DETAILED MINUTES OF THE

U.S. DEPARTMENT OF COMMERCE

TRADE FINANCE ADVISORY COUNCIL

MEETING ON June 21, 2018

I certify that I was present at the above reported meeting and that the summary of the meeting is accurate.

Kevin Klowden

Chairman, Kevin Klowden

August 27, 2018

Date

If applicable: (Please note that each paragraph must be marked.)

CLASSIFIED BY: N/A

REASON: N/A

DECLASSIFY ON: N/A

Attachments below include Meeting Minutes and List of Attendees

TRADE FINANCE ADVISORY COUNCIL
Public In-Person Meeting
June 21, 2018 ‖ 1:30 – 3:30pm (EDT)

Phone: 1-866-844-6730 / Participant Code: 5074218

WELCOME AND OPENING REMARKS

TFAC Chair, Kevin Klowden welcomed the TFAC members and the public attending the meeting. He introduced James Sullivan, Deputy Assistant Secretary (DAS) for Services Industries, Industry & Analysis, International Trade Administration, U.S. Department of Commerce.

DAS Sullivan welcomed members and attendees and noted that the Export-Import Bank (EXIM)'s Executive Vice President and Chief Operating Officer, Jeffrey Goettman, would not be in attendance, as anticipated, due to unexpected events in relation to the recent nomination of Kimberly Reed for President of the Bank.

Chair Klowden took a roll call[1] and reviewed the agenda for the day, consisting of four recommendations.

Chair Klowden noted that the TFAC was approaching the end of its first term, and that the recommendations the council had made would directly contribute to the prospect for reauthorization.

Comments on the TFAC's First Charter Term (2016- 2018)

TFAC Member Steve Bash read his comments submitted in advance of the meeting.[2]

Chair Klowden then conveyed the following from his conversation with TFAC member Patricia Gomes, who was not in attendance:

- TFAC should increase input, engagement, and discussion on the issue of FinTech. FinTech tools could be utilized effectively to address some of the gaps as well as partnerships as a means of addressing some of the cost of origination issues that have been faced by the traditional banks.

[1] See the Attendance Log at Attachment 1.
[2] See member Bash's comments at Attachment 2.

Member Gary Mendell commented on the value of the discussions held while putting together the recommendations within the TFAC. He applauded the council's establishment and added that he hopes it is re-chartering.

Vice-Chair Stacey Facter underscored the importance for a re-chartered council in considering the Department's resources available, encouraged the early establishment and agreement on a framework for members to contribute and participate, and a clear understanding of the recommendation development process.

Member Steve Wilburn explained that as an SME, he appreciated the opportunity to have small business representation on the TFAC. If the council is re-chartered, consideration should be given for continued representation by SMEs.

Member Adam Dener expressed his appreciation for the opportunity to serve in the TFAC. He also stated that the TFAC should not be renewed as it currently is chartered since there is a challenge with the relevant functions within the Department of Commerce not necessarily tied to export financing. He suggested that a cross-government approach should be considered. Paul Thanos, Commerce's Director of the Office of Finance and Insurance Industries (OFII) – which administers the TFAC – noted that there would be some flexibility in how the TFAC operated if it was re-charted.

Chair Klowden stated that collaboration, particularly across agencies and both from the public and private sector, was essential in looking forward. The TFAC should look at inter-agency collaboration at the regional level as well. The U.S. is a nation of over 300 million people with a lot of different regional economies, he added. A number of different agencies and groups are particularly involved in export promotion, export finance, and in general export facilitation. This should be considered as part of a re-charted TFAC.

DAS Sullivan thanked the TFAC members for their service on behalf of the Department of Commerce, and noted that the TFACs recommendations had produced high level discussion within the Department.

DAS Sullivan invited Peter Cazamias, Associate Administrator, Office of International Trade (OIT), U.S. Small Business Administration to share his views with the group and introduce the first recommendation to be discussed.

Mr. Cazamias explained that the mission of the SBA Office of International Trade is to increase volume of exports and the number of exporters, which goes hand in hand with the TFAC's mission. He commended the group for developing a recommendation addressing the independence of OIT in designing its trade finance products, ensuring that it hires additional staff and better coordinates its training in support of SME exporters.

Mr. Cazamias expressed his support for the TFAC recommendations underscoring that these will help expand the reach of trade finance within the community banking sector, which are very consonant with the TFAC's mission. He added that reviewing the lending rules for firms that have financial investor owners, so they are able to participate in trade finance solutions, not offered currently due to the 20% ownership guarantee requirement might be the heaviest lift.

Expanding on the recommendations proposed, he explained:

- OIT has taken a top-down look at the trade finance marketplace and where SBA's products reside; which are around the $5 million-dollar deals, community bank deals for new to export manufacturers.
- The current market penetration is very low, where fewer than 5% of all users of trade finance have ever actually used an SBA product.
- Some of the reasons: SBA does not have a loan specifically for manufacturers or a loan guaranteed product that allows banks to make money off of deals that are a million dollars and under. SBA also has a number of discrepancies in its standard operating procedures and loan documentation.
- The cause of all these: the authority to create the rules, design the products, choose the legislation and lenders, resides in an office that is not about trade finance.

In closing, Mr. Cazamias pointed out that the trade finance asset class offers very high yields, higher than commercial paper for a very short-term product of 30 to 150 days. It is a matter of time before entrepreneurial securitizing experts figure out how to securitize this type of product. Then the insurance companies, the pension funds, and all the large, institutional equity will begin to take notice, he added. We will really begin to address the kind of trade finance gap that we have once we have a private sector alternative. We are trying to determine new avenues of funding within the private sector for trade finance.

Chair Klowden thanked Peter Cazamias for his comments and moved to discuss the first recommendation.

Recommendation #1: Developing Effective Means for Improving Capacity of the Office of International Trade at the U.S. Small Business Administration

Chair Klowden explained that these recommendations were derived from follow-up conversations with OIT at SBA after their presentation at the April TFAC meeting, which included feedback that the SBA had received from roundtables and solicitation of its membership.

With the introduction to the issue by Mr. Cazamias, Chair Klowden summarized the first part of the recommendation which suggests that OIT obtains full authority to originate and provide capital for export financing as opposed to the current structure in which its trade finance products are managed under its domestic loan product department. Additionally, to increase resources to support their mission.

Another challenging area with SBA's financing rules introduced by member Mark Roberts, was discussed. An increasing number of firms involved in hybrid ownership structures, particularly ones that involve venture capital where guarantees on lending are required from owners/partners which are not necessarily participatory in the operations of the exporter, are ineligible for SBA export financing. Exemptions for specific sectors such as the technology sector, where the U.S. offers high-value products as opposed to overall overhaul of the rules, should be considered.

Member Steve Wilburn commented from his own experience that one of the requirements to participate in the SBA loan program for exports is to give a personal guarantee, which constitutes a high barrier to entry for an SME. The same barrier exists through EXIM's working capital program, where it becomes very problematic for SMEs to engage in the habit of personal guarantees for credit. Once you've leveraged once, it's difficult to try to guarantee again. You're using the same asset, which almost precludes you from further participation, he concluded.

Member Adam Dener asked if the SBA recommendations could be voted on separately. He further explained that a couple of areas in the recommendations related to the governance and resources of the SBA which he had no ability to evaluate, including staff, e.g., of its authority to originate/provide capital for export financing as opposed to its current structure, required funding to be approved by the Office of Capital Access.

Chair Klowden clarified that while the recommendations touched on separate areas within SBA, for voting purposes these would be considered as one recommendation.

No revisions for later submission were requested.

Voting and Adoption of the Recommendation

Chair Klowden moved to a motion (roll call) to vote on the recommendations as submitted, member Steve Bash seconded.

Members voting YES: All in attendance, except for below.
Members voting NO: Adam Dener

The recommendation was formally adopted by the TFAC.

Recommendation #2: Integrating Trade Finance into the Federal Reserve Annual Small Business Credit Survey

Chair Klowden noted that the recommendation was introduced by member William Cummins, having collaborated with the Atlanta Federal Reserve Bank (AFRB) on this area. Chair Klowden added that the TFAC initiated discussions on potential collaboration with the AFRB for the recent Federal Reserve Survey.

He continued to explain that the purpose of the recommendation is to encourage the Department of Commerce to provide input and engage with the Federal Reserve to utilize an already-in-place mechanism for engaging with small business on this issue. The broader utilization of the survey would serve as a tool to inform and drive actions from both policy makers as well as the private sector.

Member William Cummins added that the New York Federal Reserve Bank has now stepped in and taken a lead role in the survey and are currently digesting the results of last fall's survey for which TFAC initiated communication. A brief analysis of the responses and a question regarding export financing should be ready in about eight months or so.

Member Cummins conveyed the Federal Reserve Banks' interest in developing an export module for the 2018 survey in coordination with Commerce, the TFAC and other interested parties. He explained that they will also be looking for partners to get the survey out to a reasonable portion of the 300,000 SMEs that export.

Chair Klowden commented that the USEACs network and district export councils might be good ways to get the survey into the hands of exporting SMEs.

Voting and Adoption of the Recommendation

Chair Klowden moved to a motion (roll call) to vote on the recommendations and TFAC member Steve Bash seconded.

Members voting YES: All in attendance.
Members voting NO: None

The recommendation was formally and unanimously adopted by the TFAC.

Recommendation #3: TFAC Reinsurance Proposal

Member Adam Dener recounted the recommendation as follows:

- The working group discussed possible paths to augment federal insurance programs with private capital. We investigated how other foreign governments engaged with third party service providers in their countries and how some of those government export credit agencies outsource certain activities to the private sector in the form of operating service contracts.
- We determined that one path to augment existing government programs was by seeking private sector insurance via reinsurance of those programs. This would offer the benefit of risk transfer to the private sector which would include price transparency, meeting the clear understanding of the cost to actually engage private capital in a private sector program, as well as the opportunity to diversify the sources of capital supporting the program, meaning to move away from solely being financed by the government, which may have the benefits to allow the programs to scale further without adding additional risk and costs to taxpayers.
- Reinsurance is typically performed synthetically. That is the underlying insurance contracts remain in place between the primary insurer and its customer, but a portion of the risk is transferred to the reinsurer from the primary insurer, for a fee. That fee reflects the market price to transfer those liabilities from the primary company to the reinsurer, in return for assuming that risk being transferred from the primary company. The reinsurance noted, can also be supported through the investor market directly.
- Certain government insurance companies already purchased reinsurance today, including the National Flood Insurance Program and just recently the Export-Import Bank. With whom we discussed as part of this analysis.
- The type of program recommended, would cover a broader pool of risks and loan guarantees with insurance.
- We therefore recommend that the Department of Commerce in conjunction with a third-party consultant, evaluate the feasibility and cost of risk transfer of an existing federal

- credit insurance program to third parties, to both cap existing government program sizes and costs as well as to expand the market.
- The goal of this recommendation is to reduce the funding gap in SME finance, as well as to stimulate U.S. economic growth particularly for exports.

Voting and Adoption of the Recommendation

With no comments from members Chair Klowden moved to vote on the recommendation, Vice-Chair Facter seconded the vote.

Members voting YES: All in attendance except for below.
Members voting NO: Steven Bash

The recommendation was formally adopted by the TFAC.

***** Five Minute Recess *****

Chair Klowden asked Commerce attorneys joining the meeting to introduce themselves and turned it to member Timothy Gaul to present the last recommendation.

Recommendation #4: EXIM Bank Status & Effective Utilization of its Programs

Timothy Gaul proceeded to state the following:

- Given the mandate of the council to focus on the promotion of export finance and supporting especially SMEs, considering the EXIM Bank and what the Department of Commerce can do to support is a valid subject for the TFAC.
- The Secretary of Commerce is an *ex-officio* board member and so has a natural interest in the success of EXIM and has participated at the EXIM conferences the last couple of years. Secretary Ross recognized the EXIM Bank's importance as part of this trade toolbox at this year's conference.
- The facts and figures are on the paper, what needs to be highlighted is that there is a certain view that SMEs aren't affected by the lack of the long-term over $10 million program. But from what I see myself at Caterpillar, in fact these large transactions involve significant SME participation.
- Foreign export credit agencies targeting large projects, like offshore oil platforms or mining, open-up those projects specifically to the SME supply chain.
- Caterpillar has thousands of SME suppliers in our supply chain in the U.S. Whether these are U.S. supplies or Chinese supplies, it has an impact for us as to where we can seek support.
- This recommendation is broad, but a key point has to do with the makeup of the board, and whether the *ex-officio* board members together with the acting chairman, would be able to make up a voting quorum. The recent nomination of Kimberly Reed does not fundamentally change this recommendation.
- The second recommendation, given the Department of Commerce's wide reach, is with Commerce taking the leadership in coordinating the information and facilitation of all

government programs available to exporters, which is hard for exporters to get their hands on all programs available.

- The third, use of reinsurance, coincides with the previous recommendation discussed today and is quite a good idea and it is practiced by other ECAs. However, I'd caution not to conclude that if he private sector is willing to insure the government, then it can do it on its own. There's a lot of conflict that can be had standing behind the U.S. government as a reinsurer. But the evaluation of the private sector market cooperation when it comes to EXIM bank, is something that Commerce can facilitate
- In the absence of a board at EXIM, someone needs to step-up in the interim and it should be the Department of Commerce.

DAS Sullivan commented that pending how the nomination of Kimberly Reed played out, he was hopeful there would be a swift confirmation of a board quorum soon. He added that the quorum issue could ultimately be a legal question for determination by or with EXIM counsel.

Chair Klowden added that aside of the legal aspect, functional considerations aspects needed to be considered as well. These include whether the US Trade Representative and the Secretary of Commerce, given the current issues with trade negotiations and others, would have the capacity to be engaged on EXIM issues.

Chair Klowden noted that there is an opportunity to effect reform at EXIM when it is re-chartered, especially how such reforms could help target SMEs.

Member Steve Wilburn reaffirmed that the EXIM limit of $10 million both directly and indirectly affects SMEs, especially medium sized businesses. His company has contracts held up and has lost business recently to other competitors internationally, because a lot of the international bids now require an ECA-type backed finance as part of the proposal. Therefore, the SME impact should to be disregarded when looking at $10 million and above threshold.

To include this revision into the recommendation, Chair Klowden suggested language:

- In consideration of the fact that the current lack of an EXIM quorum impacts SMEs directly, given the $10 million threshold for financing that requires a quorum, we recommend both that SMEs have requirements that can exceed this amount and that in any re-chartering of EXIM this threshold is raised to a higher amount, say $20 million, for consideration of loans that do not require a quorum.

TFAC member Adam Dener suggested that:

- The issue is that the size only limits factor for dollar amount, as opposed to the number of employees in the company. And that perhaps one of the ways to address the issue is by having an either/or limitation in the charter of EXIM, as it relates to $10 million and/or company size of X number of employees.
- The Department of Commerce considers small businesses being up to 500 employees

Tim Gaul indicated that the discussion at such level of detail might be needed required once there's a solution on the board.

Chair Klowden clarified that all three EXIM recommendations would be voted on together, but the recommendations could be amended.

Adam Dener stated that he had objections to the first and second recommendations, as they both concerned legal issues and governance.

Vice-Chair Facter shared a similar concern about the recommendation concerning ex-officio members.

Tim Gaul clarified that the purpose of the recommendation was to suggest that the Secretary of Commerce evaluate if *ex-officio* members could help provide a quorum.

Vice-Chair Facter voiced concerns about using a legal opinion which the TFAC did not own.

Chair Klowden recommended striking the paragraph of the recommendation referring to the legal opinion, which Tim Gaul agreed to.

Commerce's Counsel also advised, regarding the board quorum, that the Secretary of Commerce does not have the authority within the Department of Commerce to make such legal determination and suggested to consider phrasing the language as "to work with EXIM" or "propose to EXIM" to undertake the evaluation.

<u>Voting and Adoption of the Recommendation</u>

Chair Klowden moved to a vote on the recommendation amending the second part to remove the legal opinion and revise the language requesting the Secretary to "work" with EXIM in evaluating the board quorum, the motion was seconded.

Members voting YES: All in attendance except for below.
Members voting NO: Adam Dener (Section 1 and 2 as amended)
Members Abstaining: Stacey Facter

The recommendation was formally adopted by the TFAC as amended.

CLOSING REMARKS

Nazak Nikakhtar, Assistant Secretary (A/S) for Industry and Analysis U.S. Department of Commerce International Trade Administration joined the meeting and gave the following comments.

A/S Nikakhtar thanked the TFAC for their contributions and Chair Klowden for his leadership. A/S Nikakhtar stated that she fully supports the re-chartering of the TFAC.

She further stated that there are a number of significant challenges in the trade finance space and the answers aren't easy, but the Commerce team is entirely committed to solving these by working closely with the council members. She continued stating that she looks forward to reviewing in more detail the recommendations passed by the group today and to working with the team to figure out the best path forward. She mentioned she was very grateful for their expertise and perspective.

The A/S closed by inviting the group to reach out to her and continue to discuss about sharing data driven perspectives and perhaps models that have worked elsewhere which the government should consider.

DAS Sullivan thanked the TFAC for their service, underscoring that the voluntary nature. He further stated his appreciation for all of the TFACs work, deliberations and comments at the outset, and that these reinforced the need for public/private continued dialogue and partnership in the trade finance space.

Vice-Chair Facter also thanked the TFAC members for the opportunity.

Adam Dener inquired about how members would be advised on the status of the recommendations with its charter expiring. Ericka Ukrow, the TFAC DFO stated that the OFII would notify the group on any progress or the Secretary's action. She added that any materials and work of the TFAC, including progress on any adopted recommendations is considered public information and as such would be available upon request or on the TFAC website, and encouraged members to stay engaged through those mechanisms. Paul Thanos, Director of the OFII reiterated that notifying current members on what progress was made on adopted recommendations was a priority for the office.

Chair Klowden closed the meeting by thanking the TFAC members for their time and service, as well as the Department of Commerce staff who helped to facilitate the TFAC.

Attachment #1

TRADE FINANCE ADVISORY COUNCIL
Attendance Log
Public In-Person Meeting
June 21, 2018 ‖ 1:30 – 3:30pm (EDT)

Department of Commerce Trade Finance Advisory Council (TFAC) Members

- Kevin Klowden *(Chair)*
  Executive Director California Center, Milken Institute.
- Stacey Facter *(Vice Chair)**
  Senior Vice President Trade Products, Bankers Association for Finance and Trade.
- Steven Bash
  Senior Vice President, International Banking City National Bank.
- William Browning
  Senior Vice President – Business Credit, First National Bank.
- Adam Dener*
  Managing Principal, Fermat Capital Management.
- Russell D'Souza*
  Vice President & Corporate Treasurer, Hanesbrands, Inc.
- Timothy Gaul
  International Export Finance Director, Caterpillar.
- David Herer*
  President and CEO, ABC-Amega Inc.
- Karsten Herrmann
  Senior VP Political Risk and Trade Credit, Munich Reinsurance of America.
- Samuel Hodges*
  Managing Director, Funding Circle.
- Todd McCracken
  President and CEO, National Small Business Association.
- Gary Mendell*
  President, Meridian Finance Group
- Lou Tierno
  Vice President Trade Products, Fulton Financial Corporation.
- William Cummins
  Executive State Director, Alabama Small Business Development Center.
- Steven Wilburn*
  Chief Executive Officer, FirmGreen.

Commerce & U.S. Government

- Nazak Nikakhtar
  Assistant Secretary, Industry & Analysis, ITA
- James Sullivan
  Deputy Assistant Secretary for Services Industries
- Paul Thanos
  Director, Office of Finance and Insurance Industries
- Michael Fuchs
  Trade and Project Finance Team Lead, Office of Finance and Insurance Industries
- Ericka Ukrow

International Trade Specialist, TFAC DFO, Office of Finance and Insurance Industries

- Peter Cazamias
Associate Administrator, Office of International Trade, U.S. Small Business Administration.
- Helene Walsh, Vice President, Policy Analysis, Export-Import Bank of the United States
- Daniel N. Hylton, Deputy Chief Counsel, Office of the Chief Counsel for International Commerce, Department of Commerce
- Jennifer Ivers, Counsel, Office of the Chief Counsel for International Commerce, Department of Commerce
- Spencer Gross
Intern, Office of Finance and Insurance Industries, Industry & Analysis, ITA
- Sean Hoeffner
Intern, Office of Finance and Insurance Industries, Industry & Analysis, ITA

Members of the Public & Press

- Jim Berger*
Reporter, Washington Trade Daily
- Brian Bradle
Associate Editor, Adam Smith Project, American Shipper
- Michael Jarand*
Senior Analyst, The Milken Group
- Diana Rodriguez*
Senior Director, International Policy, BAFT
- Michael Torre*
Executive Managing Director, AON

* Denotes a TFAC member or member of the public joining the meeting over the phone.

Attachment #2: TFAC Member Steve Bash – Comments on TFAC First Charter Term

"I was appointed to the TFAC in December 2017. I received great support and assistance from Chairman Klowden, Vice-Chair Facter and Ms. Ukrow in bringing me up to speed with the Council's work to that date. For the past 5- 6 months, I have enjoyed being part of the TFAC and believe that the group has worked diligently, thoughtfully and with an appropriate sense of urgency to address its mandate.

As a banker who has been structuring and providing trade finance loans for over 30 years, I am well aware of the need to improve and increase access to export financing for small and medium size enterprises. This issue has been in existence for decades. Significant progress and ultimate resolution will be the result of a dedicated, unwavering commitment and resolve by the public and private sectors to work hand-in-hand and include all stakeholders, including but not limited to banks, private-equity and investment management firms, finance and other non-bank financial institution companies, fintechs, credit insurance and other risk management providers , financial sector regulators, export credit agencies, the Small Business Administration and small and medium size enterprises.

I believe that the recommendations submitted by the TFAC during its initial charter period, if implemented, would all be useful to the U.S. trade finance community in the short and medium term and would begin to narrow the $1.7 trillion identified gap in export financing available and export financing needed.

There are some fundamental issues that I see as inhibitors to making the significant and transformational progress I believe the Secretary, the Department of Commerce, this Council and American businesses are looking for.

One of these issues is that of drivers and incentives. While it is relatively easy to get all of the stakeholders to the table and to gain their agreement about the problem that needs to be solved and the benefits many will reap from its resolution, it is a fact that many of the stakeholders are driven and incented differently. At times these drivers and incentives are in direct conflict. Therefore, even though the desired outcome can be agreed upon the participants find themselves at odds during the process, which then results in a weak, ineffective or even no solutions. One example is that most banks very much want to and need to (both from a CRA as well as "good business practice" standpoint) support small and medium size businesses in building products for export in their local communities. Doing so creates jobs, attracts new investment and generally improves the quality of life for all of its citizens. Banks benefit from higher levels of deposits and new loans as well as employing well educated, local citizens. The U.S. government also wants to support the growth of exports as this activity diversifies the revenue sources in local communities, creates jobs, increase tax revenues and generally improves the quality of life for all of its citizens. The issue is that loans to small businesses carry higher credit risks, which result in banks assigning low (negative) risk rating scores to these loans that in turn require significant (relatively speaking) capital to be set aside as a loan loss reserve. Most often the cost of the capital being set aside is greater than the net interest income on the loan and therefore banks turn down many more of these types of opportunities than they approve. One solution would be that the banks and the regulators work together to find the right balance of capital reserves to credit risk and return.

Another issue that would be useful to help the TFAC make progress directly related to new/additional financing available for exporting financing to SME's would be to work with the Treasury Secretary to increase the limit of a small business loan that qualifies for CRA guidelines to $2 million from the current cap of $1 million. Adding this additional $1 million would allow small businesses to invest in export related activities, which at the start require more funding to get started and / or ramp up their programs/sales. This is an idea that can be explored with a re-chartering of the TFAC.

Finally, I would encourage the Secretary to seek input from the leaders and current TFAC members on the composition of and expertise needed on a re-chartered Council. My observation is that there are some outstanding experts in the market that have experience directly related to the TFAC mandate. Gathering input about potential appointees from the current TFAC members may be useful to continue having a highly productive, results driven TFAC.

I strongly recommend re-chartering TFAC for another term. As I mentioned the issues to be solved have been around for a long time and need the leadership, collaborative partnerships and a strong will to put in place long-term viable solutions that will support the export goals and aspirations of all stakeholders especially U.S. small and medium size enterprises and the communities in which they are located."