

**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 default¹ 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 FDOOnline. The FDOOnline 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.



Fred P. Hochberg, Chairman and President Export-Import Bank of the United States

Fred P. Hochberg is Chairman and President of the Export-Import Bank of the United States (Ex-Im Bank) and one of the highest ranking business leaders in the Obama Administration.

Under his leadership in FY 2012, Ex-Im Bank for the fourth-straight year set export finance records in a number of key areas. Overall financing for the first time exceeded \$35.7 billion and supported \$50 billion in exports and approximately 255,000 export-related American jobs at more than 3,400 U.S. companies. Small business financing rose over 70 percent from \$3.3 billion in FY 2008 to \$6.1 billion in FY 2012. There was an increase of 16.5 percent in authorizations for minority- and woman-owned businesses.



During Hochberg's tenure, the Bank has increased its focus on customers, both foreign buyers and U.S. exporters. It is seeking new markets for U.S. goods and services in emerging economies with growing infrastructure needs, including Mexico, Brazil, Colombia, Turkey, India, Indonesia, Vietnam, Nigeria and South Africa. Hochberg has also worked to expand the global footprint of key domestic industries in which U.S. exporters have a comparative advantage. These include renewable energy, construction and farm machinery, medical technology, agriculture, and avionics. In addition, he has streamlined processes, cut transaction times and introduced innovative new financial products.

As head of Ex-Im Bank, Chairman Hochberg plays an essential role in President Obama's plan to double U.S. exports by the end of 2014.

From 2004 to 2008, Hochberg was dean of Milano, The New School for Management and Urban Policy in New York, N.Y. From 1998 through 2001, he served as deputy, then acting administrator of the Small Business Administration (SBA), where he quadrupled lending to minority- and women-owned small businesses.

Prior to his service at SBA, Hochberg was the long-time president and chief operating officer of the Lillian Vernon Corporation, where he led the transformation of a small, family mail order company into an international, publicly traded direct marketing corporation.

Hochberg is a past board member of the Port Authority of New York and New Jersey, the Citizens Budget Commission, and FINCA International Micro Finance. He was also an appointed representative to the New York State Financial Control Board.

A native of the greater New York metropolitan area, Hochberg received his undergraduate degree from New York University and his MBA from Columbia University. Hochberg's partner is writer Tom Healy.

January 25, 2013