it.

Mr. HOCHBERG. I'd be happy to do that.

Mr. COLLINS. Because, again, you can bring the committee—and I think this is the part we're getting to, these questions that come up. And I would, like you, I would point to something that says we're doing it fine, but the reality is there's articles that say that we're not doing it. So, as we look at it, you know, these are things that we need.

Also July of 2010, the Bank's board of directors issued a resolution on individual delegated authority authorizing certain individuals and Ex-Im Bank officers to approve loans, guarantees, and insurance up to $10 million.

What steps have you taken to address the Inspector General's criticism that individual delegated authority allows for application of inconsistent criteria and may insufficiently mitigate the risk of default or fraud?

Mr. HOCHBERG. In an effort to both streamline the Bank and also provide accountability, we have—senior officers can approve up to $10 million. We have an audit of that on a regular basis that we ensure that those who have individual delegated authority are complying with the full credit standards of the Bank.

We have uniform credit standards across the Bank. We're working to increase the harmonization between programs, but we actually have a harmonized credit standard at the Bank. We have a division of the Bank, a senior vice president, who looks truly at credit policy to make sure that we apply it uniformly across every area of the Bank. We apply the same credit standards for countries regardless of what area of the Bank it's in.

So I would say that that's not correct.

Mr. COLLINS. So you would disagree with the Inspector General?

Mr. HOCHBERG. Today——

Mr. COLLINS. After inputting the steps that you just talked about.

Mr. HOCHBERG. Yes.

Mr. COLLINS. Okay.

Mr. HOCHBERG. In other words, each time the Inspector General has made some suggestions, we have worked to either incorporate them already or are working to incorporate them.

Mr. COLLINS. Real quickly, and I know, Chairman, my time, but just indulge us 1 second.

Going back to this other question where you say you'll get back to me on no longer disclosing, one of the things the Office of Inspector General said, there are 40 outstanding investigations involving fraud against the Bank. I just have a question, because we're not disclosing small-business loans. Do most of these cases involve small-business loans?

Mr. HOCHBERG. Generally speaking, yes. I can give you a better precise answer, but, generally speaking, yes.

Mr. COLLINS. So the ones that we're not disclosing are the ones that right now we're investigating for fraud against the Bank, for the most part.

Mr. HOCHBERG. No, I don't think that's the case, sir. I'm sorry, your question is, we disclosed—last year, I'll give you an example, we did 3,413 small-business loans.

Mr. COLLINS. Wait, wait, wait.

Mr. HOCHBERG. Each one of them is——

Mr. COLLINS. Let's go back. That's not my question. You're——

Mr. HOCHBERG. I'm not sure I understand your question.

Mr. COLLINS. Well, then, let's go back. According to the Office of Inspector General, there are 40 outstanding investigations involving fraud against the Bank. Okay? Now, will you agree with that statement or disagree with that statement?

Mr. HOCHBERG. I accept what the Inspector General——

Mr. COLLINS. Okay. Do most of these cases involve small-business loans? This is not—I don't want to know 3,000 of it—I want

to know about these 40, and do they involve mainly small-business loans?

Mr. HOCHBERG. I don't want to mislead you. Let me get you a precise answer after I get your question in writing, and I'll look it up.

Mr. COLLINS. Okay. So you don't know.

Mr. HOCHBERG. I do not know precisely.

Mr. COLLINS. Okay. And these are outstanding investigations, and you don't know?

Mr. HOCHBERG. I don't know the——

Mr. COLLINS. Okay.

Mr. HOCHBERG. —nature of every single outstanding investigation.

Mr. COLLINS. Okay.

Again, I think there's a lot of issues here, there's a lot of concern on the Hill concerning these actions, the things that we see. Transparency is needed, transparency in these questions.

And, again, I think, as we said before, looking at these ideas and having the transparency, no matter what others may say, it's coming down and saying, okay, what is the truth and what we're seeing between the truth and reality. These have got to be answered, and I know the people in my district want to know this.

And this is important for this committee to continue to look at, because this affects a lot of businesses, it affects a lot of priorities in this country. And, frankly, it's not something that the government needs to be dabbling in, especially if there's other ways to do it.

So, Mr. Chairman, I do yield back.

Mr. JORDAN. I thank the gentleman.

Mr. Hochberg, real quickly, before yielding to Mr.—or recognizing Mr. Connolly, do you know if the bribery allegations against Mr. Gutierrez and the three others have—has there been any referral to the FBI and the Justice Department, do you know?

Mr. HOCHBERG. To my knowledge, the Inspector General is working with the Justice Department on these.

Mr. JORDAN. So the Justice Department is involved today as—your understanding, the Justice Department is involved in this investigation.

Mr. HOCHBERG. That's correct.

Mr. JORDAN. And including the FBI.

Mr. HOCHBERG. I don't know that.

Mr. JORDAN. Have you had any—have you personally had any conversation with the Justice Department and the FBI regarding the investigation into the bribery allegations against Mr. Gutierrez and the three others?

Mr. HOCHBERG. No, I do not.

Mr. JORDAN. Okay. I thank the gentleman.

The gentleman from Virginia is recognized.

Mr. CONNOLLY. Thank you, Mr. Chairman.

Welcome, Mr. Hochberg, to our committee. I'm sure it's a special moment for you.

Mr. Hochberg, what did you do before you became the head of the Ex-Im Bank?

Mr. HOCHBERG. I spent 20 years in business, a family business, small business for 20 years. Then I actually also—after that, I served in the Clinton administration. And I was also a dean of a school of management and urban policy in New York.

Mr. CONNOLLY. And with that private-sector background, what made you decide you wanted to head up the Ex-Im Bank in this administration?

Mr. HOCHBERG. You know, my family—my mother actually came here from Germany and started a business, and I was—I grew up in that. I grew up at the kitchen table hearing about it. I enjoyed going in—going to work together. I got my master's degree; I was the first college graduate to go work at the company. Worked for 20 years building a business called Lillian Vernon, a catalog company that became a public company. I took it public and spent 20 spectacular years there.

And I like public service. I like public service. Perhaps that's coming from immigrant parents, where you think about trying to make this country a better country. And so this was a way I could participate in that, both at the Small Business Administration, as a dean of a graduate school, and then here at the Export-Import Bank.

Mr. CONNOLLY. Well, I hope you understand that there are a number of us who very much appreciate that and are pleased you're where you are and that you've made that kind of decision about public service. Thank you for your service to your country.

Your testimony explained that on the advice of general counsel and the Bank's IG, who's leading the ongoing investigations, you will not disclose the details or information about the individuals involved in the alleged incidents of fraud or corruption. Is that correct?

Mr. HOCHBERG. That's correct.

Mr. CONNOLLY. Do you think it's fair that because there are alleged incidents of such fraud or corruption that the entire work of the Ex-Im Bank should be discredited and, indeed, we should allow the expiration of the authorization of the Ex-Im Bank to exist at all?

Mr. HOCHBERG. No.

Mr. CONNOLLY. Why?

Mr. HOCHBERG. We have four individuals who are—one—have had alleged wrongdoing. We don't know that they've committed a wrongdoing. They have not been indicted. They have not gone to court. So I think that we—that is—you know, those are four isolated cases. We have not had any in—I have been at the Bank since 2009. It is the first time. Nothing in 2009, '10, '11, '12, and just came in at the end of '13, this year. So we've had a number of years that have been no allegations whatsoever and no indictments.

Mr. CONNOLLY. Because I think some who are maybe committed to an ideological agenda to allowing the Ex-Im Bank to expire want the public to have an impression that somehow it's rampant with corruption and fraud. These are isolated incidents.

Were any of them referred by you or your management, actually, to the IG?

Mr. HOCHBERG. They were referred to by other employees.

Mr. CONNOLLY. Okay. So the system worked.

Mr. HOCHBERG. The system worked. People looked and said, there's something wrong with this transaction or something doesn't seem appropriate here, and they brought it to the attention of the ethics officer and/or the IG.

Mr. CONNOLLY. And, certainly, if you look at it in a context of a 5- or 6-year period, obviously it does not characterize in any way the operations of the Ex-Im Bank.

Mr. HOCHBERG. I would agree with that.

Mr. CONNOLLY. Unfortunately, human nature being what it is, sooner or later there's always a bad apple that can appear, and the question is, how do we deal with it? And how would you characterize the response of the agency when brought to your attention?

Mr. HOCHBERG. I am proud of the agency and our ethics department, which acted immediately. The employees, as evidence came through, were either put on administrative leave, and then ultimately three of them, as I said, have been separated from the Bank.

Mr. CONNOLLY. Why do you think—okay. Thank you.

Why do you think we need an Ex-Im Bank?

Mr. HOCHBERG. We need an Ex-Im Bank because—first of all, we've been around for 80 years. It's the same reason we started with: We need to create more jobs in this country. This is about—and one of the sources of jobs is going to be exports. One of the impediments to exporting is both risk and perceived risk, as well as foreign competition. So we exist when the private sector can't step up to fill in the gap.

That's one reason during the financial crisis we did almost between two and three times the volume of loans, because there was a great need. As banks have entered the market again, our volumes are once again trimming back because our need is not as great. But my counterpart in Britain says, just because you've not had a fire in 5 years does not mean you sell the firetruck.

Mr. CONNOLLY. Focus just a little bit on the foreign competition. So do our foreign competitors have an analog to the Ex-Im Bank?

Mr. HOCHBERG. There are at least 59 other export credit——

Mr. CONNOLLY. I'm sorry, how many?

Mr. HOCHBERG. There are at least 59 other export credit agencies around the world whose purpose, frankly, is even more—much more aggressive than anything we have in the United States.

Mr. CONNOLLY. Who, for example, sticks out in your mind in that category?

Mr. HOCHBERG. China is the largest, without question. China is very large. Brazil has a very active program, frankly, but so does Japan, so does Korea, so does Germany. Those are some of our most formidable competitors.

Mr. CONNOLLY. When we look at, for example, the airline industry or the aircraft industry, what's Boeing, for example, up against?

Mr. HOCHBERG. Boeing is up against Airbus, which is supported by the export credit agencies of Germany, Britain, and France. They have three export credit agencies that support the sale of Airbus planes.

I was just in China. China is building a large commercial aircraft to compete with both Boeing and Airbus. Russia has an aircraft that also competes.

So the competitive intensity around aircraft, which is our largest—aerospace is our largest single export category—is intense and getting more intense.

Mr. CONNOLLY. Would you say that even with the help of Ex-Im Bank it's not a level playing field, in terms of what we're up against with Airbus?

Mr. HOCHBERG. Oh, it frequently is not a level playing field.

Mr. CONNOLLY. Yeah.

Mr. HOCHBERG. I mean——

Mr. CONNOLLY. I would just end by saying, you know, I understand, I guess, from a pure ideological point of view, those who argue, well, ceteris paribus, all other things being equal, we shouldn't need this kind of instrument, the market should work. But your testimony about 59 export subsidies—or, entities that subsidize our foreign competition tells us we're a long way away from a perfect world or a level playing field. And it would be naive and, indeed, self-destructive, it seems to me, for the United States not to reauthorize the Ex-Im Bank.

Thank you, Mr. Chairman, for your indulgence. I appreciate it.

Mr. JORDAN. I thank the gentleman.

The gentleman from Florida is recognized.

Mr. DESANTIS. Mr. Hochberg, you stressed your commitment to ethics, and I do think that that's sincere on your part, and I appreciate that.

Do you believe, just understanding human nature, that there is a greater risk of bribery and graft with Ex-Im just simply because there are lucrative deals at issue?

Mr. HOCHBERG. Greater than what?

Mr. DESANTIS. Greater than, say, the Department of Education.

Mr. HOCHBERG. I'm not in a position to really evaluate degrees of enticement to take briberies from one agency to another.

Mr. DESANTIS. Okay. Very well.

In terms of the accounting, I know they are back and forth. The way that the Bank does the accounting, there's a windfall for the taxpayer. The way the CBO did it under fair value, it was a loss of a couple billion over 10 years.

My question is just simply, you were in the private sector. That's pretty standard convention to use the fair value accounting. What is the reason that fair value accounting is not used at Ex-Im?

Mr. HOCHBERG. The Federal Government, Congress has passed a law that we use FCRA, Federal Credit Reform Act, that guise, for government accounting. We don't pick and choose our accounting system. You, as Members of Congress, vote to approve whatever the accounting system is, and we abide by that law.

Mr. DESANTIS. So you're not opposed to fair value if Congress wants to go that way? I was under the impression——

Mr. HOCHBERG. Well, I haven't made an opinion of——

Mr. DESANTIS. Okay.

Mr. HOCHBERG. I haven't studied it to give you an opinion on that. I'm simply telling you I follow the law.

Mr. DESANTIS. Okay.

Mr. HOCHBERG. The law says we follow——

Mr. DESANTIS. No, I understand that, but I thought you had expressed some resistance to it. So you will not endorse using fair value accounting with the Bank at this time?

Mr. HOCHBERG. I will endorse whatever the law says I should do.

Mr. DESANTIS. Do you believe that—because there is an issue about the Bank supporting jobs, using the term "support"; there was back-and-forth. Do you believe that the Bank actually creates jobs net? In other words, if there wasn't the Bank, we would have fewer jobs here in the U.S. economy?

Mr. HOCHBERG. Without question.

Let me just talk about supporting jobs for a minute. I was recently in Chicago, a company called Howe Corporation. It makes refrigeration units they use on fishing boats and so forth. Mary Howe, fourth generation, is now exporting up to 40 percent a year. She said to me, because of you—it's in the Chicago Tribune—because of the Ex-Im Bank, I did not have to lay off a single person, I kept my 40 people working.

So, in that case, we supported those jobs. We did not necessarily add jobs, but were we not there, Mary said very clearly, I would have had to lay people off; I did not want to lay people off, so you supported my being able to keep a full workforce.

In other places, where, as Congresswoman Duckworth said, there's a new sale—in Mary's case, we replaced sales lost because of the financial crisis. Where there's a new sale, it often means adding another shift and hiring employees.

So it depends. We use the word "support" to be conservative as opposed to being——

Mr. DESANTIS. No, I understand that. And I think you can point to a transaction, and you may have there, where maybe those jobs would not have been there without a certain finance package.

But as I read the reports, there are examples in which Ex-Im loans benefit foreign competitors of our domestic manufacturers. For example, there was an energy refinery in Turkey, and there was concern raised here domestically from Texas refinery manufacturers basically saying, look, you're directing government power to do this deal, but then that has ended up disadvantaging us.

And so, when you're saying it creates more jobs, are you also accounting for maybe the back end of some of those transactions and how that could affect domestic competitors?

Mr. HOCHBERG. Congress has put in our charter, and we follow it, and we updated those regulations, it's referred to as "economic impact." On every transaction, we review, does the economic benefit to the U.S. economy outweigh any potential harm?

So, in the particular transaction you're referring to, we looked at, what is the economic benefit to the U.S. economy by making these exports, what is the potential harm to the U.S. economy, to ensure that there's a positive benefit to the U.S. economy.

And then the independent board, which is made up—it's a bipartisan board—still votes on that transaction.

Mr. DESANTIS. There was back-and-forth about the number of dollars that go to small businesses. I think it was 19 percent last year, and I think you've said now it's up to 22 percent——

Mr. HOCHBERG. We're stronger right now.

Mr. DESANTIS. —so far this year. As I understand it, the definition of "small business," that includes firms with employees up to, what, 1,500?

Mr. HOCHBERG. Well, the SBA makes those determinations of what actually is a small business. It's not our determination. We——

Mr. DESANTIS. But is that—no, I understand that. But is that—when this stuff is being put out, it would include the firms up to 1,500? Is that the number that's used?

Mr. HOCHBERG. Generally, in manufacturing, the rough number is 500. But, again, the SBA, they determine—I was at the SBA. They look at every industry and say, but what's small by that industry's category?

Mr. DESANTIS. So, no, I understand that, but I'm just trying to figure out, the upper level of what would be considered small would be 1,500, is that—I've just read reports. I'm just seeing if that's the case.

Mr. HOCHBERG. I haven't seen a number that high.

Mr. DESANTIS. Okay. Well, look, the 500, if we can get that used for Obamacare, the initial thing, that would give a lot of relief to a lot of small businesses in my district. So I'm not above counting that as 500.

One final question. How does the Bank view its role in terms of the national security component that could affect economic transactions between certain States? And some of these deals are with essentially State-directed enterprises.

It was reported today in an article by a columnist in The Washington Post that two of Hamas's supporters are Qatar and Turkey. Last fiscal year, the Bank authorized $775 million to Qatar, $4.3 billion for business in Turkey. Of course, Turkey's Prime Minister has come out and said that Israel is worse than Hitler, and he has basically taken a very anti-Western, pro-Islamist stance.

So how can we, just as people in Congress, when we're looking and we have duties with national security, how can we be sure that the deals that are being done are also consistent with our national security goals and strategies?

Mr. HOCHBERG. There's something referred to as the National Advisory Committee, which reviews all transactions over $30 million that the board votes upon. So they are shared with the State Department, Treasury, Commerce, and other relevant agencies, who render an opinion whether there's anything wrong with the entities that are part of the transaction.

So, in your case with Qatar or Turkey, as an example, they were all green-lighted by the various agencies that are part of the National Advisory Council.

Mr. DESANTIS. Well, no, and I appreciate that. And, in fact, I think looking at some of the conflicts we see, I think our administration has been erring by siding with Qatar and Turkey over some of the stronger allies that we have in the region.

But I appreciate the testimony, and I yield back.

Mr. JORDAN. The gentleman from Pennsylvania is recognized.

Mr. CARTWRIGHT. Thank you, Mr. Chairman.

And, Mr. Hochberg, I want to associate myself with the remarks of Mr. Connolly of Virginia. And I thank you not only for appearing

here today, but I recognize your extensive credentials in the business world, your capabilities. You have the ability to go out and make an exponential amount of money, more than what the Federal Government is paying you for your public service, and I thank you for that.

I also want to note that you came to the Ex-Im Bank in 2009. 2009 isn't when the Ex-Im Bank started. It started in 1934 by Executive order of President Franklin Delano Roosevelt.

And for everyone's information, Congress did not sue President Roosevelt for that Executive order as going beyond the bounds of the Constitution. In fact, President Ronald Reagan supported expanding it, as was noted in the New York Times article, op-ed, published yesterday by former President Reagan's Secretary of Labor, William Brock III, who was also a Republican Senator from Tennessee. His op-ed is called "Don't Kill the Export-Import Bank." And he makes the particular point that President Reagan saw the value in the Bank in assisting American businesses to compete abroad and supported expanding it.

I also want to note that the Export-Import Bank, in your testimony, Mr. Hochberg, has a default rate of 0.194 percent, which is less than one-fifth of 1 percent. And I certainly invite Mr. Mulvaney, my colleague, to challenge that if he thinks that that is incorrect. But that's a very small default rate, indeed.

But I want to direct my—and we don't mean to ignore you, Ms. Katz, but you're here from The Heritage Foundation. Am I correct in that?

Ms. KATZ. That's correct.

Mr. CARTWRIGHT. The opinions you express are not simply your own, they are also those of The Heritage Foundation, correct?

Ms. KATZ. No, that's not correct. They reflect my own.

Mr. CARTWRIGHT. They're your own opinions but not those of The Heritage Foundation?

Ms. KATZ. Correct.

Mr. CARTWRIGHT. Okay. Are you paid by The Heritage Foundation?

Ms. KATZ. Yes.

Mr. CARTWRIGHT. Do they know you're here today instead of at work?

Ms. KATZ. I consider this work.

Mr. CARTWRIGHT. Okay.

Mr. JORDAN. Dealing with us is——

Mr. CARTWRIGHT. Here's a question: Is The Heritage Foundation in favor of abolishing the Export-Import Bank?

Ms. KATZ. I'm in favor of abolishing the Export-Import Bank.

Mr. CARTWRIGHT. Okay. So—well, so you don't know if The Heritage Foundation——

Ms. KATZ. Well, I——

Mr. CARTWRIGHT. —shares that opinion?

Ms. KATZ. Well, The Heritage Foundation is made up of, you know, some, I don't know how many people, 2- to 300 people, and there's a variety of opinion in Heritage about all sorts of things, but I'm here to discuss my research and my opinions, and not those of Heritage in general.

Mr. CARTWRIGHT. All right. Can you tell us what percentage of the supporters of The Heritage Foundation are exporting companies?

Ms. KATZ. I have no idea.

Mr. CARTWRIGHT. Can you tell us what percentage of the supporters of The Heritage Foundation are companies assisted by the Ex-Im Bank in exporting?

Ms. KATZ. No, because I really don't pay any attention to who—you know, who funds Heritage. I do know, though, that the largest proportion of funders are individuals.

Mr. CARTWRIGHT. Can you tell us what percentage of Heritage Foundation supporters of big companies or people associated with big companies, that don't like competition from small U.S. exporters, assisted by the Ex-Im Bank?

Ms. KATZ. I have no idea, but I do know that 75 percent of the—the benefits of Ex-Im financing go to about ten very large corporations, and only about half of a percent of small businesses in the U.S. Receive assistance from Ex-Im.

Mr. CARTWRIGHT. Do you—I want to jump to a point that my colleague from Pennsylvania, Mr. Meehan, was driving home, and he's a former Federal prosecutor. Do you have any information that U.S. attorneys are not good at prosecuting cases of fraud when they're perpetrated against the Ex-Im Bank?

Ms. KATZ. I have no information about that.

Mr. CARTWRIGHT. Are you saying that U.S. attorneys don't have the full range of prosecutorial tools available to them when handling cases of fraud perpetrated on the Export-Import Bank?

Ms. KATZ. Well, they certainly have had dozens of cases to prosecute, which they have.

Mr. CARTWRIGHT. But you're not saying they don't have the full range of tools, are you?

Ms. KATZ. I don't know what their—their arsenal is, sir.

Mr. CARTWRIGHT. Do you have any information that the FBI doesn't have the full range of investigative tools when handling cases of fraud perpetrated on the Export-Import Bank?

Ms. KATZ. I don't know what the FBI's resources are with respect to the Export-Import Bank, although I do know that, you know, there have been, you know, considerable number of cases of fraud at the bank.

Mr. CARTWRIGHT. So every time there's a case of fraud involving the Export-Import Bank, a case of fraud against—perpetrated against the Export-Import Bank, every time there's such a case, the U.S. Government has at its disposal the full range of investigative and prosecutorial tools that it can bring to bear on any prosecution that brings in this Nation. Am I correct in that?

Ms. KATZ. You're—I assume you're correct, but my preference from a policy standpoint would be to be able to prevent fraud cases rather than building up, you know, ever larger resources for prosecutors to—after the fact. And what we do know is that Ex-Im is not managed with the intent of maximizing protection against fraud.

Mr. CARTWRIGHT. Well, I happen to agree with Mr. Meehan of Pennsylvania that to do away with fraud entirely, you have to change human nature, not abolish the Export-Import Bank.

And I yield back, Mr. Chairman.

Mr. JORDAN. I thank the gentleman.

No one's alleging that the Department of Justice can't do fraud investigation of the Export-Import Bank, although I have questioned the Department of Justice investigation into other issues that have been in front of this committee, and I think, you know, 26 Democrats agreed with every single Republican, saying we needed a special prosecutor in that situation. So no one's alleging that here.

What we are saying is there's nothing in the law that prevents Mr. Hochberg from telling us what he knows, and he won't do that. He won't tell us the three other individuals, he won't tell us anything about how Mr. Gutierrez' name became public, he even won't tell us if he even did—if they've done an investigation, it sounds like they haven't, as to how that—if it's so important that we not jeopardize and disclose who these people are, you would have think—you would have thought that they would have done an internal investigation to figure out how Mr. Gutierrez' name became public.

So that's all we're saying, is why not—frankly, Mr. Hochberg, we've had this before. We've had witnesses sit here and tell us, we can't give you information that you're asking for, because there's an ongoing investigation, and then we do subpoenas and we get the information. In fact, the Inspector General told us, we asked him for certain documents relative to today's hearing, and he said, go ask Mr. Hochberg. Get them from him. So obviously by—when he tells us that, you could provide them, you just choose not to provide them.

The gentleman from South Carolina is recognized for 5 minutes.

Mr. MULVANEY. Thank you, Mr. Chairman. I've just got some bits and pieces to fill in.

Jobs, Mr. Hochberg. Mr. DeSantis before he left asked you a question about whether or not you count potential job losses when you provide your information to Congress about how many jobs you support. You don't—you don't count that, do you? For example, Delta claims they lost 7,500 jobs via the sale of—Export-Import Bank support to a purchase of Boeing jets by Air India. You don't count those losses when you report those jobs to Congress, do you?

Mr. HOCHBERG. First of all, Delta's never validated where they got those numbers from. I have no——

Mr. MULVANEY. But I think you testify—I'm not trying to bait you, but I think you testified in the previous hearing that I was in that you report a gross number.

Mr. HOCHBERG. We report the gross numbers of jobs that are supported by Ex-Im financing, but in candor, Congressman Mulvaney, in my opinion, they actually understate the jobs, they do not overstate them.

Mr. MULVANEY. Fair enough. Mr. Cartwright raised a good point about default rates, and I meant to talk about that before, the default rate of .0, I think—0.195 is your default rate. Now, back as recently as the late 1980s and early 1990s, the default rate was 40 percent. You all changed the way you count defaults, didn't you? Or Congress changed it for you?

Mr. HOCHBERG. We calculate our default rates according to the way Congress has asked us to do so. And I have the results in front of me for the last 6 years——

Mr. MULVANEY. Is it the same way that——

Mr. HOCHBERG. —and most financial——

Mr. MULVANEY. —private financial institutions report defaults?

Mr. HOCHBERG. To my knowledge, it is the same, and in fact, I mentioned in my oral testimony that our default—the commercial bank and industrial bank default rates as calculated by the Fed, the average is 3 to 4 times higher than ours.

Mr. MULVANEY. No. I understand that, but you don't count defaults the same way as a commercial bank does. A default to them is not the same as a default to you.

Mr. HOCHBERG. We count——

Mr. MULVANEY. It's not apples to apples, to Mr. Cartwright's point, though.

Mr. HOCHBERG. No. We calculate defaults to the way the Congress has asked us to report the default rates to Congress.

Mr. MULVANEY. And back in the 1980s and 1990s, when the definition was different, that was as high as 40 percent, you still have——

Mr. HOCHBERG. I don't know whether it was the same methodology.

Mr. MULVANEY. You still debt on your books at the Export-Import Bank from pre-Castro Cuba, don't you? Do you think you're going to collect that debt?

Mr. HOCHBERG. We—I don't—I can't answer that question, because I don't know the answer to it.

Mr. MULVANEY. If it were on there, do you think that you would be able——

Mr. HOCHBERG. It's—it's a hypothetical question.

Mr. MULVANEY. But if it is on there, then I get to ask the question next time, right, because it's on there. You all have debt on the books from pre-Castro Cuba, you have debt on the books from, I think, 1970s China when Mao was there. But anyway, my point of this—to Mr. Cartwright is this, that do not take—I encourage my colleagues not to take it as an apples-to-apples comparison. The .195 percent is not the same, not calculated the same way as it is in, say, Bank of America or PNC or something like that.

The IG had two things to say, and I'm just going to ask you if you agree or disagree with these statements. The IG gave testimony to the Financial Services about 4 or 5 weeks ago. And Mr. Gratacos said that the bank management's consistently failed to establish internal controls over business operations, and noted that there were "clear guidance to staff, and establishing clear roles and authorities have not been prevalent at the Ex-Im Bank."

Do you agree or disagree with that statement?

Mr. HOCHBERG. I disagree.

Mr. MULVANEY. And then he went on to say that, and I'm reading now from Ms. Katz's testimony until I get to the quotations that, such operational shortcomings worsening of the bank, et cetera, et cetera, and then as noted by the Inspector General, "this rapid growth in Ex-Im Bank's total portfolio exposure raises con-

cerns as to Ex-Im's ability to manage and monitor this significant portfolio growth."

Do agree or disagree with that?

Mr. HOCHBERG. I disagree with that.

Mr. MULVANEY. Fair enough. And then lastly, Mr. Cartwright, or I think it may have been Mr. Connolly mentioned Ronald Reagan. My experience in my brief period here is that I don't use Ronald Reagan quotations, I sort of treat them like Bible quotations in that you can usually find something to take either side of a particular story, but in order to rehabilitate my favorite President during my lifetime, in 1981 he suggested the bank needed to be reduced by at least a third, and in 1985 he asked "Is it fair to ask taxpayers to help pay billions for export subsidies to a handful of America's biggest corporations? We also save billions by eliminating taxpayer subsidies to some of America's biggest corporations through Export-Import Bank loans."

So it seems to me that the debate has been going on for a long time. The issues are still there. I just was hoping that maybe this might be the year we could fix some of them.

With that, I'll yield back. Thank you, Mr. Chairman.

Mr. JORDAN. I thank the gentleman for his participation today. Let me just go where Mr. Mulvaney was, Mr. Hochberg, and I don't—I don't know. I mean, you normally try to ask questions you know the answer to, but I don't know this one. The—he was—Mr. Mulvaney was talking about the Delta and the gross number of jobs that you report. The example you gave with the lady in Chicago, I think is in the refrigeration business and she has 40 employees, is that—when you report to Congress jobs that Ex-Im Bank financing supports, would those 40 jobs be in that number?

Mr. HOCHBERG. Only the jobs—only what would be allocated to the financings we've done. We don't finance 100 percent of her business, so I would not count 40 jobs.

Mr. JORDAN. But—so—but you would count some of them?

Mr. HOCHBERG. We count those that are allocated to exporting.

Mr. JORDAN. And how do you determine that?

Mr. HOCHBERG. We use the Bureau of Labor statistics, we look at the dollar volume, they have tables we're able to access that says looking at the full supply chain of different categories of industrial products, we were able to calculate how many jobs are created in the supply chain.

Mr. JORDAN. In that example, do you know how many were the supported job that she talked about, how many were used in your calculation that you gave Congress?

Mr. HOCHBERG. Well——

Mr. JORDAN. Was it three, was it seven, was it 39?

Mr. HOCHBERG. Mary said to me she's got about 40 employees, and depending on the year, 20 to 40 percent of her sales were exports. So it depends——

Mr. JORDAN. You took 30 percent of that number and gave us——

Mr. HOCHBERG. No. Each year we would report based on what actually we did. We don't take averages. We say what did we actually do working—if we did zero that year, we'd count zero.

Mr. JORDAN. Okay. Okay. Just, I didn't—I didn't know how you do it.

Ms. Katz, there's—are you familiar with this—the loan, the ExxonMobil liquid natural gas——

Ms. KATZ. Yeah. The New Guinea, the Papua New Guinea?

Mr. JORDAN. The Papua New Guinea, yes.

Ms. KATZ. Yes. A bit.

Mr. JORDAN. All right. And it's been reported that the Inspector General released a report detailing comprehensive inspection of this transaction, and he specifically said the fault of the bank for taking insufficient steps to protect the bank from fraud, and we've talked about a lot today, and for, "being unable to properly account for $500 million in local costs." Are you familiar with that?

Ms. KATZ. Yes.

Mr. JORDAN. And so is it accurate to say we don't know what happened to $500 million?

Ms. KATZ. Well, there were—they were claimed to be local expenses, but they don't have——

Mr. JORDAN. Any receipts? Any details about those local expenses? So we have no idea.

Ms. KATZ. They can't verify, they can't verify them.

Mr. JORDAN. And, Mr. Hochberg, I assume that's a concern to you and the folks at the bank?

Mr. HOCHBERG. Well, I just disagree with the assertion.

Mr. JORDAN. All right.

Mr. HOCHBERG. So let me just—let's discuss what this project is. If I can—can I take 1 minute to—Congressman Mulvaney, when we have a debt to Cuba, it is written to zero. We don't throw it away, because we—we may write it down to—it has zero value on the books, it's been totally written off; on the other hand, we don't take debts like that and remove them from our books, because, as the case with Argentina, other countries, at some point we expect to be repaid, but in terms of the value, it's zero.

Mr. MULVANEY. Do you count it as a default?

Mr. HOCHBERG. It's already been written off. Yes, it's then a default number.

Mr. MULVANEY. It's been counted as a default?

Mr. HOCHBERG. Yes. Yes. It's then a default number.

Mr. MULVANEY. Thank you very much.

Mr. HOCHBERG. Back to your question, Mr. Chairman. On the project of Papua New Guinea, this was a project, a large LNG project in Papua New Guinea. The U.S. Export-Import Bank provided $3 billion so that more jobs would be supported here in the United States. Part of our support, we do a project of that nature, as you can understand, some costs are incurred locally, they're not all—so as—standard practice with the OECD, Organization of Economic Cooperation and Development, we can do up through 30 percent of local costs to make sure that that sale gets done. About $576 million was incurred in local costs. Exxon Mobil is the project sponsor. They have certified under criminal penalty that those costs were true and incurred and validated. And the Inspector General has said, quote-unquote, that that transaction was properly structured and documented and complied with all laws of Know

Your Customer, and they had no evidence whatsoever for improper local costs submitted. So that is—I would disagree with Ms. Katz.

Mr. JORDAN. All right. On the—with the three other individuals identified in The Wall Street Journal article who—for alleged fraud and potential bribes, were their—are they being investigated in relation to the same matter that Mr. Gutierrez is being investigated for? Is it all related to Impex or are the other three on some different issue or transaction?

Mr. HOCHBERG. There are four individuals and there are three separate cases.

Mr. JORDAN. So—and you—I assume you're going to—when I ask you what those other cases involving what companies, you're going to say, I can't tell you.

Mr. HOCHBERG. The Inspector General is working through these cases. They've really—they would like the opportunity and not to have anything more compromised then they believe has already been compromised by the——

Mr. JORDAN. But I keep coming back to this, Mr. Hochberg. There is nothing in the law that prevents you from, under oath, in front of a congressional committee doing a legitimate congressional investigation at an appropriate time when we're looking at the Ex-Im Bank reauthorization legislation, there is nothing in the law that prevents you from disclosing the information we ask about.

Mr. HOCHBERG. These are alleged and they're under criminal investigation.

Mr. JORDAN. And we understand "alleged" means alleged, and you can—you can—that does—you're innocent until proven guilty, in fact, you can invoke any privilege and right you have, like we just saw a few hours ago from Mr. Gutierrez where he invoked his Fifth Amendment privilege, we understand all that, but we're asking you, the guy at the head of the Bank, who just told us that there are four individuals under investigation for alleged bribes and corruption on three different issues dealing with three different loans the bank has made to different companies, different organizations, and you're only going to tell us when—we only know about Impex, we're asking about the other two. Can you tell the companies involved in the other two?

Mr. HOCHBERG. First of all, you've made a couple of assertions that they deal with loans and other individuals. All I can say is there are four individuals; three are no longer working at the Bank, one is on administrative leave, and the Inspector General and the Department of Justice is investigating this for a possible criminal case.

Mr. JORDAN. And you said you had—you've had no interaction with the Department of Justice. So is it accurate to say the Department of Justice has not instructed you not to share information with Congress?

Mr. HOCHBERG. This is—these are in the hands——

Mr. JORDAN. Yes or no? That's a yes or no. Did the Department of Justice instruct you not to share information with Congress?

Mr. HOCHBERG. I have not dealt with the Department of Justice.

Mr. JORDAN. All right. And just again for the record, and I did this earlier, the Inspector General has not specifically told you, Mr. Hochberg, do not talk to—do not disclose the three other individ-

uals, do not disclose the three other companies or whatever's involved in these three situations? Did he specifically tell you not to disclose that to us?

Mr. HOCHBERG. The—our general counsel made that recommendation on concurrence from the Inspector General.

Mr. JORDAN. The inspector—that's—I'm not asking you that.

Mr. HOCHBERG. The—the——

Mr. JORDAN. I'm asking did the Inspector General specifically tell you——

Mr. HOCHBERG. I did not speak directly——

Mr. JORDAN. Because what we get from the Inspector General when we asked for certain documents, he said, go talk to Mr. Hochberg, see if you can get the documents from him. So that would imply that you can give them to us, which is what the law allows you to do if you so choose, but you are choosing not to answer our questions and give us that information.

Mr. HOCHBERG. I am choosing not to interfere with a criminal investigation.

Mr. JORDAN. Okay. Does the gentleman have additional questions? The gentleman from South Carolina?

We want to thank you, Mr. Hochberg and Ms. Katz, for being here today for an important hearing. And the committee's adjourned.

[Whereupon, at 12:18 p.m., the committee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

The Opinion Pages | Op-Ed Contributor

NYT: Don't Kill the Export-Import Bank

By WILLIAM E. BROCK IIIJULY 28, 2014

WASHINGTON — AMONG the many things that President Ronald Reagan did to promote economic growth was to ensure a level playing field for American businesses abroad — including by supporting an expansion of the Export-Import Bank, which provides financing for the export of American goods and services.

Thanks to his focused, principled leadership, the American economy grew significantly in the 1980s, a fact that the bank's recent, vociferous critics, including many from Mr. Reagan's own party, should bear in mind.

As a Republican, I would prefer that the private sector carry the entire load of supporting our international competitiveness. But the world market is not a level playing field, and the bank is absolutely vital for companies involved in the global economy. Having worked closely with Mr. Reagan on trade issues, I am confident that he felt the same.

In the 1980s, as today, the bank came under criticism, accused of playing favorites among companies and industries. Then, as now, many politicians called for it to be "sunset," or phased out. But rather than abolish it, Mr. Reagan called for change, insisting that it become more transparent and fiscally responsible.

He did so because he understood the bank's clear, enduring value. Last year, it returned about $1 billion to the Treasury, something almost unheard of for a government agency. And while the Ex-Im Bank is no replacement for the private sector, it has a remarkable record as a financial institution: Its default rate, below 1 percent, is better than that of many private banks.

And while it is true, as some critics maintain, that the bank is focused on helping very large companies, its assistance ripples through the economy to help the smaller and medium-size businesses that supply larger companies.

In my home state of Tennessee, for example, the Ex-Im Bank has supported nearly $900 million in export sales since 2007, according to publicly available data from the bank; that translates into support for about 6,000 jobs. Nationally, over the last five years the bank has supported 1.2 million jobs — and many of those are the sort of well-paying, high-skilled manufacturing jobs that we should be championing.

The bank is particularly important today, when tight credit allocation by banks, still cautious after the recession, has left many companies, especially small and medium-size ones, unable to find financing to sell their products abroad.

These companies face tough competition from companies in other countries. Many of these foreign businesses receive credit financing from their own export-import banks, at levels unseen in the United States. In 2013 China provided $46 billion in medium- and long-term official credit support; the United States offered only $15 billion.

Those foreign export-import banks aren't going away; if anything, they will grow more important as the global economy continues to integrate. That is why recent calls to end the Ex-Im Bank won't work. Should we tell American companies to stop exporting? Are we prepared for the job loss that would result from decreased support for American exports?

The bank is not perfect. It could do more to increase efficiency and transparency, and to better leverage partnerships to reach even more small businesses. But as President Reagan understood, that is a reason to reform it, not end it. Opponents of the bank say that it supports just 2 percent of all exports. Still, 2 percent amounts to $37.4 billion of American products made by American workers in American plants. That translates into tens of thousands of jobs from every state in the country.

Lawmakers of both parties say they want to introduce policies to create and support jobs. But before we go creating new government programs, we should look at what already works — including the Ex-Im Bank.

William E. Brock III, a former Republican senator from Tennessee, served as the trade representative and secretary of labor under President Ronald Reagan.

EXPORT-IMPORT BANK
of the UNITED STATES
INSPECTOR GENERAL

July 28, 2014

The Honorable Matthew Cartwright
Ranking Member
Subcommittee on Economic Growth, Job Creation
and Regulatory Affairs
Committee on Oversight and Government Reform
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Cartwright:

I am writing in response to your letter of July 28, 2014 asking several questions regarding fraud prevention and detection efforts at the Export-Import Bank of the United States. The Office of Inspector General has provided briefings to both the majority and minority staffs of the Committee regarding our program integrity and employee integrity work. Although we are not able to provide specific information on ongoing investigations (as discussed below), we are providing the following information discussed in our briefings and requested in the follow-up questions below. To provide a timely response, we are presenting the information we have been able to compile in a short timeframe, and will supplement our response as appropriate, and in response to any further questions from the Committee.

1. *Why is the number of claims of losses in the medium term program a good measure of fraud? What is the trend in the number of claims of losses in the medium term program? Please explain the reduction in claims of losses in the medium term program. Specifically, what actions did the IG take to address the level of claims and what has been the result of those actions?*

The first Inspector General at Ex-Im Bank took office in August 2007 and the Office of Investigations was staffed with federal law enforcement agents in 2009. When the OIG began its law enforcement activities, the medium-term program was the primary focus due to a high level of claims and indicators of fraud.[1] The OIG issued two audit reports and investigated a number of fraud schemes in this program, leading to multiple convictions of individuals. The medium-term program has experienced a significant reduction in claims paid by the Ex-Im Bank. Specifically, in FY 2009, Ex-Im paid approximately $100 million in Medium-Term program related claims and in FY 2012 paid an estimated $15 million in claims.

[1] *Medium Term Export Credit Program – Credit and Fraud Risk Management and Business Process Improvement* OIG-AR-09-04, March 30, 2009

2. *A recent article written by Diane Katz states, "Based on a review of government documents, The Heritage Foundation has determined that there have been at least 74 cases since April 2009 in which bank officials were forced to act on the basis of "integrity" investigations by the Office of Inspector General." How many of these cases implicated Bank employees? Please provide the number of indictments and the number of administrative actions taken against employees of the bank since 2009?*

Because the article citation links generally to semiannual reports issued by the OIG since 2009, we are uncertain which portions of those reports are being compiled to reach the total of 74 cases of integrity investigations.

The OIG has reported in its semiannual reports that the Bank has taken 74 administrative actions, which are defined as "responses by Ex-Im Bank to stop transactions, cancel policies, or protect funds at risk based upon investigative findings." When the OIG identifies potential indicators of fraud, either through proactive research or through referrals from law enforcement partners, we refer that information to the Bank so that it can pursue enhanced due diligence to protect its interests. These referrals are of outside parties, not Bank employees. These 74 administrative actions were taken by the Bank in response to approximately 500 referrals of due diligence information to the Bank by the OIG.

In our most recent semiannual report, we stated that the Bank had taken three administrative employee actions in response to referrals of information from OIG. This includes two employment actions taken in connection with ongoing investigations, and one letter of reprimand issued to an employee in response to an administrative referral. Since the most recent semiannual reporting period ending March 31, we understand that the Bank has taken administrative employment action against two additional employees in response to information referred by the OIG. These matters also concern ongoing investigations.

Since 2009, the OIG has secured 71 indictments or informations, which are federal criminal charges against parties who have attempted to defraud the Bank, and 46 convictions. The difference between number of charges and number of convictions is because some indictments were superseded or replaced by informations as part of plea agreements, some individuals who have been indicted are located overseas and are fugitives, and some cases are pending. None of the indictments or informations obtained through OIG investigations were against employees of the Ex-Im Bank. In 2010, a former Ex-Im Bank employee was convicted of an offense related to illegally accepting payments during the course of her employment with the Bank.[2] This case was investigated by the FBI and predates the establishment of the OIG, so we have no further information on this case beyond the public record.

3. *The Bank and the IG have both been unwilling to share with the Committee certain information about pending investigations of employee misconduct. Please explain your reasoning. Could disclosing the details of an ongoing investigation potentially interfere with the investigation or increase the risk of failure to achieve a successful prosecution?*

[2] *U.S. v. Edu*, Case No. 1:09-cr-0047-JDB (D.D.C. 2010).

The longstanding policy and practice of federal law enforcement agencies has been not to disclose details on ongoing investigations, including the names of subjects of these investigations. Disclosure of such information could seriously prejudice law enforcement efforts by alerting potential defendants to which potential witnesses and sources of information the government has obtained. Other concerns include the potential damage to proper law enforcement that would be caused by the revelation of sensitive techniques, methods, or strategy; concern over the safety of confidential informants and the chilling effect on other sources of information; sensitivity to the rights of innocent individuals who may be identified in law enforcement files but who may not be guilty of any violation of law; and well-founded fears that the perception of the integrity, impartiality, and fairness of the law enforcement process as a whole will be damaged if sensitive material is distributed beyond those persons necessarily involved in the investigation and prosecution process.[3]

When these investigations are completed, with or without criminal charges, we will be able to provide additional information.

4. *Are the four known instances of pending IG investigations against employees of the Bank an indication of systemic corruption? Have you seen evidence of systemic corruption among bank employees?*

The ongoing investigations involving employees of the Bank involve allegations of serious misconduct and, in some instances, indicate ineffective management of the subject employees. At this time, we have not developed evidence of widespread employee misconduct or systemic employee involvement in fraud schemes at the Bank. These investigations are ongoing.

5. *What efforts is the IG making to detect and investigate fraud? Please explain the role played by employees in the Bank in the IG's fraud control efforts. Please also explain any coordination or consultation the IG has with other federal agencies and discuss any task forces the IG participates in to prevent and detect fraud or corruption by parties that engage the Export-Import Bank?*

In addition to investigating active fraud cases, the OIG works with Bank employees to identify potential fraud schemes at early stages. The most common fraud schemes that we have encountered involve outside parties obtaining loans or guarantees through false representations and submission of false documents. Accordingly, we have provided training to Bank staff and to delegated lending institutions in recognizing indicators of fraudulent documentation. Frauds are often detected after loans default and claims are received. The OIG, in collaboration with the Bank's Office of General Counsel and Asset Management Division, reviews defaults and claims for indicators of fraud. The OIG also conducts proactive investigative work, such as data analysis and review of law enforcement databases, to identify potential fraud in Bank transactions.

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[3] Office of Legal Counsel, U.S. Department of Justice, *Congressional Requests for Information from Inspectors General Concerning Open Criminal Investigations*, 13 U.S. Op. Off. Legal Counsel 77 (March 24, 1989).

Bank employees routinely refer allegations of fraud or misconduct to the OIG, both through formal referrals by the Office of General Counsel and Asset Management Division, and also on a confidential basis. A significant number of OIG investigations are initiated through referrals of information by Bank employees. OIG maintains a complaint hotline that can be used to report waste, fraud, and abuse: 1-888-OIG-EXIM.

The OIG coordinates with other federal law enforcement agencies in our investigations, including Homeland Security Investigations/Immigration and Customs Enforcement and the FBI. Ex-Im Bank OIG also participates in the Export Enforcement Coordination Center (E2C2), an information-sharing mechanism among federal agencies responsible for export enforcement. The OIG also maintains dialogue with multilateral development banks and other export credit agencies to review fraud prevention practices and trends.

I hope this information is helpful to the Committee in its oversight of allegations of fraud at the Export-Import Bank of the United States. Please contact me if you would like clarification or have additional questions regarding the Ex-Im Bank OIG's program integrity and employee integrity work.

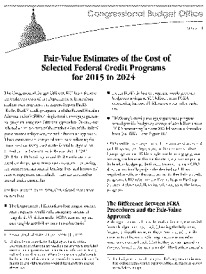
Sincerely,



Michael T. McCarthy
Acting Inspector General

Cc:
The Honorable Jim Jordan
Chairman, Subcommittee on Economic Growth, Job Creation,
and Regulatory Affairs

The Honorable Fred Hochberg
Chairman, Export-Import Bank of the United States



Congressional Budget Office

Fair-Value Estimates of the Cost of Selected Federal Credit Programs for 2015 to 2024

The Difference Between FCRA Procedures and the Fair-Value Approach

Table 1.

Estimated Total Budgetary Costs of Selected Federal Credit Programs Under FCRA and the Fair-Value Approach, 2015 to 2024

	Type of Credit	Obligations or Commitments (Billions of dollars)	Subsidy Cost (Billions of dollars)		Subsidy Rate (Percent)	
			FCRA	Fair-Value	FCRA	Fair-Value
Department of Education						
Subsidized Stafford Loans (Undergraduate Students)	Direct loan	314	26	80	8.3	25.4
Unsubsidized Stafford Loans (Undergraduate and Graduate Students)	Direct loan	647	-86	40	-13.2	6.2
PLUS Loans (Graduate Students)	Direct loan	107	-38	-13	-35.3	-12.4
PLUS Loans (Parents of Dependent Students)	Direct loan	106	-38	-19	-35.6	-17.5
Total, Department of Education[a]		**1,174**	**-135**	**88**	**-11.5**	**7.5**
Export-Import Bank						
Export Financing	Direct loan	30	-3	-1	-9.3	-3.2
Long-Term Guarantees	Guarantee	246	-12	2	-4.7	0.7
Medium-Term Guarantees	Guarantee	2	*	**	-1.6	2.2
Medium-Term Insurance	Guarantee	2	*	**	-3.7	‡
Short-Term Insurance	Guarantee	67	*	**	†	0.7
Working Capital Fund	Guarantee	30	*	**	†	0.9
Total, Export-Import Bank		**376**	**-14**	**2**	**-3.8**	**0.4**
Federal Housing Administration						
Single-Family Mutual Mortgage Insurance Fund	Guarantee	2,232	-63	30	-2.8	1.3

Sources: Congressional Budget Office (for subsidy estimates, using data supplied by agencies) and Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2015: Federal Credit Supplement* (for commitments and obligations).

Notes: For the Export-Import Bank, the table shows FCRA and fair-value estimates computed from projected obligations (for direct loans), commitments (for guaranteed loans), and cash flows under current law provided by the Administration's Office of Management and Budget and the agency. For student loans and guarantees of single-family mortgages, which are administered, respectively, by the Department of Education and the Federal Housing Administration (within the Department of Housing and Urban Development), the current-law projections were prepared by CBO. To simplify the analysis, the budgetary estimates for the Department of Education are based on the *obligations* that CBO estimates the department will incur each year for student loans rather than on the amount of loan disbursements (which would be the basis for official estimates). Estimates reflecting the timing of loan disbursements would differ slightly from those shown here.

Subsidy costs exclude administrative expenses.

The subsidy rate is the subsidy cost divided by the projected obligations or commitments.

Numbers in the table may not add up to totals because of rounding.

FCRA = Federal Credit Reform Act; * = between -$500 million and zero; ** = between zero and $500 million; † = between -0.05 and zero; ‡ = between zero and 0.05.

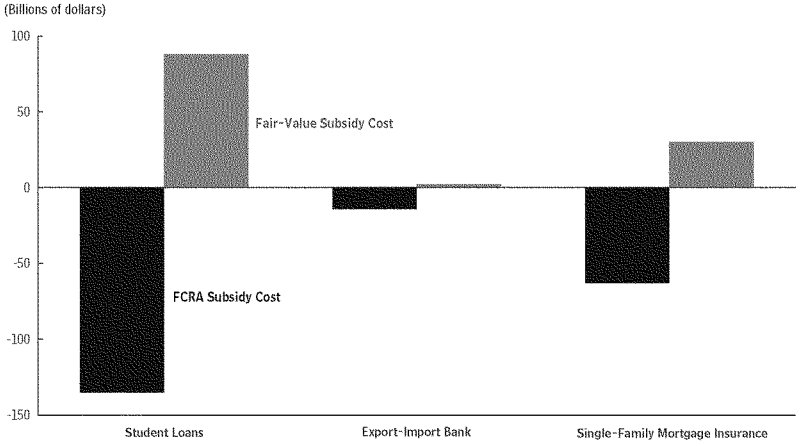
a. Excludes certain smaller programs.

federal loan or loan guarantee—called its subsidy cost—is measured by discounting all of the expected future cash flows associated with the loan or loan guarantee to a present value at the date the loan is disbursed. Those cash flows include the amounts disbursed, principal repaid, interest received, fees charged, and net losses that accrue from defaults. That present value expresses the flows of current and future income or payments in terms of a single number that is equivalent to a lump sum received or paid today; the value depends on the discount rate (that is, the rate of interest) that is used to translate future cash flows into current dollars. For credit programs to have estimated budgetary savings, the discounted value of the government's cash inflows must exceed the discounted value of its cash outflows.

Under FCRA's rules, the present value of expected future cash flows is calculated by discounting them using the

Figure 1.

Estimated Total Budgetary Costs of Selected Federal Credit Programs Under FCRA and the Fair-Value Approach, 2015 to 2024



Sources: Congressional Budget Office (for subsidy estimates, using data supplied by agencies) and Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2015: Federal Credit Supplement.*

Notes: For the Export-Import Bank, the figure shows FCRA and fair-value estimates computed from projected obligations (for direct loans), commitments (for guaranteed loans), and cash flows under current law provided by the Administration's Office of Management and Budget and the agency. For student loans and guarantees of single-family mortgages, which are administered, respectively, by the Department of Education and the Federal Housing Administration (within the Department of Housing and Urban Development), the current-law projections were prepared by CBO. To simplify the analysis, the budgetary estimates for the Department of Education are based on the *obligations* that CBO estimates the department will incur each year for student loans, rather than on the amount of loan disbursements (which would be the basis for official estimates). Estimates reflecting the timing of loan disbursements would differ slightly from those shown here.

Subsidy costs exclude administrative expenses.

FCRA = Federal Credit Reform Act.

rates on U.S. Treasury securities with similar terms to maturity. For instance, the yield on a Treasury security maturing in one year is used to discount cash flows one year from disbursement, a two-year rate is used for cash flows two years from disbursement, and so on.

In contrast, under the fair-value approach, estimates are based on market values—market prices when those prices are available or approximations of market prices when directly comparable figures are unavailable—which more fully account for the cost of the risk the government takes on. In particular, the fair-value approach accounts for the cost of market risk, which FCRA procedures do not. Market risk is the component of financial risk that remains even after investors have diversified their portfolios as much as possible; it arises from shifts in macroeconomic conditions, such as productivity and employment, and from changes in expectations about future macroeconomic conditions. The government is exposed to market risk when the economy is weak because borrowers default on their debt obligations more frequently and recoveries from borrowers are lower. When the government extends credit, the associated

market risk of those obligations is effectively passed along to taxpayers, who, as investors, would view that risk as having a cost. Therefore, the fair-value approach offers a more comprehensive estimate of federal costs.[4]

Although there are many techniques to approximate fair values, a standard method for estimating the market value of a direct loan or loan guarantee (adopted for the analysis here) is to discount the expected cash flows to the present using market-based discount rates. In that case, the only difference between FCRA and fair-value estimates stems from the choice of discount rates. The estimates of cash flows, including the net amount lost through defaults, are the same in both approaches, but the difference in discount rates means that those cash flows are valued differently. The difference between the FCRA and fair-value discount rates can be interpreted as the additional compensation that investors would require to bear the risk associated with federal credit.

How would the results under the two approaches differ? The cost of a direct loan reported in the federal budget under FCRA procedures is lower than the cost that private institutions would assign to similar credit assistance on the basis of market prices. Specifically, private institutions would generally calculate the present value of expected future cash flows by discounting them using the expected rates of return on private loans (or securities) with similar risks and maturities. Because the expected rates of return on private loans exceed the rates on Treasury securities, the discounted value of borrowers' expected payments is smaller under this alternative approach, which implies a larger cost for issuing a loan.

Similar reasoning implies that the cost of a loan guarantee calculated using the fair-value approach would be higher than its cost as estimated under FCRA. When it provides a loan guarantee, the government bears the losses resulting from a default on the loan and any market risk associated with those losses. Because of that government commitment, a lender places more value on a loan with a guarantee than on the same loan without a guarantee. The difference in value between them is the "fair value" of the guarantee, which reflects the higher losses that an investor would expect on a loan without a guarantee and the higher discount rate that an investor would require to compensate for the market risk associated with such a loan. Under FCRA, the expected losses, but not the value of the market risk, would be included in the cost. Because a loan without a guarantee has more market risk than the same loan with a guarantee, assigning a cost to market risk through the use of the fair-value approach results in a higher estimated cost for the guarantee.

The Department of Education's Student Loan Programs

The Department of Education offers a number of different types of loans to help students and their families finance postsecondary education. Its four largest loan programs are:

- subsidized Stafford loans (available only to undergraduate students, the government pays the interest while the borrower is in school);
- unsubsidized Stafford loans (available to undergraduate and graduate students, the borrower pays interest while in school);
- graduate PLUS loans (available to graduate students who have reached borrowing limits for other federal direct loans); and
- parent PLUS loans (available to parents of dependent students).[5]

CBO estimates that, under current law, total loan volume for those four programs will increase from $103 billion in 2015 to $133 billion in 2024.[6] Spending for those programs is classified as mandatory; lending levels are limited only by per-borrower limits established in the Higher Education Act, and the programs are not subject to the annual appropriation process.

4. For further discussion, see Congressional Budget Office, *Fair-Value Accounting for Federal Credit Programs* (March 2012), www.cbo.gov/publication/43027.

5. For additional information on student loan programs, see David P. Smole, *Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*, Report for Congress R40122 (Congressional Research Service, January 16, 2014).

6. For additional discussion of CBO's projections, see Congressional Budget Office, *CBO's April 2014 Baseline Projections for the Student Loan Program* (April 2014), www.cbo.gov/publication/44198.

All together, those four programs are projected to produce a net gain (a negative subsidy) to the government totaling roughly $135 billion over the 10-year period under the FCRA approach but a net cost (a positive subsidy) of roughly $88 billion using the fair-value approach (see footnote 2 for more information on those projections). Both values exclude administrative costs. Thus, accounting for those programs on a fair-value basis would increase the estimated subsidy costs by about $223 billion over the next 10 years. According to CBO's estimates, the combined subsidy rate—that is, the total cost or savings divided by the total amount disbursed—for those programs over the 10-year period would be negative 11.5 percent under the FCRA approach; by contrast, using the fair-value approach, the combined subsidy rate would be positive 7.5 percent.

On a FCRA basis, three of the four largest student loan programs would have a negative subsidy and thus have the net effect of lowering the deficit in each year of the 10-year projection period; only the subsidized Stafford loans are projected to have a positive subsidy cost (see Table 2).

The subsidy cost would be higher for all four programs under the fair-value approach, although two of them—the PLUS loan programs—would continue to show a negative subsidy. In principle, negative fair-value subsidies should be rare as they represent a profitable opportunity for private-sector institutions to offer credit on more favorable terms. A negative fair-value subsidy may arise for some types of student loans because the federal government has tools to collect from delinquent borrowers that private lenders do not have, giving federal programs an advantage over private-sector lenders.[7]

The Export-Import Bank's Loan, Loan Guarantee, and Insurance Programs

The Export-Import Bank provides direct loans, loan guarantees, and credit insurance to foreign and domestic entities to support the export of U.S goods and services. Ex-Im Bank's programs are subject to the annual appropriation process, and hence, are classified as discretionary. Annual appropriation bills provide funding to cover the subsidy cost, if any, of that lending. In addition, Ex-Im Bank's authorizing legislation limits the total dollar amount of loans, loan guarantees, and insurance that the bank can have outstanding at any given time.[8] That exposure was approximately $114 billion at the end of fiscal year 2013, which is $16 billion below its authorization of $130 billion for that year.

For its analysis, CBO computed subsidy costs for Ex-Im Bank using the bank's projection of cash flows and the Office of Management and Budget's discount rates—thus, the subsidy costs match those reported in the Federal Credit Supplement.[9] For its fair-value estimates, CBO used the same cash flows but added a risk premium to the discount rate. Those risk premiums were estimated on the basis of the default projections underlying the cash flows. Because its baseline for Ex-Im Bank shows a stream of negative subsidies (using the FCRA approach) that remain constant from year to year, CBO estimated only the 2015 subsidies and applied those costs to each year of the 10-year projections.

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, with savings totaling $1.4 billion on a FCRA basis and costs totaling $0.2 billion using the fair-value approach. Thus, the 10-year effects would be savings of $14 billion using FCRA methodology and costs of $2 billion using the

7. The same collection tools are used by the government for Stafford programs, but those programs have a positive fair-value subsidy because Stafford borrowers generally pay lower rates of interest and are less likely to fully repay their loans than PLUS borrowers.

8. For further information about Ex-Im Bank's programs, see Shayerah Ilias, *Export-Import Bank: Background and Legislative Issues*, Report for Congress R42472 (Congressional Research Service, May 22, 2012).

9. The FCRA subsidy estimates in this report differ only slightly from CBO's April 2014 baseline.

Table 2.

Estimated Annual Loan Volume and Budgetary Costs of Selected Federal Credit Programs Under FCRA and the Fair-Value Approach, 2015 to 2024

(Billions of dollars)

Program Name	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total, 2015-2024
FCRA Subsidy Cost											
Department of Education											
Subsidized Stafford Loans (Undergraduate Students)	1	2	2	3	3	3	3	3	3	3	26
Unsubsidized Stafford Loans (Undergraduate and Graduate Students)	-10	-9	-8	-8	-8	-8	-8	-9	-9	-9	-86
PLUS Loans (Graduate Students)	-3	-3	-3	-3	-4	-4	-4	-4	-4	-5	-38
PLUS Loans (Parents of Dependent Students)	-4	-4	-4	-3	-4	-4	-4	-4	-4	-4	-38
Total, Department of Education[a]	**-16**	**-15**	**-13**	**-12**	**-12**	**-12**	**-13**	**-14**	**-14**	**-14**	**-135**
Export-Import Bank											
Export Financing	*	*	*	*	*	*	*	*	*	*	-3
Long-Term Guarantees	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-12
Medium-Term Guarantees	*	*	*	*	*	*	*	*	*	*	*
Medium-Term Insurance	*	*	*	*	*	*	*	*	*	*	*
Short-Term Insurance	*	*	*	*	*	*	*	*	*	*	*
Working Capital Fund	*	*	*	*	*	*	*	*	*	*	*
Total, Export-Import Bank	**-1**	**-1**	**-1**	**-1**	**-1**	**-1**	**-1**	**-1**	**-1**	**-1**	**-14**
Federal Housing Administration											
Single-Family Mutual Mortgage Insurance Fund	-8	-8	-8	-7	-7	-5	-5	-5	-5	-5	-63
Fair-Value Subsidy Cost											
Department of Education											
Subsidized Stafford Loans (Undergraduate Students)	7	7	8	8	8	8	8	8	9	9	80
Unsubsidized Stafford Loans (Undergraduate and Graduate Students)	4	4	4	4	4	4	4	4	4	4	40
PLUS Loans (Graduate Students)	-1	-1	-1	-1	-1	-1	-1	-1	-2	-2	-13
PLUS Loans (Parents of Dependent Students)	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-19
Total, Department of Education[a]	**8**	**8**	**9**	**9**	**9**	**9**	**9**	**9**	**9**	**10**	**88**
Export-Import Bank											
Export Financing	*	*	*	*	*	*	*	*	*	*	-1
Long-Term Guarantees	**	**	**	**	**	**	**	**	**	**	2
Medium-Term Guarantees	**	**	**	**	**	**	**	**	**	**	**
Medium-Term Insurance	**	**	**	**	**	**	**	**	**	**	**
Short-Term Insurance	**	**	**	**	**	**	**	**	**	**	**
Working Capital Fund	**	**	**	**	**	**	**	**	**	**	**
Total, Export-Import Bank	**	**	**	**	**	**	**	**	**	**	**2**
Federal Housing Administration											
Single-Family Mutual Mortgage Insurance Fund	1	2	2	2	3	4	4	4	4	4	30

Continued

Table 2. Continued

Estimated Annual Loan Volume and Budgetary Costs of Selected Federal Credit Programs Under FCRA and the Fair-Value Approach, 2015 to 2024

(Billions of dollars)

Program Name	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total, 2015-2024
						Total Loan Volume					
						Department of Education					
Subsidized Stafford Loans (Undergraduate Students)	28	28	29	30	31	32	33	33	34	35	314
Unsubsidized Stafford Loans (Undergraduate and Graduate Students)	57	59	60	62	64	66	67	69	71	73	647
PLUS Loans (Graduate Students)	8	9	9	10	10	11	11	12	13	13	107
PLUS Loans (Parents of Dependent Students)	10	10	10	10	10	11	11	11	11	12	106
Total, Department of Education[a]	**103**	**106**	**109**	**112**	**115**	**119**	**122**	**126**	**129**	**133**	**1,174**
						Export-Import Bank					
Export Financing	3	3	3	3	3	3	3	3	3	3	30
Long-Term Guarantees	25	25	25	25	25	25	25	25	25	25	246
Medium-Term Guarantees	**	**	**	**	**	**	**	**	**	**	2
Medium-Term Insurance	**	**	**	**	**	**	**	**	**	**	2
Short-Term Insurance	7	7	7	7	7	7	7	7	7	7	67
Working Capital Fund	3	3	3	3	3	3	3	3	3	3	30
Total, Export-Import Bank	**38**	**38**	**38**	**38**	**38**	**38**	**38**	**38**	**38**	**38**	**376**
						Federal Housing Administration					
Single-Family Mutual Mortgage Insurance Fund	150	185	207	223	238	231	245	249	251	253	2,232

Sources: Congressional Budget Office (for subsidy estimates, using data supplied by agencies) and Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2015: Federal Credit Supplement* (for commitments and obligations).

Notes: For the Export-Import Bank, the table shows FCRA and fair-value estimates computed from projected obligations (for direct loans), commitments (for guaranteed loans), and cash flows under current law provided by the Administration's Office of Management and Budget and the agency. For student loans and guarantees of single-family mortgages, which are administered, respectively, by the Department of Education and the Federal Housing Administration (within the Department of Housing and Urban Development), the current-law projections were prepared by CBO. To simplify the analysis, the budgetary estimates for the Department of Education are based on the *obligations* that CBO estimates the department will incur each year for student loans, rather than on the amount of loan disbursements (which would be the basis for official estimates). Estimates reflecting the timing of loan disbursements would differ slightly from those shown here.

Subsidy costs exclude administrative expenses.

The subsidy rate is the subsidy cost divided by the projected obligations or commitments.

Numbers in the table may not add up to totals because of rounding.

FCRA = Federal Credit Reform Act; * = between -$500 million and zero; ** = between zero and $500 million.

a. Excludes certain smaller programs.

fair-value approach, a difference of $16 billion.[10] The average subsidy rate under the FCRA approach is estimated to be negative 3.8 percent for all of the bank's programs combined, whereas the average fair-value subsidy rate is estimated to be positive 0.4 percent.

Each of Ex-Im Bank's six largest credit programs would generate a negative or zero budgetary cost on a FCRA basis, CBO estimates. The subsidy cost would increase for all programs under the fair-value approach but would be less than 1 percent for most of them. CBO's fair-value estimate for the Export Financing direct loan program is still negative. That negative fair-value subsidy estimate could arise because of obstacles that prevent private entities from making loans on the same terms or because CBO's estimates understate the true subsidy cost because they exclude the program's administrative costs from subsidy cash flows or because the methods CBO used to estimate risk premiums are not precise.

The Federal Housing Administration's Single-Family Mortgage Guarantee Program

Through its single-family mortgage guarantee program, FHA administers mortgage insurance programs that provide guarantees for first-time home buyers and other borrowers who might otherwise find it difficult to obtain a mortgage. Under the terms of its insurance programs, FHA agrees to reimburse a mortgage lender for the unpaid balance of a loan and any accrued interest if a borrower defaults on the scheduled mortgage payments. The annual appropriation process limits the amount of new mortgage guarantees that FHA can make and their associated budgetary costs. In preparing its baseline projections, CBO made detailed 10-year projections of the budgetary effects of FHA's mortgage guarantees on a FCRA basis.[11]

Under current law, the volume of new mortgages guaranteed by FHA's single-family mortgage guarantee program is projected to grow from approximately $150 billion in fiscal year 2015 to approximately $250 billion in fiscal year 2024. With such an increase, approximately $2.2 trillion in single-family mortgages would be guaranteed by FHA over the 2015–2024 period. Assuming no changes in the current laws governing that program, CBO projects that the FCRA subsidy would be negative $63 billion over that 10-year period and that the subsidy rate would be negative 2.8 percent on a FCRA basis. By contrast, CBO estimates that the fair-value subsidy cost would be positive $30 billion over the 10-year period and that the fair-value subsidy rate would be positive 1.3 percent. Accounting for FHA's single-family mortgage guarantee program on a fair-value basis would increase the program's estimated subsidy costs by approximately $93 billion over the 2015–2024 period.

FHA's single-family mortgage guarantee program shows a negative subsidy in each year of the 10-year period on a FCRA basis. However, the program's contribution to reducing the deficit would decline over the period, according to CBO's analysis. The negative subsidy rate would fall from 5.3 percent in 2015 to 2.0 percent in 2020 and subsequent years. The subsidy rate would be less negative for two main reasons. First, CBO expects FHA to reduce its fees from their present, historically high levels as the value of its capital reserve account recovers from recent losses.[12] Second, CBO expects some borrowers with relatively high credit scores to return to

10. The small positive overall fair-value subsidy cost for Ex-Im Bank's programs in this report differs from CBO's estimate in June 2012 for loans to be made in 2013, which CBO projected to have a negative fair-value subsidy cost. That difference stems mainly from the selection of a higher discount rate for the long-term loan guarantee program. A higher discount rate associated with greater market risk generates a larger difference between the FCRA and fair-value estimates. Although the type of credit and loan maturity associated with the long-term guarantee program did not change, the reported amount of projected defaults increased from 2013 to 2015. In the 2013 Federal Credit Supplement, the Administration reported an expected default rate of 1.35 percent, no recoveries, and a default subsidy cost (net of recoveries) of 1.29 percent for the long-term guarantee program. In the 2015 Federal Credit Supplement, expected defaults increased to 6.12 percent, recoveries increased to 66.93 percent, and default subsidy costs increased to 1.91 percent.

11. For additional discussion of FHA's single-family mortgage insurance program, see Congressional Budget Office, "FHA's Single-Family Mortgage Guarantee Program: Budgetary Cost or Savings?" *CBO Blog* (October 21, 2013), www.cbo.gov/publication/44628; and *Accounting for FHA's Single-Family Mortgage Insurance Program on a Fair-Value Basis* (attachment to a letter to the Honorable Paul Ryan, May 18, 2011), www.cbo.gov/publication/41445.

12. For additional discussion of FHA's capital reserve account, see Congressional Budget Office, "How FHA's Mutual Mortgage Insurance Fund Accounts for the Cost of Mortgage Guarantees," *CBO Blog* (October 22, 2013), www.cbo.gov/publication/44634.

the private market as the housing market recovers from the financial crisis that began in 2007. Nonetheless, CBO projects that FHA's volume of new loan guarantees would rise over the 10-year period as the overall mortgage market grows.

The annual fair-value costs are projected to increase over time as FHA reduces borrowers' fees and more lower-cost loans receive private-sector guarantees. Partly offsetting those factors, CBO anticipates that the market risk premium for the program will fall over time, reflecting an expected reduction in the compensation private investors require for market risk because of the recovery in the housing market and the normalization of conditions in the financial markets. On net, the fair-value subsidy rate is projected to rise from 0.7 percent in 2015 to 1.7 percent in 2024.

Administrative Costs

Under FCRA accounting, the administrative expenses of federal credit programs are not included in the subsidy costs but instead are accounted for separately on a cash basis. To maintain consistency between the FCRA and fair-value estimates and because CBO did not have access to the additional data required to estimate those costs for all three programs, CBO's fair-value estimates also exclude federal administrative costs.

However, comprehensive fair-value estimates of subsidies for credit programs would incorporate certain administrative expenses, such as servicing and collection costs, that are essential to preserving the value of the government's claims (rather than accounting separately for those costs on a cash basis). Those expenses can differ significantly among credit programs.

This report—which updates estimates that the Congressional Budget Office included in its June 2012 report titled *Fair-Value Estimates of the Cost of Federal Credit Programs in 2013* (www.cbo.gov/publication/43352)—was requested by the Chairman of the House Budget Committee. In accordance with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Mitchell Remy of CBO's Financial Analysis Division prepared the report with guidance from Damien Moore. Chad Chirico, Sunita D'Monte, Gabriel Ehrlich, Deborah Kalcevic, Wendy Kiska, Jason Levine, and Jeffrey Perry contributed to the analysis. Peter Fontaine, Theresa Gullo, and David Torregrosa provided helpful comments.

Jeffrey Kling and Robert Sunshine reviewed the report, Loretta Lettner edited it, and Maureen Costantino prepared it for publication. This report, along with other CBO publications, is available on the agency's website (www.cbo.gov/publication/45383).

Douglas W. Elmendorf

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Bloomberg

House to Subpoena Ex-Im Worker as Time Runs Out for Bank

By Laura Litvan - Jul 25, 2014

A U.S. House committee subpoenaed a former Export-Import Bank employee in a widening investigation that could complicate efforts to reauthorize the lender two months before its charter expires.

The worker is being ordered to testify July 29 to the House Oversight and Government Reform Committee, Chairman Darrell Issa said yesterday in an interview. The hearing, which will examine allegations of corruption at the bank, also will hear from President Fred Hochberg.

"The American people feel these programs are not well run," said Issa, a California Republican. "There are examples of perhaps loans that were not necessary and the question of corruption. So if you want to keep a program alive, make it justify itself and be clean."

U.S. Export-Import Bank: From Apple Pie to Endangered Species

Several House Republicans, including incoming Majority Leader Kevin McCarthy, oppose letting the bank continue after Sept. 30 when its charter expires, saying private lenders can do the job. The bank helps foreign customers buy U.S. goods.

Republican lawmakers and Tea Party-affiliated groups say the bank is a form of corporate welfare that primarily benefits companies including Boeing Co. (BA), General Electric Co. (GE) and Caterpillar Inc. (CAT) and should be shut when its charter expires. Issa said he favors continuing the bank, with some changes.

"Many of us support the concept of making sure there's an availability of funds to support competitiveness in exports, but we have to make sure that the American people believe it's being spent fairly and honestly," Issa said.

'Another Arrow'

Any investigation into the misconduct allegations may increase the chances that Congress will let the bank's charter lapse, said John Pitney, a political science professor at Claremont McKenna College in Claremont, California.

Opponents "get another arrow in their very large quiver," Pitney said. "It provides another way of justifying opposition to the general public."

After the hearing was announced, a top advocate of shuttering the bank said the congressional investigation is clearly merited.

"The allegations of kickbacks and corruption at the Export-Import Bank are as disturbing as they are serious," House Financial Services Committee Chairman Jeb Hensarling, a Texas Republican, said in a statement.

Worker Dismissed

Issa said he signed a subpoena yesterday to compel the appearance of an employee, Johnny Gutierrez. "He refused to come voluntarily," Issa said.

Matt Bevens, a spokesman for the bank, today said Gutierrez has been dismissed. Gutierrez worked in the Ex-Im finance department.

Gutierrez's lawyer, Douglas McNabb, said on June 24 that his client was under investigation and declined to provide additional details. McNabb didn't respond to phone messages and e-mails yesterday seeking comment.

Becca Watkins, a committee spokeswoman, said Hochberg is among the witnesses. She didn't identify others who will testify.

The bank's inspector general is investigating alleged misconduct by four employees, and at least two of four people involved have left the bank, Hochberg said at a House hearing June 25. He didn't name the employees.

Hochberg is defending the bank's activities. In Boston yesterday, Hochberg took on detractors who say the bank lets the government pick winners and losers in the marketplace.

'Crony Capitalism'

"If you listen to some people in Washington, you'll hear the term 'crony capitalism' thrown around a lot," Hochberg told the New England Council, an alliance that backs economic development.

"You want to know what real crony capitalism looks like? It looks like the government of China supporting state-owned enterprises with opaque subsidies and outrageous financing terms," he said, according to prepared remarks. "It has nothing in common with what we do at Ex-Im."

The bank's support for U.S. exports have benefited businesses including aircraft giant Boeing of

Chicago and Hartzell Propellers Inc. of Piqua, Ohio. The bank last year backed $37.4 billion in exports, and says it has returned more than $3.4 billion since 2005 to the U.S. Treasury.

The anti-bank drive gained momentum in June when McCarthy, elected as No. 2 House Republican, said he was joining other foes of the lender, including Hensarling and House Budget Committee Chairman Paul Ryan of Wisconsin.

After that, 41 House Republicans wrote to Speaker John Boehner and McCarthy urging them to move ahead with a long-term reauthorization to provide more certainty to exporters.

Congress is in session for 15 days before the charter expires due to a five-week recess starting Aug. 1. The Obama administration is seeking a five-year reauthorization and a gradual increase in the bank's lending cap, to $160 billion from $140 billion.

When the bank was reauthorized for two years in 2012, it was after months of debate. President Barack Obama signed the measure a day before the bank's charter was scheduled to lapse.

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PETER WELCH, VERMONT
TONY CARDENAS, CALIFORNIA
STEVEN A. HORSFORD, NEVADA
MICHELLE LUJAN GRISHAM, NEW MEXICO

Opening Statement
Rep. Matt Cartwright, Ranking Member

Subcommittee on Economic Growth, Job Creation and Regulatory Affairs
Hearing on "Examining Allegations of Corruption at the Export-Import Bank"

July 29, 2014

Thank you, Mr. Chairman, and welcome to our witnesses on today's panel.

Today's hearing is intended to examine recent allegations of corruption at the Export-Import Bank, an independent, self-sustaining agency with a history of supporting U.S. jobs by financing the export of American goods and services.

I look forward to today's testimony on the Bank's anti-corruption and fraud efforts, the process for responding to employee integrity issues, and how it maintains high ethical standards that Congress and the American public expect from all government agencies.

However, I am concerned that this hearing has been called in a rush to judgment, intended to tarnish the reputation of the Bank and its employees in an attempt to unduly influence a vote on the Bank's reauthorization.

Four Ex-Im Bank employees are currently under investigation. Details of those investigations cannot and should not be discussed at this hearing because Congressional oversight must not jeopardize ongoing personnel actions and criminal investigations. I hope that the Chairman will agree to instruct members not to unintentionally jeopardize the investigations by pressing for certain details of the alleged misconduct.

Nonetheless, both Chairman Jordan and Chairman Issa have stated that these incidents, which we have very limited detail about, suggest a broader culture of corruption at the Bank. However, the facts do not support this conclusion.

Each of these investigations followed a formal referral for investigation that originated in the Ex-Im Bank General Counsel's office. To date, every case of alleged fraud that the Inspector General has referred for prosecution concerns outside entities which were seeking to steal taxpayer funds, not Bank employees. The fact that outside parties attempted to defraud the Bank does not indicate that there is a culture of corruption inside the Bank. Calling the Bank corrupt for crimes committed against it is what we call blaming the victim.

Now let's talk about what this hearing is really about, and that is the reauthorization of the Export-Import Bank. This issue, for the first time in modern memory, has become controversial, and not because of the issue before us today, but because the Tea Party faction of the Republican Party is holding its reauthorization hostage. This hearing seems to be designed to influence this important upcoming vote with propaganda and political theater.

A large group of Democrats and sensible, moderate Republicans (many of which I'm proud to call friends) realize the contribution that the Export Import Bank makes to our communities, by providing support for jobs and investments in small businesses all across America by allowing our domestic manufacturers to compete with companies who are getting help from their own countries' export banks overseas. We must level the playing field for these companies because other countries are putting their thumbs on the scale in favor of their own manufacturers. We must do the same or our companies and our workers face an unfair disadvantage.

The Bank supports businesses in every state in the US. In my district alone, I'm very happy that the Bank supports 10 companies and 639 jobs--in fact the Bank supports $5.5 billion in exports state wide. Nationwide, the Bank has supported 1.2 million American jobs, generated billions for the government, and cost US taxpayers nothing--in fact, we make money on the deals.

On average, 87% of Bank transactions benefit small business exporters of U.S.-made goods and services. These are deals that could not--and would not--be done by the private sector alone, and are the perfect example of the kinds of public private partnerships we need to get our economy going again, get our businesses thriving again and get our people back to work.

Speaking of getting back to work, I would note that this is the first hearing in the Economic Growth, Job Creation and Regulatory Affairs that has even tangentially to do with job creation, and therefore I appreciate the Chairman having this hearing at all.

I hope that the Chairman will join me and other Republican and Democratic members who are calling for the reauthorization of a bank that supports U.S. jobs by financing the export of American goods and services.

In fact, an Op-Ed by William E. Brock, Labor Secretary under President Ronald Reagan shows how far away from the tenets of Ronald Reagan the modern Republican Party has drifted:

> As a Republican, I would prefer that the private sector carry the entire load of supporting our international competitiveness. But the world market is not a level playing field, and the bank is absolutely vital for companies involved in the global economy. Having worked closely with Mr. Reagan on trade issues, I am confident that he felt the same.

I ask unanimous consent to enter this op-ed into the record.
Thank you Mr. Chairman and I yield back.

Contact: Jennifer Hoffman, Press Secretary, (202) 226-5181.

FEDERAL EMPLOYEE VIEWPOINT SURVEY RESULTS
2013 Export-Import Bank Employee Responses

		Percent Positive
17. I can disclose a suspected violation of any law, rule or regulation without fear of reprisal.	N %	 50.23

54. My organization's leaders maintain high standards of honesty and integrity.	N %	 42.10

Date	Request for	Transaction Type	Ex-Im Liability (Millions)	Decision	Country
5-Apr-02	Insurance Policy (New)	N/A	$5-20	Approved	Dominican Republic
5-Apr-02	Insurance Policy (New)	N/A	$5-20	Approved	Dominican Republic
4-Feb-03	Commitment (New)	N/A	$1-5	Approved	Jamaica
27-Jan-04	Insurance Policy (New)	N/A	$1-5	Approved	Dominican Republic
25-Jun-04	Insurance Policy (New)	N/A	N/A	Denied	Aruba
2-Jul-04	Commitment (New)	N/A	$1-5	Approved	Jamaica
18-Feb-05	Final Commitment	N/A	N/A	Denied	Jamaica
3-Jun-05	(Reconsideration) Commitment (New)	N/A	$1-5	Approved	Mexico
3-Jun-05	(Reconsideration) Commitment (New)	N/A	$1-5	Approved	Mexico
23-Sep-05	Insurance Policy (New)	N/A	$1-5	Approved	Jamaica
22-Nov-05	Insurance Policy (New)	N/A	$1-5	Approved	Jamaica
22-Nov-05	Insurance Policy (Renew)	N/A	$1-5	Approved	Jamaica
14-Feb-06	Insurance Policy (New)	N/A	$1-5	Approved	Turks & Caicos
28-Feb-06	Insurance Policy (New)	N/A	$5-20	Approved	Dominican Republic
28-Feb-06	Insurance Policy (New)	N/A	$5-20	Approved	Dominican Republic
24-Mar-06	SBCL Renewal	N/A	$0-1	Approved	Dominican Republic
24-Mar-06	SBCL Renewal	N/A	$0-1	Approved	Dominican Republic
26-May-06	Insurance Policy (New)	N/A	$5-20	Approved	Dominican Republic
26-May-06	Insurance Policy (New)	N/A	$5-20	Approved	Dominican Republic
8-Jun-07	N/A	Medium-Term	$1-5	Approved	Mexico
8-Jun-07	N/A	Medium-Term	$1-5	Approved	Dominican Republic
24-Jun-08	N/A	Medium-Term	$5-20	Approved	Dominican Republic
12-Sep-08	N/A	Medium-Term	$0-5	Approved	Dominican Republic
12-Sep-08	N/A	Medium-Term	$0-5	Approved	Dominican Republic

lending bank, the local guarantor bank and Federal Agency Eximbank (as insurer of the credit risk); Diaz and Impex would earn a significant fee from the transaction.

25. Subsequently, it was learned that Diaz (through Impex) had already engaged in these "in-kind" conversions of loan facilities to "non-borrowing customers" (see Predicate Acts Seven, Eight and Nine). Ferreteria Ochoa and Antonio Hache & Co had already participated as "non-borrowing customers" in the "in-kind" conversion of the facility paid to Impex by Dresdner with Federal Agency Eximbank insured funds under the Banco Mercantil S.A. issued letter of credit that was confirmed in the U.S. by Dresdner (see Predicate Acts) and which served as the basis for bank fraud described in Predicate Acts section of Complaint. The criminal intent was to use the pattern of the illicit scheme which was to be repeated with unrepentant continuity by the same participants.

26. **Vyasulu refused to participate in this and sent an email to David Cooke of Allfirst Bank (the Lending bank) recommending deferral of this transaction until such time as the "change of shareholders" or "new ownership" was clarified and properly disclosed as he considered this a material issue prior to closing and was unwilling to conceal it from the bank. Vyasulu also told Diaz that he refused to participate in illegal schemes to defraud banks.** Upon learning of the aforementioned email, Diaz became enraged as he felt that this information should be withheld from Allfirst Bank; that the transaction should proceed regardless of this issue as it was harmful only to Impex's profit and interests if the letter of credit were not issued as Allfirst Bank "was protected from losses by the Federal Agency Eximbank credit insurance". Diaz said that this bank would lose its "trust" in Impex if this was disclosed and was angered by Vyasulu's insistence that he, acting as that bank's agent, would not place at risk that bank's assets or his advantageous relationship in the furtherance of this illicit activity.

Vyasulu v Impex Associates, Inc, et al, May 9, 2006.

"The criminal intent was to use the pattern of the illicit scheme which was to be repeated with unrepentant continuity.."

MEMORANDUM

Referral For Investigation

Privileged and Confidential

To: Office of the Inspector General
From: Office of the General Counsel

Date: Wednesday, December 09, 2009

Subject: Transaction/Policy Number: APO81503/80717
Name of Target(s) of Investigation: Exporter – Impex Associates Inc.

Transaction Information
Country: Costa Rica
Transaction No: APO81503
Borrower: Hectareas Doradas
Guarantor: Carlos Luis Ramierz Alfaro
Exporter: Impex Associates, Inc.
Lender: Espirito Santo Bank
Product: Caterpillar excavator and various other related pieces of industrial machinery
Amount of Transaction: $839,845.42

Ex-Im Bank RM:
Ex-Im Bank Credit Underwriter:
Ex-Im Bank Collections Officer: Eric Bernard

Referral Memorandum Prepared By: Nicole Wharton

Attachments:

- Closing Memo from GRG

Basis for Referral

- Borrower, Hectareas Doradas, S.A. is reported by GRG to never have existed.
- High exporter claims rate

Details

In October 2004, the borrower, Hectareas Doradas obtained 2 Ex-Im Bank guaranteed loans to purchase industrial machinery from exporter, Impex Associates, Inc. GRG reports that their evidence indicates that the buyer never existed. Please see attached GRG closing memo in which GRG states that they conducted numerous investigations and site visits and were unable to find evidence that the debtor existed. According to the IIS system, Impex Associates has been the exporter on more than 10 Ex-Im Bank financed insurance and guarantee transactions. At least 6 of these transactions have resulted in claims to date (see IIS).

Conclusion: Based on the foregoing, OGC believes that there is a reasonable basis to believe that one or more Impex transactions are tainted with fraud, and refers this matter to the OIG for investigation of the exporter.

OGC believes that there is a reasonable basis to believe that one or more Impex transactions are tainted with fraud, and refers this matter to the OIG for investigation of the exporter



Re: Ethics Training 2011 - Reminder

Johnny Gutierrez to: Ethics Training 2011 12/21/2011 08:43 AM

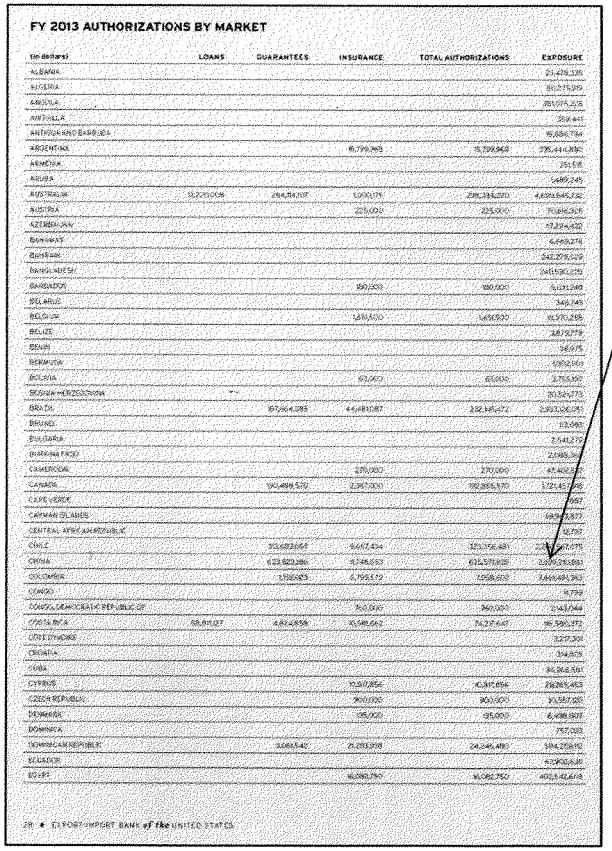
Cc: Lisa V Terry, Rebecca Verreau

Lisa/Becky,

Please be advised that I have completed the subject requirement.

Thanks,

Johnny



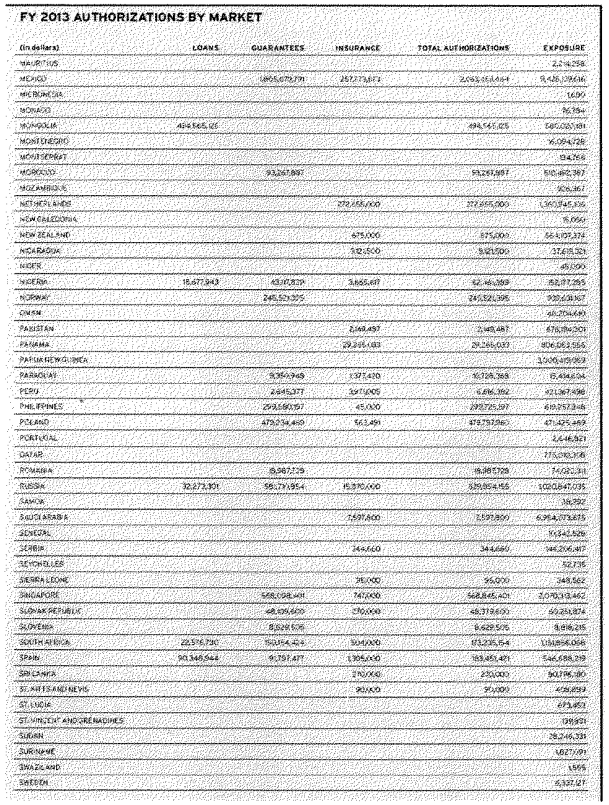
FY 2013 AUTHORIZATIONS BY MARKET

(in dollars)	LOANS	GUARANTEES	INSURANCE	TOTAL AUTHORIZATIONS	EXPOSURE
ALBANIA					23,479,135
NIGERIA					86,975,295
ANGOLA					283,095,236
ANTIGUA					356,641
ANTIGUA AND BARBUDA					15,686,784
ARGENTINA			15,799,963	15,799,963	275,444,836
ARMENIA					20,168
ARUBA					489,245
AUSTRALIA	12,210,008	264,354,107	1,000,175	286,364,290	4,693,845,732
AUSTRIA			225,000	225,000	70,696,316
AZERBAIJAN					57,274,432
BAHAMAS					6,668,274
BAHRAIN					242,275,529
BANGLADESH					345,190,259
BARBADOS			180,000	180,000	5,131,248
BELARUS					348,745
BELGIUM			1,851,470	1,851,470	10,370,288
BELIZE					2,879,779
BENIN					34,975
BERMUDA					1,902,160
BOLIVIA			65,000	65,000	3,755,397
BOSNIA-HERZEGOVINA					30,524,773
BRAZIL		157,964,285	44,481,087	202,445,372	2,997,104,051
BRUNEI					113,093
BULGARIA					2,541,270
BURKINA FASO					2,988,364
CAMEROON			270,000	270,000	47,402,515
CANADA		190,499,570	2,367,000	192,866,570	1,721,457,248
CAPE VERDE					997
CAYMAN ISLANDS					68,921,877
CENTRAL AFRICAN REPUBLIC					9,797
CHILE		93,693,665	9,667,434	103,361,099	2,[illegible]3,079
CHINA		622,823,286	9,748,657	632,571,943	2,699,210,861
COLOMBIA		1,190,625	6,799,519	7,990,144	3,446,481,743
CONGO					9,732
CONGO, DEMOCRATIC REPUBLIC OF			160,000	160,000	2,143,744
COSTA RICA	55,841,07	4,814,859	15,581,662	74,237,647	86,396,372
COTE D'IVOIRE					3,217,304
CROATIA					314,579
CUBA					26,868,581
CYPRUS			11,817,856	4,347,856	28,285,453
CZECH REPUBLIC			900,000	900,000	33,587,281
DENMARK			85,000	85,000	6,498,507
DOMINICA					757,089
DOMINICAN REPUBLIC		3,068,540	21,253,938	24,246,478	184,259,192
ECUADOR					47,930,436
EGYPT			16,081,750	16,081,750	403,142,648

28 ◆ EXPORT-IMPORT BANK *of the* UNITED STATES

Exposure in Dollars

China - $2,699,210,861



FY 2013 AUTHORIZATIONS BY MARKET

(in dollars)	LOANS	GUARANTEES	INSURANCE	TOTAL AUTHORIZATIONS	EXPOSURE
MAURITIUS					2,216,258
MEXICO		1,805,670,771	257,773,693	2,063,444,464	9,426,109,616
MICRONESIA					16,190
MONACO					26,194
MONGOLIA	494,565,125			494,565,125	587,055,181
MONTENEGRO					16,094,728
MONTSERRAT					194,766
MOROCCO		93,267,897		93,267,897	510,492,367
MOZAMBIQUE					906,467
NETHERLANDS			272,665,000	272,665,000	1,360,345,436
NEW CALEDONIA					15,060
NEW ZEALAND			675,000	675,000	564,107,374
NICARAGUA			9,121,500	9,121,500	37,615,321
NIGER					45,090
NIGERIA	15,677,943	43,117,829	3,865,497	62,661,269	852,177,255
NORWAY		245,521,395		245,521,395	930,630,167
OMAN					48,204,660
PAKISTAN			2,148,487	2,148,487	676,194,301
PANAMA			29,265,033	29,265,033	806,063,556
PAPUA NEW GUINEA					3,006,410,963
PARAGUAY		9,350,945	1,977,420	11,328,365	15,496,604
PERU		2,645,377	397,005	3,042,382	421,367,498
PHILIPPINES		293,580,157	45,000	293,725,157	610,257,348
POLAND		472,234,469	563,491	472,797,960	471,425,469
PORTUGAL					3,646,521
QATAR					775,010,308
ROMANIA		15,967,729		15,967,729	74,082,311
RUSSIA	32,273,101	98,791,954	15,370,000	520,904,155	1,020,847,035
SAMOA					38,292
SAUDI ARABIA			7,597,800	7,597,800	6,954,073,675
SENEGAL					10,342,529
SERBIA			344,660	344,660	146,206,417
SEYCHELLES					52,735
SIERRA LEONE			95,000	95,000	348,562
SINGAPORE		568,098,401	747,000	568,845,401	2,070,313,462
SLOVAK REPUBLIC		48,109,600	570,000	48,679,600	60,251,874
SLOVENIA		8,529,576		8,529,576	9,916,215
SOUTH AFRICA	22,576,730	150,154,424	10,141,000	173,235,154	1,138,894,066
SPAIN	90,348,644	91,797,477	1,305,000	183,451,121	546,688,219
SRI LANKA			270,000	270,000	90,796,180
ST. KITTS AND NEVIS			90,000	90,000	456,859
ST. LUCIA					693,853
ST. VINCENT AND GRENADINES					191,921
SUDAN					28,246,331
SURINAME					1,827,491
SWAZILAND					1,565
SWEDEN					6,337,121



FY 2013 AUTHORIZATIONS BY MARKET

(in dollars)	LOANS	GUARANTEES	INSURANCE	TOTAL AUTHORIZATIONS	EXPOSURE
SWITZERLAND			360,000	360,000	1,496,000
TAIWAN			855,000	855,000	296,240,145
TAJIKISTAN					83,000,000
TANZANIA		2,117,295		2,117,295	9,572,927
THAILAND			270,000	270,000	101,904,430
TONGA					561
TRINIDAD AND TOBAGO			1,800,000	1,800,000	17,793,658
TUNISIA					27,851
TURKEY	640,716,217	168,837,074	23,098,915	832,652,206	4,340,317,206
TURKS AND CAICOS					1,280,451
UGANDA			90,000	90,000	823,735
UKRAINE		59,853,905		59,853,905	295,714,058
UNITED ARAB EMIRATES	230,521,886	710,681,581	2,726,240	943,929,707	6,206,099,753
UNITED KINGDOM	1,852,391,527	51,536,208	1,915,063	1,905,842,798	3,852,565,867
UNITED STATES	16,455,206	3,220,940,590		3,237,395,796	8,775,443,259
URUGUAY	12,685,214	29,332	7,134,346	19,848,892	30,584,536
UZBEKISTAN					37,858,760
VENEZUELA (BOLIVARIAN REPUBLIC)					17,815,341
VENEZUELA					35,253,770
VIETNAM	16,715,288		360,000	17,075,288	913,827,191
VIRGIN ISLANDS (BRITISH)			4,457,500	4,457,500	10,316,146
WEST INDIES (BRITISH)					646,099
WEST INDIES (FRENCH)					693,856
ZAMBIA					1,000,000
ZIMBABWE					1,000,000
Subtotal					
Multi-Buyer Insurance					
GRAND TOTAL					

Exposure in Dollars

Pakistan……$676,194,301

Qatar…….. $775,010,308

Russia……..$1,020,847,035

Turkey…….$4,340,317,206

Venezuela…$35,253,770