

May 16, 1947

Dear Mr. Wolcott:

In our conversation last Wednesday you mentioned that the Committee on Banking and Currency had received the Audit Reports of the Comptroller General to the Congress of the United States on the operations of the Export-Import Bank for 1945 and 1946, and invited our comments thereon in connection with S. 993, which is pending before the Committee. Copies of the reports were delivered to us yesterday.

It gave us satisfaction to observe nothing in the reports which in any way runs counter to the testimony furnished by us before the Committee, nor anything which constitutes a criticism of the operations or policies of the Bank. We were gratified to note the conclusion of the Comptroller General on page 27 in the 1946 report that

"In general we found the system of internal control to be satisfactory. The accounts and records were well maintained and adequate to meet requirements.

"We found no financial programs or transactions carried on without authority of law."

As to the recommendations contained on pages 4, 5 and 6 of the 1946 report, we desire to make the following observations:

Recommendation No. 1. The recommendation regarding interest rates to be charged by the Bank on its loans is in accordance with the present policy of the Bank. The Board of Directors of the Bank has established interest rates which in its judgment cover the interest cost of the public funds which it uses and the operating expenses of the Bank, with a reasonable risk margin to permit the accumulation of reserves against future contingencies. We therefore have no quarrel with the recommendation of the Comptroller General as a matter of overall policy. However, we wish to point out the danger that such a policy, if written into the Bank's statute, might be construed to govern the interest rate on each loan and thus hamper the Bank in fixing or adjusting the interest charge on any particular loan in the light of all of the pertinent circumstances. Further, one of the elements involved in the determination of appropriate rates of interest to be charged by the Bank is an imponderable risk factor, which should not be imposed upon the Board of Directors as a statutory matter.

Recommendation No. 2. S. 993 provides for paying interest on borrowings from the U. S. Treasury at the cost of those funds to Treasury. It also provides for paying dividends after providing reserves for future contingencies deemed necessary by the Board of Directors. The President, in commenting on all government corporations in his budget message to Congress of January 3, 1947 stated:

"Interest paid on borrowings from the Treasury should be based upon the current average rate on outstanding marketable obligations of the United States—now about 1.8 percent. Dividends should be paid on capital stock, if earned. While these changes in the amount of intragovernmental transactions will not affect the Budget deficit or surplus, they will cause the corporations' records to reflect more nearly the true costs of their operations."

We believe that S. 993 meets the requirements of this policy and that the policy is sound.

Where the government is conducting a business operation, its records should enable Congress and the public to appraise the corporation's results in accordance with customary and financial accounting standards. For this reason it does not seem proper to treat dividends on capital as cost as is contemplated in this recommendation of the report.

Recommendation No. 3. For the reasons explained above, we feel that the entire income of 1946 should be reserved for future losses and accordingly no dividend should be paid. The matter is solely one of bookkeeping, as the U. S. Treasury is our sole stockholder and creditor. To pay a dividend, we would merely borrow from Treasury to pay Treasury.

Recommendation No. 4. Our comments on the second recommendation above apply equally to the recommendation that the distinction between capital and borrowings be eliminated.

The suggestion of the Comptroller General that the Bank should obtain its operating funds by appropriation rather than by a public debt transaction appears to us to be impracticable for two reasons. First, the demands upon the Bank during any period and the loans which it may authorize during this period within the limits of its statutory lending authority are to a large extent unpredictable and may vary within wide limits. Second, one of the principal activities of the Bank is the financing of the export of capital goods on extended credit terms. Since the time required for manufacture extends over periods ranging from several months to several years, commitments for such credits must be made considerably in advance of disbursement of funds at the time of

delivery. To be valid, these commitments must fall within the authorized lending authority of the Bank. They would not be practicable under a system of annual appropriation of funds to the Bank.

It may be pointed out also that the Bank now submits both its administrative budget and its operating budget for each fiscal year to the Appropriations Committee for review in accordance with the requirements of the Government Corporation Control Act. We submit that there is an essential distinction between the appropriation of funds which are to be expended with no expectation of repayment and the provision of funds under a capital budget which are to be invested in accordance with law with "reasonable assurance of repayment."

Recommendation No. 5. This recommendation of the report is vague as to what the Comptroller General is suggesting the Congress should do by way of more expressly defining and limiting the operations of the Bank. Generally speaking, we believe the Export-Import Bank Act of 1945, as it would be amended by S. 993, does set forth standards which are both specific and workable. The purposes and objects of the Bank as well as its powers are clearly and unequivocally stated. As to the one concrete suggestion in the recommendation that the Congress may desire to impose a ceiling on the loans to any one foreign country, the Bank seriously doubts the desirability and feasibility of any such limitation.

In conclusion, we believe it is correct to say that the Comptroller General's suggestions in the main resolve themselves into a recommendation for expressed detailed provision in the Bank's legislation directing the Board of Directors to exercise prudent management of the Bank's affairs. We believe that this obligation is implicit in the Bank's present statute, as it would be amended by S. 993, and doubt the need of restricting the Board's discretion and responsibility.

If you believe it in order we should like to have the opportunity to appear before the Committee to express our views on any changes in S. 993 which it now may give consideration to as a result of the Comptroller General's report.

Sincerely yours,

Wm. McC. Martin, Jr.  
Chairman

Honorable Jesse P. Wolcott  
Chairman, House Committee on  
Banking and Currency  
Washington, D. C.