

The return of US Ex-Im

The US export credit agency is back after years in stasis, but how large a part will it play in a today's aviation financing market? **Oliver Clark** reports.

After years in the political wilderness, the Export-Import Bank of the United States (US Ex-Im) found an unlikely saviour last year in President Donald Trump.

Under his administration, the bank's quorum of board of directors was restored in May – returning its ability to authorise transactions greater than \$10 million. At the end of the year, the export credit agency (ECA) secured a seven-year reauthorisation – the longest in the bank's 86-year history.

The return of the bank has been met with enthusiasm by airlines. In January, Gol's chief financial officer, Richard Lark, told *Airfinance Journal* the carrier plans to finance a portion of its future 737 Max with US Ex-Im guarantees.

So how much of a slice of the present market will the bank take?

"It is too early to say," a source tells *Airfinance Journal*. "They have historically been – unfairly – criticised for being 'the Bank of Boeing' and will be wary about being perceived in that way again. But ultimately, they are the export agency of the USA and if exporters need them they should be there."

He adds: "Because the commercial market is so liquid at the moment, the ECAs are supporting fairly low levels of new aircraft deliveries. If and when the market turns, that will be the true test of the extent to which Ex-Im will step in to correct any market failure," he adds.

"The Ex-Im Bank is a critical component in the aviation finance eco-system," says Dan da Silva, Boeing Capital's (BCC) vice-president of strategic regulatory policy.

"The absence of Ex-Im occurred during a time – fortunately for all of us – when the availability of commercial aviation finance was very positive, very plentiful and the effects of the absence of Ex-Im Bank were muted but were not non-existent."

US Ex-Im guarantees are critical for what da Silva calls "corner conditions", to provide support where the commercial markets "are not efficient or don't like to play".

These include "challenging markets" where the private sector has trouble dealing with a high-risk environment – whether political or economic high risk – where most financing requires a sovereign guarantee or government guarantee which is not easily offered to the private sector.

Then there are "very good" airlines that operate domestically in markets without dollar-denominated revenue and niche

aircraft types which require support to gain market acceptance.

Other candidates include "challenging credits" such as start-up airlines which the private sector is not very efficient at financing, or restructuring or restructured airlines and new market entrants.

BCC's current aircraft finance outlook 2019 report shows that Ex-Im support for Boeing deliveries peaked in 2012 at 30% amid the financial crisis before falling off to 11% by 2015 and dwindling to nothing by 2017.

BCC does not forecast how much of its future deliveries the bank is expected to guarantee. Boeing's da Silva says the bank averaged 7% participation in the years it was active in the market, peaking at \$18 billion in 2012.

"Ex-Im's function in the marketplace is to fill gaps in export financing where the private sector is unable or unwilling to provide support," a spokesperson for the bank tells *Airfinance Journal*, adding: "We anticipate that Ex-Im's financing will be available to support Boeing's aircraft deliveries as warranted."

But a lot has changed in the years since US Ex-Im was last active. When the bank first became dormant in 2015 the market began looking for alternatives to fill the void.

One answer has been to bring in the insurance market as guarantor, a trend that is most evident in the development of Aircraft Finance Insurance Consortium (AFIC), a collaboration between Marsh and a panel of global insurance providers to guarantee Boeing aircraft.

"I believe that Ex-Im will play a diminished role going forward," says Vedder Price's Ronald Scheinberg.

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Ronald Scheinberg, Vedder Price

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Dan da Silva, vice-president of strategic regulatory policy, Boeing Capital

"Given the requirement to price the risks in line with market factors, Ex-Im will no longer be able to offer consistently the cheapest financing. However, they will still be an important option for those credits that are more difficult to finance and perhaps deals of a particularly large size," he adds.

BCC's da Silva praises the increasing involvement of insurance companies through AFIC and other products and the support that the US original equipment manufacturer receives from ECAs in the UK and Italy, but says "they are not sufficient to cover the entire gap".

It is likely the US Ex-Im will only come into its own when the next global shock sucks liquidity out of the financing market.

"Ex-Im will certainly be an important financing standby for a market turnaround or, God forbid, catastrophic event – like 9-11 – and, in such eventuality, its product usage will likely explode. In the meantime, it will be just one of many available financing options available to purchasers of Boeing aircraft," says Scheinberg.

BCC's da Silva says medical epidemics should not be overlooked as a threat to market stability, recalling that during the SARS epidemic there was "a lot of uncertainty" and an uptick in ECA support. Could the same happen in the case of coronavirus?

"We will have to observe and see what happens with this current situation with the coronavirus, whether it goes there or not," he says. "If I had to take a guess, I don't think it will be the same response. The market is a lot more stable today than it was in the SARS days."