



Huge Ex-Im Bank Loan Defaults Imperiling Bank's Reauthorization

On January 21, NewSat, a private satellite communications company headquartered in Australia, [defaulted on a \\$21 million payment](#) to its primary satellite provider, Lockheed Martin. That default is triggering an avalanche of defaults that could sink not only NewSat but also very likely the bank that guaranteed the loans financing the deal, the Export-Import Bank, whose charter is up for renewal on June 30.



The Ex-Im Bank has touted its ability and willingness to provide financing for American companies seeking to do business abroad but which couldn't arrange financing the regular way: through private banking channels. According to the bank's charter, it provides financing for transactions that would otherwise not take place because those private lenders are either unable or unwilling to take on the risks. In other words, the Ex-Im Bank, backed ultimately by the U.S. taxpayer, makes high risk loans and calls them not only safe and necessary but profitable as well.

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In his defense of the Ex-Im Bank, Todd McCracken, the president and CEO of the National Small Business Association, rolled out all the reasons why the bank needs to be reauthorized in June: It helps small businesses arrange financing where none would otherwise be available while leveling the playing field with competitors using other countries' similar export financing programs. He said:

There are foreign-export credit agencies around the world that provide substantial support for their country's exporters. Killing the [Ex-Im] bank is tantamount to unilateral disarmament and will damage our global competitiveness.

McCracken needs to check his history and his statistics. First, in the years 2007-2008 the Ex-Im Bank extended nearly two-thirds of its loan guarantees to one single entity: the Boeing Company, with revenues (as of May 2014) of \$95 billion, assets of \$99 billion and more than 165,000 employees. In 2012, the bank's guarantees to Boeing exceeded 80 percent of its total. No matter how McCracken slices it, Boeing is not a typical American small business.

Second, a close look at data provided on the Ex-Im Bank by economist Veronique deRugy revealed that less than 11 percent of loans to true small businesses by the bank were categorized as "necessary" because the risk was so great no other lender would finance the transaction. In other words, 90 percent of small business loans "had nothing to do with private financing being unavailable." They were done because they were cheaper, giving them an unfair advantage over their competitors.

Third, despite claims that the Ex-Im Bank is self-financing, with no drain on or cost to U.S. taxpayers, that conclusion is based upon faulty and manipulated accounting practices by the bank. When proper accounting practices are used, the Ex-Im Bank operates at a cost to the taxpayers of some \$200 million a year, and that assumes that loans don't default.



Written by [Bob Adelman](#) on March 26, 2015

But they do default, sometimes massively. Take the enormous implosion that took place when Solyndra defaulted back in 2011, taking with it some \$10 million of taxpayers' monies with it.

When the Ex-Im board unanimously approved NewSat's \$300 million guarantees in 2012 and 2013, Adrian Ballintine, the company's CEO was ecstatic:

It is fantastic to receive the support of the U.S. Ex-Im Bank. They are backing our ... satellite with a direct loan, with a favorable low-fixed interest rate and long tenure.

The deal is an Australian first for Ex-Im Bank and a major milestone towards the launch of Australia's first commercial satellite.

The first sign of trouble appeared when the company delayed its launch date from the summer of 2014 to mid-2016. The second was when two high-profile members of the company's board smelled trouble and asked an outside analyst to look things over. That review brought to light, for the first time, lavish dinners and out-of-control travel and marketing costs, as well as millions of dollars in salary and bonuses to Ballintine even before the arranging of the financing with Ex-Im had been completed. The investigation also revealed some highly suspect tax behavior on bonus payments and "irregular movement of millions of company shares by a senior executive during a trading black-out."

But what really rankled was the discovery of nearly \$400,000 in undisclosed payments by the company to Cresta Motor Yachts for "marketing expenses." It turns out that Ballintine is a director there, while his son Tim owns the company.

The investigator concluded his report: "I have never seen nor heard of more appalling corporate behavior than at NewSat."

The kiss of death, and the kiss-off of millions of U.S. taxpayers' funds, happened when NewSat's external auditor, Rob Dalton, a partner at Ernst & Young, declared that there is "significant uncertainty as to whether the [company] will continue as a going concern."

So, another loan by an agency eager to take risks with taxpayer money, which the private market wouldn't make, has gone south. As Dan Holler of Heritage Action put it:

By most accounts, NewSat is a company with severe structural problems that could lead to Solyndra-type losses for American taxpayers....

This makes it harder for Ex-Im to justify its small business pitch to Congress.

It also makes it nearly impossible to justify the bank's reauthorization coming up the end of June. NewSat will disappear, taxpayer monies will disappear along with it, but Lockheed Martin will continue to grow and thrive and prosper, having once again shifted its risk in the deal to the American taxpayer, and earning the bank the much deserved sobriquet "a fount of corporate welfare" by the *Wall Street Journal*.

A graduate of an Ivy League school and a former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics.



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