

INCREASING THE LENDING AUTHORITY OF THE EXPORT-IMPORT BANK OF WASHINGTON

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Mr. MURDOCK, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H. R. 3771]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 3771) to provide for increasing the lending authority of the Export-Import Bank of Washington, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

GENERAL STATEMENT

The bill lays down the policy of Congress with respect to the loans of the Export-Import Bank; reorganizes the management of the bank; establishes it as an independent agency of Government; increases the lending authority of the bank and changes the method by which it obtains its funds; and removes certain restrictions on its operations.

The increase in the lending authority of the Export-Import Bank proposed in this legislation is necessary to enable the bank to expand the assistance it gives in facilitating the foreign trade of the United States through the financing of exports and imports and development projects abroad, and also to undertake part of the urgent new task of financing reconstruction in Europe and other devastated areas.

The testimony presented to the committee shows that the Export-Import Bank has virtually exhausted its loanable funds. As of June 30, 1945, the bank had outstanding loans of \$214,000,000 and undisbursed commitments of \$336,000,000. The sum of these amounts, \$550,000,000, was only \$150,000,000 less than the maximum amount of loans which it may have outstanding under existing legislation. Applications presently under consideration involve amounts sufficient to exhaust this remaining balance.

In the face of this shortage of funds, heavy demands are being made upon the bank for the extension of credit. These demands come principally from two directions. On the one hand, American exporters,

perceiving the opportunities for increasing their export business on a commercial basis because of the accumulated foreign demand for our products and the partial relaxation of export controls in the United States, are actively soliciting business in foreign countries. They find themselves, as before the war, under the necessity of selling on terms appropriate to the type of commodity involved, the ability of the foreign buyer to pay, and the competition offered by competing suppliers. Under these conditions, exporters are applying in increasing numbers to the Export-Import Bank for credit assistance which is not obtainable from private banks. The bank should be in a position to meet these demands.

At the same time, governments of foreign countries and their agencies are coming to the bank seeking financial assistance for the purchase of American equipment and materials to be used in connection with reconstruction and development projects. Insofar as the Latin-American countries are concerned, this is a function which the Export-Import Bank has performed for a number of years on an increasing scale and one which it should be in a position to continue in the interest both of creating immediate markets for our products and of so strengthening the economies of the Latin-American countries that they will be steadily growing markets for American goods.

The problem with respect to the liberated countries of Europe becomes daily more urgent. These countries cannot expect, under the established policies of this Government, to receive via lend-lease equipment and materials for the restoration of their economies. Although some of the countries have limited resources of their own which can be used to finance purchases in the United States in part, their requirements are large and there are other claims upon these resources which must be satisfied. Furthermore, it will naturally be some time before they are in a position to export goods and services as a means of paying currently for what they buy from the United States and other suppliers.

The demands upon the Export-Import Bank both from our own foreign traders wanting to reopen markets abroad and from foreign countries wishing to renew their purchases from the United States can be met, provided only suitable financing is available. In view of the fact that it is an established operating agency of Government with 11 years of successful experience behind it, the Export-Import Bank would seem to be the obvious vehicle for the financing on a sound basis of our foreign trade to the extent that private financing is not available.

It cannot be emphasized too strongly that the maintenance of foreign markets for our products through adequate private and governmental financing will materially ease the problem of reconversion in the United States. This follows from the fact that the products which are most in demand by foreign countries are the products produced by the very industries which have been most expanded during the war. Domestic manufacturers applying to the Export-Import Bank for assistance in financing their foreign sales have repeatedly indicated that, unless markets for their products can be found in foreign countries, they will be obliged because of the decline in domestic demand for war purposes to curtail their operations or in many instances to close down altogether.

The committee has considered the relation between the past and future operations of the Export-Import Bank and other activities

authorized or about to be authorized by Congress with a bearing on the financing of foreign trade. These other activities will not remove the necessity for the operations of the Export-Import Bank contemplated under this legislation.

Funds of UNRRA are to be used strictly for relief purposes and not for the financing of our foreign trade during the period of reconstruction which lies ahead. Lend-lease will not be used for reconstruction in Europe or elsewhere, and therefore does not in any sense meet the rehabilitation problems of the liberated countries. It might be noted that the present bill will permit the Export-Import Bank to carry out the President's recommendation that it finance portions of the 3 (c) lend-lease agreements.

So far as the Bretton Woods institutions are concerned, it should be recognized that, although the proposed International Bank may eventually be the principal avenue for dollar credits to foreign countries for reconstruction and development, it will not be in effective operation for many months. Furthermore, even after the International Bank is in full operation, there will undoubtedly be a need for a strictly national agency in the field of foreign trade financing. This is partly because there are certain types of financing in which the International Bank will not engage and partly because there are certain national purposes to be served through an institution such as the Export-Import Bank. The operations of the Export-Import Bank and the policies of our representatives in the International Bank will be coordinated by the National Advisory Council already provided for in the Bretton Woods legislation.

HISTORY AND ORGANIZATION OF THE EXPORT-IMPORT BANK

The Export-Import Bank of Washington was established in 1934 by Executive order to help promote the recovery of our foreign trade.

The Congress continued the bank as an agency of the United States in January 1935 and gave it, in addition to its powers in the charter, certain additional powers to be exercised for the purpose of aiding in the financing and facilitating of exports and imports and the exchange of commodities between the United States and other countries. Through subsequent legislation, the Congress continued the bank until January 22, 1947.

When the bank was created there was no limitation imposed by law upon its lending authority. In 1939, the Congress provided that loans outstanding at any one time should not exceed \$100,000,000. The limit was increased to \$200,000,000 in March 1940 and to \$700,000,000 in September 1940.

From 1934 until July 1939 the bank operated as an independent agency. In 1939 the bank was made a part of the Federal Loan Agency under Reorganization Plan I and in 1942, the bank was placed by Executive order under the Office of the Secretary of Commerce. In July 1943 it was transferred to the Office of Economic Warfare and later in the same year to the Foreign Economic Administration. The operations of the bank have continued to be administered by its president subject to the direction of the Foreign Economic Administrator and the board of trustees of the bank under the chairmanship of the Administrator.

The bank has presently outstanding \$1,000,000 of common stock issued jointly to the Secretaries of State and Commerce and \$174,000,000 of preferred stock sold to the Reconstruction Finance Corporation. The bank has obtained all of its funds from the Reconstruction Finance Corporation with the exception of the original \$1,000,000 from the Secretaries of State and Commerce and such funds as it derived from its earnings.

Under its charter, the bank is controlled by a board of 11 trustees elected annually by its shareholders subject to the approval of the President of the United States. In the interim between board meetings the powers of the board are exercised by an executive committee of 7 trustees. Loans are made only after formal authorization by the board of trustees or the executive committee.

The bank has engaged in a wide variety of transactions to carry out the fundamental purposes of Congress of promoting the export and import trade of the United States either directly or indirectly. It has extended short-term loans to finance United States agricultural and industrial exports and medium- and long-term loans to other countries for development projects, has guaranteed export credits, has underwritten letters of credit, and has extended lines of revolving credit to small United States exporters and importers. The activities of the bank have been limited to financing of a character or an amount not obtainable solely from private sources, to avoid competition with private institutions.

From its organization to June 30 of this year, the Export-Import Bank had authorized loans aggregating \$1,269,000,000. Of these total authorizations, \$429,000,000 were canceled either because the applicants found they did not require them or arranged to obtain necessary credits from private sources. Actual disbursements have amounted to \$504,000,000, of which \$290,000,000 have been repaid.

Returning a profit is not the major objective of the bank. Nevertheless, it is the policy of the bank's management not only to meet all administrative expenses out of earnings, but also to accumulate a reasonable reserve against possible losses and thus keep the agency self-sustaining. The earnings of the bank from its organization to date, after payment of all administrative expenses, have amounted to approximately \$42,000,000. The bank has paid dividends of over \$18,000,000 on the present stock held by the Reconstruction Finance Corporation. This leaves undivided profits of about \$24,000,000.

The committee is not aware of any substantial opposition to the proposed increase in the lending authority of the Export-Import Bank. It is especially notable that the legislation has the active support of the private banking community.

EXPLANATION OF THE BILL BY SECTIONS

SECTION 1

Section 1 provides that the act may be cited as the "Export-Import Bank Act of 1945."

SECTION 2

Section 2 deals with the powers of the bank and states the policy of Congress with respect to loans to be made by the bank.

Subsection (a) continues the existing Export-Import Bank of Washington, a banking corporation organized under the laws of the District of Columbia, as an agency of the United States. It continues the existing powers under the bank's charter and restates and clarifies the powers conferred upon the bank by statute to make loans, to discount, rediscount, or guarantee notes, drafts, bills of exchange, and other evidences of debt or to participate in the same for the purposes of promoting the foreign trade of the United States.

Subsection (b) provides that it is the policy of the Congress that the bank in the exercise of its functions should supplement and encourage and not compete with private capital, and that loans, so far as possible consistently with carrying out the purposes of subsection (a), shall generally be for specific purposes, and in the judgment of the Board of Directors, offer reasonable assurance of repayment.

SECTION 3

Section 3 provides for the management of the Bank.

Subsection (a) (1) establishes by law the Board of Directors of the bank which is to consist of the Foreign Economic Administrator as Chairman, the Secretary of State, and three persons appointed by the President with the advice and consent of the Senate. The Secretary of State may, to such extent as he deems it advisable, designate to act for him in the discharge of his duties as a member of the Board any officer of the Department of State who shall have been appointed by and with the advice and consent of the Senate.

Subsection (a) (2) provides that if the Foreign Economic Administration ceases to exist in the Office for Emergency Management in the Executive Office of the President, the Administrator of the Foreign Economic Administration will no longer be a member of the Board, and the President is to appoint a member to take his place. In that event the Chairman of the Board will be designated by the President.

Subsection (a) (3) requires that not more than three directors may be members of any one political party. The term of each of the appointed directors is to be 5 years and the salary \$12,000 per annum unless the director is an officer of the bank in which event he may elect to receive the salary of such officer.

Subsection (b) provides that a majority of the Board of Directors shall be a quorum.

Subsection (c) empowers the Board of Directors to adopt such by-laws as are necessary for the management and functioning of the bank.

Subsection (d) establishes an advisory board with the same composition as the National Advisory Council on International Monetary and Financial Problems provided for in the Bretton Woods Agreements Act, except that the Chairman of the Board of Directors of the bank serves as Chairman in lieu of the Secretary of the Treasury.

Subsection (e) provides that until October 31, 1945, or until two of the appointed members of the Board of Directors have qualified, whichever is the earlier, the affairs of the bank shall continue to be managed by the existing board of trustees.

Subsection (f) establishes the bank as an independent agency of the United States Government and provides that its functions, powers, and duties shall not be transferred or consolidated with any other department, agency, or corporation of the Government unless the Congress shall otherwise by law provide;

SECTIONS 4 AND 5

Sections 4 and 5 provide for the capital structure of the bank.

A capital stock of \$1,000,000,000 is authorized. Outstanding common and preferred stock is to be surrendered to the bank and canceled. The Secretary of the Treasury is to pay the Reconstruction Finance Corporation the par value of the preferred stock which the Reconstruction Finance Corporation will surrender. Of the authorized amount of capital stock of \$1,000,000,000, payment for \$175,000,000, equivalent to the par value of the outstanding preferred and common stock, will be made by the surrender of such stock. Payment for the balance, \$825,000,000, will be made by the Secretary of the Treasury at the call of the Board of Directors of the bank. Authorization is given to the Secretary of the Treasury to finance these payments as public-debt transactions.

SECTION 6

Section 6 authorizes the bank to issue obligations for purchase by the Secretary of the Treasury in an amount not to exceed 2½ billion dollars. The Secretary of the Treasury is authorized to finance these purchases as a public-debt transaction.

SECTION 7

Section 7 provides that the bank shall not have outstanding at any one time loans and guaranties in an aggregate amount in excess of three and a half times the authorized capital stock of the bank.

SECTION 8

Section 8 provides that the provisions of the existing charter relating to the term of existence of the bank, its management, and to its capital stock are superseded by this legislation, and exempts the bank from complying with any law relating to the amendment of certificates of incorporation or to the retirement or increase of stock of District of Columbia corporations and from the payment of fees or taxes to the District of Columbia in connection with the capital stock of the bank.

SECTION 9

Section 9 requires the bank to transmit semiannual reports of operations as of the close of business on June 30 and December 31 of each year.

SECTION 10

Section 10 repeals existing legislation pertaining to the bank contained in section 9 of the act of January 31, 1935, as amended.

SECTION 11

Section 11 relieves from the prohibition against loans to foreign governments in default on their obligations to the United States Government as of April 13, 1934, contained in the Johnson Act, any person, including any individual, partnership, corporation, or association, who acts for or participates with the bank in any operation or transaction or acquires any obligation issued in connection with any operation or transaction engaged in by the bank.

