Export-Import Bank of the U.S.

Memorandum

Date: June 14, 2012

From: Michele Kuester

Subject: Key Takeaways from PEFCO's Bankers' Advisory Board and Exporters' Council Meeting held on June 13, 2012

Overview

On June 13, 2012 PEFCO held their semi-annual Bankers' Advisory Board and Exporters' Council Meeting at their offices in New York. See attachment 1 for a list of institutions in attendance. The meeting agenda encompassed four updates, from each of PEFCO, Ex-Im Bank, Bankers and Exporters.

PEFCO's update focused on the growth in volume and their increase in capital – they have increased capital by $18 million and hope to get another $5 to $10 million to handle the volume of demand they are seeing. Ex-Im Bank's update focused on some of the new Charter requirements and on Ex-Im Bank's investigation into the "liquidity" problem. Meanwhile, bankers focused on the changes they are making in how they operate in the area of export finance while the exporters focused on the various processing problems they encountered.

The next meeting of this group is scheduled for December 12, 2012.

Reactions to Ex-Im Bank Update

In discussing the reauthorization I focused on the new public notice requirement for deals over $100 million, the economic impact and U.S./foreign content reviews, the exposure cap and briefly mentioned the authority to use excess revenue to fund systems updates. Once I clarified that the public notice requirement would occur at the same time as the Congressional notification period – and thus should not further delay transactions, both the exporters and bankers seemed somewhat indifferent. No one commented on the economic impact review, but one banker was concerned that the content review might result in a further tightening of Ex-Im Bank's content requirements – to which I responded that a tightening was not our aim. Bankers were interested in the ramifications of the exposure cap; while exporters were intrigued by the possibility of upgrading or replacing Ex-Im Bank's systems.

I used the exposure cap discussion to segue into a discussion of our research into the liquidity problem. When I reported that our current research seemed to suggest that there are alternative lenders willing to offer dollar-denominated long-term financing, none of the lenders disagreed. In fact, one lender specifically responded that there isn't a liquidity problem, rather as he called it, a pricing problem. That is to say, most of the European lenders cannot fund long-term dollar deals at current pricing – but they recognize that other institutions around the world are not so constrained. As is discussed below, the French bankers expressed interest in taking early maturities on an uncovered basis. They consider it a form of risk sharing (which they believe they can price attractively) and thought it might help expand the amount of business we could support within the exposure cap limitations. One lender countered that

he thought it would add complexity to the deal and questioned whether or not we were just trying to help a small niche of lenders. I responded that obviously we did not want to expand complexity and that the intent is to ensure sufficient long-term dollar-denominated lending capacity is available to support U.S. export sales – hopefully without having to step in and provide loans directly. In response to that last comment, Caterpillar reported that a number of the banks they work with have approached him to see if Caterpillar would be willing to tell Ex-Im Bank to stop offering so many direct loans. He has been telling them that he won't (though he did accomplish the same thing by bringing it up in this conversation.)

Banking Issues

As might be expected from the variety of banks in attendance, there were some distinct differences in how the banks are looking at their role in export finance. The French banks indicated that they were interested in taking some risk (such as uncovered early maturities of either project finance or aircraft finance transactions); however, they have a significant problem funding long-term dollar loans. Thus, while they were interested in the uncovered early maturities (for the first 2-3 years), they would need Ex-Im Bank to provide the financing, via a direct loan, for the remaining maturities. As they defined it, their problem is a pricing problem – not a liquidity problem. They would need margins in the range of ~200bps to provide long-term funding for dollar deals.

On the other hand, the two large U.S. banks were focused on the attractiveness of the capital markets for deals. They both spoke very positively about Ex-Im Bank's support of pre-funding and noted that they were finding many borrowers interested in the option and attracted to the pricing. PEFCO noted that their (PEFCO's) deals were pricing at (b) (4) whereas on an all-in basis the capital markets deals were coming in about 3 to 5 bps lower. The U.S. banks are more focused on the pricing of the actual bonds and are noting that they are much lower than even what PEFCO can offer – on a pure margin basis.

Several of the European banks indicated that they have moved away from lending to more of a Global Advisory services role. One of the bankers indicated that he didn't think his bank would ever go back to using their balance sheet to provide loans to U.S. customers.

Lastly, the two U.S. lenders who tend to focus more on small businesses indicated that small businesses are continuing to have a problem getting working capital (whether for exports or domestic). The lender with actual lending capacity indicated that his bank was moving away from providing financing for short-term deals – in part because Ex-Im Bank frequently requires collateral and it is extremely difficult to get and track collateral on short-term deals (such as agricultural commodities). The lender who is more of an advisor indicated that most banks won't return his calls when he is trying to arrange financing for small customers or small deals (under $5 million). [Note: I suggested he needed to come and speak with our Small Business Group as they have some new product offerings and are interested in discussing how best to help small business exporters.]

Exporter Issues

Although there was a mix of project–oriented (long-term) and product–oriented (medium-term) exporters all indicated that they were generally looking for ways to avoid using Ex-Im Bank.

The most significant point raised by the medium-term exporters was how our processing times are getting longer/worse. I dug into this because I didn't think our processing data supported this complaint. In response, every medium-term exporter reiterated that processing times for medium-term transactions were very bad and worse than they had been. Several of them went on to note that when

combined with the additional credit requirements (such as obtaining security interests in the export items) and our long-standing Policy restrictions (specifically, content) they were switching to private insurers – who might have the same credit requirements, but no Policy restrictions and a much faster processing time.

Following up on the processing time complaints, I discovered that from the exporters' perspective there were long delays in getting a credit decision, Annex Bs (to document the credit decision) and Operative memos (so they could begin shipping). Of particular note, several exporters noted that the time between when a credit decision is made and when the Annex B or Insurance policy is issued has risen from 1 – 3 days to 17 – 20 days. They cited errors and typos in the system generated memo as the main cause for delays.

The two primarily long-term exporters, Bechtel and Siemens, did not note any particular processing time issues, but they did indicate that content requirements and economic impact analyses were significant disincentives. Bechtel noted that so far they have been winning sales without having to provide a financing offer – so they aren't active at Ex-Im Bank. Siemens, on the other hand, noted that the Policy requirements were significantly onerous and as a result they are trying all kinds of workarounds to avoid using Ex-Im Bank.

All of the exporters expressed interest in working with Ex-Im Bank to fix processing problems and are hoping that some of the analyses required in the reauthorization language might promote greater flexibility in content requirements and/or economic impact.

Bankers' Advisory Board Attendees

Citibank

Deutsche Bank

Finance Specialists

ING

JP Morgan

Natexis

Societe Generale

UPS Capital

Wells Fargo

Exporters' Council Attendees

Bechtel

Caterpillar

Diebold

General Electric

John Deere

Siemens