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**Written Testimony before the**
**Senate Committee on Banking, Housing, and Urban Affairs**
**Subcommittee on Economic Policy**
*delivered by*
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**President, Precision Metalforming Association**
*On behalf of the*
*Precision Metalforming Association and National Tooling and Machining Association*

*May 13, 2009*

Mr. Chairman, Ranking Member DeMint, members of the Committee, thank you for the opportunity to testify today. My name is Bill Gaskin, President of the Precision Metalforming Association (PMA) based in Independence, Ohio. We have partnered with the National Tooling and Machining Association (NTMA) in Washington to speak with OneVoice on behalf of small-middle-market manufacturers including thousands of manufacturing companies producing stampings, fabrications, machined components, tooling, plastic injection molds, and other products for the defense, aerospace, medical and automotive industries among many others critical to our national and economic security. Our combined membership totals more than 2,500 companies, located in every state, with average employment between 40 and 100 persons.

Small, middle-market manufacturers are being clobbered by the credit crisis and are in serious trouble, especially if they manufacture parts, components and assemblies for the automotive, residential/commercial construction, appliance, truck and commercial aircraft industries. This situation impacts hundreds of thousands of jobs, jeopardizes our ability to respond to any military situation and weakens the manufacturing base in the U.S. Importantly, it also has impacted our ability to innovate, allocate sufficient funds to R&D and provide growth opportunities for the future. Policy implications for your consideration relate to the need to restore access to credit for middle-market companies, providing stability in the face of unprecedented weakness in the automotive supply chain and other markets. Unless solutions are found, and quickly, there is likely to be a cascade of company failures over the next few months among middle-market manufacturers. The most financially precarious part of the business cycle is when the end of the downturn is reached and cash (or credit) is required to rehire workers and buy raw materials to supply customers with finished product.

Small-middle-market manufacturers are bearing the brunt of the current global economic downturn. It has impacted virtually all market sectors in every state. PMA and NTMA members report this is not limited to the automotive industry, but includes aerospace, truck, appliance, construction, off-highway and most every other market as well. As an example, as travelers fly less, the commercial and private airline industry cuts back on orders and decreases the demand for components and tools. In addition, because our companies have undergone significant diversification in their customer base in the past several years, when one sector of the economy begins a slide, it disrupts the entire supply chain reverberating throughout the economy.

In my more than 30 years in this industry, these times are by far the most dire times I have seen for stampers, roll formers, machining, tooling and mold-building companies who comprise the thousands of small-middle-market suppliers who employ millions of workers around the country. Today, the typical metalforming company has annualized sales which are 35 percent lower than one year ago and they have had to eliminate nearly 38 percent of their employees. And it is going to get worse – 49 percent report that shipping levels will be down over the next three months compared to the last 90 days. Our monthly business conditions report for May, released yesterday, indicated that 39 percent expect that their new orders for products will be lower over the next three months than they were over the past three months, and only 17 percent think shipments will rise in the next 90 days. In the same survey, 80 percent of metalforming companies reported that their facilities are working on short time or have laid off employees, compared with roughly 20 percent this time last year. It is highly likely that somewhere near 30 percent of these privately-held or family-owned businesses will not exist one year from now, unless the U.S. government takes additional steps to support manufacturers, including taking steps to free up lines of credit to these industries.

To quote a metalworking company with 60 employees that responded to a credit survey this weekend, “No bank currently wants to deal with manufacturing - they are solely about mitigating their risk with their manufacturing clients.” This is the reality we face.

Manufacturers across all industries report challenges to their credit health. Of respondents to the survey conducted May 9-11, 2009, 66 percent reported problems in their credit situation with more than half of them (36 percent of the total) experiencing “serious” problems. This includes companies in the medical, agriculture and appliance sectors along with those supplying the automotive and truck sectors. In addition, more than half are having difficulty accessing credit for day-to-day operations. Our greatest concern is that 72 percent anticipate difficulty securing the credit they need to purchase raw materials and rehire workers as business conditions improve later this year. And more than 70 percent of metalworking companies who need credit to finance capital investments to upgrade their domestic production facilities are unable to obtain the credit they need to do so.

In the current environment, manufacturers who would invest in domestic production and stimulate growth are denied the lines of credit they need to help jumpstart the economy. While the federal government is investing billions of dollars through the economic stimulus package for construction projects, companies integral to those projects lack the financing the need to supply the stampings, fasteners, tooling and molds to assemble the bridges, build the equipment and manufacture fuel-efficient vehicles. If this situation continues, the reality is that our customers will increasingly simply offshore the job to a low-cost country. And we all know that once the job is gone, it will never return. Preservation of our defense industrial base and our ability to manufacture critical supplies for national security needs is essential to our survival. Any disruption in the domestic supply chain can cause a reaction felt throughout our lives.

The federal government has spent hundreds of billions of dollars extending support to financial institutions, General Motors, Chrysler and large Tier 1 companies in the automotive supply chain, but the benefits have yet to trickle down to smaller middle-market Tier 2 and Tier 3 suppliers. The Automotive Supplier Support Program is helpful to Tier 1 suppliers of General Motors and Chrysler, but we have seen little benefit to Tier 2 and 3 companies. Of course, any help to the OEMs and Tier 1 suppliers helps our customers and therefore helps us survive, but we cannot continue providing components, tooling and services to Tier 1 suppliers or vehicle manufacturers if we cannot guarantee or insure payment. In the past, Ford, GM, Chrysler and others would pay downstream suppliers directly. However, over time, they began to pass payment through the Tier 1 suppliers. Recognizing the dire situation throughout the supply chain, I have heard recent reports of GM again bypassing the Tier 1 and paying the Tier 2 suppliers directly to ensure payment. That temporary band aid cannot work for everyone and the government should play a more direct role.

I believe the federal government can extend relief to middle-market companies by insuring or guaranteeing receivables of businesses supplying a vehicle manufacturer which receives taxpayer funds. For example, a tooling company could register their purchase order with the government to either guarantee or insure (or reinsure) payment under certain terms. The government, as is the case under current U.S. and Canadian programs, could charge downstream suppliers a 2 or 3 percent fee depending on the service provided. Under this scenario, the federal government would make money, Tier 2 and 3 suppliers could continue operations providing tooling and components with the confidence that we will receive payment within a reasonable amount of time. This would also provide a significant comfort level to our creditors who would have assurance that we will remain viable.

The entire automotive supply chain tooling payment process has been dysfunctional for some time, and NTMA, PMA and others are working with OEMs and others on long-term plans to fix the situation. However, in the short term, we need relief and one key element is for the government to provide a “safe passage” mechanism of our receivables through higher tier suppliers in the event of bankruptcy or disruption in the supply chain. There is no question the federal government has much more leverage and resources to collect on outstanding invoices than the typical tool and die manufacturer with 50 to 100 employees.

Over the years, the domestic automotive industry has adopted a model for tooling payment that is unsustainable over the long term. When credit was easy, we were willing to live with it, but in the current environment we cannot continue because we can no longer secure credit for operations. We are working with the automobile manufacturers, Tier 1 suppliers, the White House Automotive Task Force and key players on both sides of the U.S.-Canadian border to find long-term solutions. In our meetings, we are not only focusing on the payment aspects of our industry but also trying to improve tooling design and part design to make our domestic industry more competitive. It is critical that we all partner together – industry, government and labor – to help us emerge from the current situation more globally competitive and efficient.

Credit lines in our industry, which currently average 14 percent of annual sales, are largely based on a formula that values 80 percent of current trade receivables and 50 percent of the value of raw material and finished goods. In today’s environment, receivables are discounted even more severely. This limits the ability of the business to invest in profitable growth areas due to lack of resources. Many lenders are severely restricting lines of credit if a manufacturer serves a Tier 1 automotive supplier. In addition, our members report that their ability to purchase credit insurance on accounts receivables is also drastically reduced. In some cases insurance brokers are only backing 10 percent of a Tier 1 automotive receivable, whereas the same company was typically able to secure 70-80 percent in the past. The lack of a market for guaranteed receivables further exposes small-middle-market manufacturers to financial strain.

On several occasions we have reached out to our memberships and educated them on government support programs such as the newly modified Small Business Administration's 7(a) and 504 loan programs. Yesterday, I heard from one member in Southern California who had applied for an SBA loan from three banks, including Omni National and Wells Fargo. Unfortunately, the company was unable to secure any help from SBA, as the bank's underwriting standards were too strict to approve the loan.

Personal guarantees required by SBA loans are also a problem, as they are required on 100 percent of the loans. Yet in the non-SBA market, our members report that personal guarantees are required only about 40 percent of the time. Understandably, in today's environment, many business owners are too concerned about losing their family home to meet the personal guarantee requirements under the 7(a) program. Also in today's environment, if your business is connected with the automotive industry, you are highly unlikely to be able to qualify for SBA financing despite the government providing a 90 percent backing of the loan. Last Thursday, at a PMA automotive parts suppliers conference in Novi, MI, a representative of the SBA briefed the audience about SBA financing opportunities. In response to a question about whether the speaker was aware of ANY automotive supplier who had been approved by a Detroit-area bank for an SBA loan, the speaker indicated that he was not aware of a single loan being approved.

Chairman Brown, I applaud your efforts to highlight the credit crisis in manufacturing industries. I urge the federal government and this Congress to take a ground-up approach. Rather than focusing almost exclusively on large financial institutions and the largest manufacturing companies, policymakers must support the small-middle-market companies that are the backbone of our economy. This is not an Ohio problem. This is not an automotive problem. Access to credit and preservation of our domestic manufacturing base is a global problem that requires an American-led solution and it starts on Main Street, not Wall Street.

Thank you for the opportunity to testify before you today.