# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

September 26, 2011

# S. 1547
## Export-Import Bank Reauthorization Act of 2011

*As reported by the Senate Committee on Banking, Housing, and Urban Affairs on September 13, 2011*

## SUMMARY


S. 1547 would extend through 2015 the authority of the Export-Import Bank of the United States (Ex-Im) to provide loans and insurance to finance exports of U.S. products and services. The bill also would gradually raise to $140 billion the total amount of insurance, loan guarantees, and loans that Ex-Im can have outstanding at any time. Finally, it would prohibit the bank from doing business with entities who cannot certify that neither they nor their business partners or affiliates have engaged in certain business dealings with Iran.

CBO estimates that implementing the legislation would save almost $900 million over the 2012-2016 period, assuming appropriation action consistent with the bill. Pay-as-you-go procedures do not apply to this legislation because it would not affect direct spending or revenues.

S. 1547 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.


## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1547 is shown in the following table. The costs of this legislation fall within budget functions 150 (international affairs) and 800 (general government).

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2012-2016 |
| **CHANGES IN SPENDING SUBJECT TO APPROPRIATION** | | | | | | |
| Reauthorization and Increased Exposure Cap | | | | | | |
| Administrative Expenses | | | | | | |
| Estimated Authorization Level | 58 | 85 | 101 | 117 | 91 | 452 |
| Estimated Outlays | 48 | 77 | 94 | 109 | 89 | 417 |
| Positive Subsidy Costs | | | | | | |
| Estimated Authorization Level | 76 | 86 | 97 | 110 | 0 | 369 |
| Estimated Outlays | 17 | 50 | 68 | 85 | 71 | 291 |
| Negative Subsidies | | | | | | |
| Estimated Authorization Level | -117 | -295 | -481 | -675 | -506 | -2,074 |
| Estimated Outlays | -117 | -295 | -481 | -675 | -506 | -2,074 |
| Spending of Collections | | | | | | |
| Estimated Authorization Level | 50 | 50 | 50 | 50 | 0 | 200 |
| Estimated Outlays | 0 | 11 | 31 | 39 | 45 | 126 |
| Subtotal | | | | | | |
| Estimated Authorization Level | 67 | -74 | -233 | -398 | -415 | -1,053 |
| Estimated Outlays | -52 | -157 | -288 | -442 | -301 | -1,240 |
| Lost Collections for Certifications Regarding Iran | | | | | | |
| Estimated Authorization Level | 12 | 37 | 77 | 133 | 99 | 358 |
| Estimated Outlays | 12 | 37 | 77 | 133 | 99 | 358 |
| Total Changes | | | | | | |
| Estimated Authorization Level | 79 | -37 | -156 | -265 | -316 | -695 |
| Estimated Outlays | -40 | -120 | -211 | -309 | -202 | -882 |

## BASIS OF ESTIMATE

S. 1547 would extend and modify Ex-Im's authority to provide export financing through 2015 (an additional four years). CBO estimates that implementing the legislation would result in net savings of almost $900 million over the 2012-2016 period, assuming appropriation action consistent with the bill.

The bill does not authorize the appropriation of specific amounts. CBO assumes that appropriations would continue for both the administrative costs and the subsidy costs of new loans and guarantees as defined in the Federal Credit Reform Act (FCRA).[1] Certain loan guarantees have a negative subsidy (that is, they result in net additional collections); under current law, Ex-Im uses those collections to fully offset the administrative and positive subsidy costs, and spends any excess on providing additional loans and guarantees with positive subsidy costs. CBO expects that Ex-Im would continue that practice under the bill. For the purpose of this estimate, CBO assumes that the bill will be enacted near the start of fiscal year 2012, that the estimated authorization amounts would be appropriated near the start of each year, and that outlays will follow historical patterns for the program's spending.

**Reauthorization and Increased Exposure Cap**

The Export-Import Bank assists in financing the export of U.S. goods and services by providing products such as loans, loan guarantees, and export credit insurance. The bank's authority to enter into new agreements expires at the end of fiscal year 2011; however, under current law, the bank would continue to operate for some years after that date to service its existing contracts.

As required under FCRA, Ex-Im receives appropriations each year to cover its administrative expenses and the positive subsidy costs of its loans and insurance. Ex-Im also provides loans that yield a net budgetary savings under the cost formula specified in FCRA, which requires that the expected government cash flows be discounted using the rates on Treasury securities of comparable maturity. In recent years, Ex-Im has generated sufficient receipts through such negative subsidy loans to more than offset its other costs. It uses some of those excess receipts to provide additional loans and the remainder are retained as balances or returned, eventually, to the U.S. Treasury. The dollar amount of loans, guarantees, and insurance that Ex-Im can have outstanding at any given time is limited by a cap on its exposure.

Section 2 would allow the bank to continue providing new loans, guarantees, and insurance through 2015. Section 6 would increase Ex-Im's maximum allowable financial exposure to $110 billion in 2012 and raise that amount by $10 billion each year to a maximum of $140 billion. CBO estimates that such an increase would allow Ex-Im to expand its financing activities at a rate of about 13 percent a year. Together, CBO estimates that implementing sections 2 and 6 would yield net savings of $1.2 billion over the 2012-2016 period, assuming appropriations action consistent with the bill. The components of this estimate are discussed below.

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1. Under the Federal Credit Reform Act of 1990, the subsidy cost of a direct loan or loan guarantee is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other expenses, offset by any payments to the government, including origination fees, other fees, penalties, and recoveries on defaulted loans. The net present value does not include the cost of market risk. Such subsidy costs are recorded in the budget when the loans are disbursed.

**Administrative Expenses.** Based on information from Ex-Im, CBO estimates that the bank would require additional appropriations of $58 million in 2012 for administrative expenses. Over the 2013-2015 period, CBO estimates that Ex-Im's administrative expenses would grow by 8 percent each year. In 2016, when the bank's authorization would again expire, CBO estimates the additional amounts needed would begin to decline. Assuming appropriation of the estimated amounts, CBO estimates that under sections 2 and 6, administrative expenses would increase by about $420 million over the 2012-2016 period.

**Positive Subsidy Costs.** CBO estimates that in 2012 Ex-Im would require appropriations of $76 million for the subsidy cost of new agreements (that amount is identical to the President's request for 2012). Based on information from Ex-Im about its recent and projected growth, CBO estimates that over the 2013-2015 period Ex-Im's originations and the subsidy appropriations required would grow by 13 percent each year. In 2016, when Ex-Im's authorization to provide new loans and insurance would expire, the bank would not need a subsidy appropriation. Assuming appropriation of the estimated amounts, CBO estimates that subsidy costs under sections 2 and 6 would increase by about $290 million over the 2012-2016 period.

**Negative Subsidies.** Ex-Im's long-term loan guarantees have lower default rates and higher fees than its other products and generate collections for the bank. Based on information from Ex-Im about its recent and projected growth in those loan guarantees, CBO estimates that under sections 2 and 6, Ex-Im would collect an additional $117 million in 2012 and $2.1 billion over the 2012-2016 period. Each year in annual appropriations acts, Ex-Im is authorized to use the negative subsidy receipts it has generated to offset the amounts that would otherwise need to be appropriated for administrative expenses and the positive subsidy costs of new loans and insurance.

**Spending of Collections.** Assuming the appropriations discussed above, CBO estimates that after using collections to offset its administrative expenses and subsidy costs, Ex-Im would spend about $125 million of its excess collections over the 2012-2016 period. Those amounts would be used for loans and insurance that have a positive subsidy cost. Ex-Im has indicated that because of limited demand for such deals, it does not anticipate using more than $50 million a year in such authority. (Expenditure of such amounts would continue after 2016.)

**Lost Collections for Certifications Regarding Iran**

Section 16 of the bill would require applicants for Ex-Im products to certify that neither they nor their business partners have engaged in any activities for which sanctions pertaining to Iran might be imposed under various laws and regulations. It would prohibit the bank from doing business with entities that cannot make such certifications. Ex-Im has indicated that complying with those requirements would lower the volume of certain lucrative deals. Most of the deals that would be affected by the prohibition would be long-term loan guarantees with negative subsidy rates that generate collections for Ex-Im. A reduction in the volume of such deals would lower Ex-Im's collections. Based on information from Ex-Im, CBO estimates that the bank would originate 10 percent fewer loan guarantees and that negative subsidy collections would fall by about $360 million over the 2012-2016 period.

**Government Accountability Office Report**

The bill would require the Government Accountability Office (GAO) to conduct a study and report to the Congress on the risks posed by Ex-Im to the taxpayers. Based on information from GAO, CBO estimates that implementing those requirements would cost less than $500,000 over the 2012-2016 period, assuming the availability of appropriated amounts.

**PAY-AS-YOU-GO CONSIDERATIONS**: None.

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1547 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

## PREVIOUS CBO ESTIMATES

On August 1, 2011, CBO provided a cost estimate for H.R. 2072, the Securing American Jobs Through Exports Act of 2011, as ordered reported by the House Committee on Financial Services on June 22, 2011. H.R. 2072 also would reauthorize Ex-Im through 2015, but would provide higher exposure caps and require more certifications regarding business dealings with Iran. CBO estimated that implementing H.R. 2072 would reduce long-term loan guarantees by 40 percent and cost $170 million over the 2012-2016 period, assuming appropriation of the estimated amounts. In comparison, CBO estimates that implementing S. 1547 would reduce that loan volume by 10 percent and reduce spending by $900 million over the 2012-2016 period, assuming appropriation of the estimated amounts.

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