AMT
The Association For Manufacturing Technology
Over 100 Years of Building Global Productivity

TESTIMONY OF
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ON BEHALF OF
AMT – THE ASSOCIATION FOR MANUFACTURING TECHNOLOGY
Before the
U.S. SENATE COMMITTEE ON BANKING
SUBCOMMITTEE ON ECONOMIC POLICY
MAY 13, 2009

"Manufacturing and the Credit Crisis"

INTRODUCTION

Thank you for holding this hearing today and for giving me the opportunity to be here and participate.

I am Chief Operating Officer of Assembly & Test Worldwide, Inc. (ATW) headquartered in Dayton, Ohio. ATW is an American-owned company that designs and manufactures assembly and test equipment for global manufacturers. In 2008, our customer base was 60% in the automotive and heavy truck industries. We are a critical supplier of engineered special equipment which enables the production of fuel efficient, state-of-the-art automobile engines, fuel injectors, transmissions and drive modules. We also provide custom designed turnkey automation for the production of medical devices, pharmaceutical packaging, solar panels and various defense industry related products. Due to the expected decline in mainly our automotive business, we have been forced to reduce our workforce by over 25% to 550 U.S. employees.

I serve on the Board of Directors of AMT – The Association For Manufacturing Technology. Pursuant to House Rule XI, I am obliged to report that AMT received $225,100 from the Commerce Department's Market Development Cooperator Program for a technical center in China – $207,254 of which was disbursed in 2005 and $17,846 in 2006.

AMT represents more than 400 manufacturing technology providers located throughout the United States – including almost the entire universe of machine tool builders who manufacture in America. Our members cover the full range of engineering and manufacturing capabilities – from product innovation, design, assembly and installation services for a diverse range of technologies including automation, material cutting and forming, to workholding, cutting tools, assembly, inspection and testing, and computer communications and control systems. Our employees include engineers, tool and die makers, mechanics, electricians and of course the many professionals in administrative jobs. The overwhelming majority of our members are small businesses – more than half have revenues under $10 million – but what we contribute has a large impact on our country's ability to manufacture competitively and hence on the economy as well.

Manufacturing technology provides the innovative tools that enable production of all manufactured goods. These master tools of industry magnify the effort of individual workers and give an industrial nation the power to turn raw materials into the affordable, quality goods essential to today's society. In short, we play a significant role in making modern life in an industrialized society possible.

Manufacturing technology provides the productive tools that power a growing, stable economy and a rising standard of living. We represent an industry with a proud history that dates back to the founding of our country, and today we are recognized worldwide for the advanced manufacturing technology we produce for a wide range of industries. These tools make possible modern communications, affordable agricultural products, efficient transportation, innovative medical procedures, space exploration, and the everyday conveniences we take for granted. If we are to provide medical care to all Americans, a strong creative manufacturing base will assist this noble objective by supplying creative innovative solutions and tools that will reduce our medical costs. Our products also create the means to provide a strong and technologically sophisticated national defense.

The manufacturing technology industry is critical to building and maintaining the strong and dependable defense industrial base that enables our military to protect our citizens and our ideals around the world. Mr. Chairman, I am here to tell you that if nothing is done to get credit flowing again to America's manufacturers, we lose more than our ability to manufacture automobiles or washing machines in this country. We lose our ability to create the new innovative defense systems that provide an advantage over our nation's adversaries throughout the world. We also risk dependence on foreign sources for our defense needs. I am not talking about merely producing inexpensive and convenient goods for everyday life. I am talking about an industry that is essential to America's national security.

Mr. Chairman, as crucial and necessary a part of our American manufacturing sector as we are, our industry is in danger of not surviving the current economic chaos, and the major reason is because the lack of credit is endangering the continued existence of virtually all of our companies. Although the Treasury Department's Troubled Assets Relief Program (TARP) is focused on addressing the credit crisis and getting money flowing through the economy again, there is still no evidence that this is happening in the industrial sector in any significant way. It certainly is not apparent to the members of the AMT or to the several hundred thousand small businesses that rely on their products to remain in business!

THE CREDIT CRISIS

Over the past few decades, AMT members have faced significantly increased competition from abroad, and they have seen a decline in their domestic market share. But our industry has weathered every storm and emerged even stronger. The depth of this current economic crisis, however, is threatening its very survival. In ATW's case, revenues are projected to decline approximately 40% in 2009 primarily due to weakness in the automotive sector. During the banking crisis last fall, over $20 million of existing orders were cancelled by the U.S. automotive companies and their suppliers due to their uncertain futures. This has never occurred in the history of our company.

The meltdown of the financial services sector has frozen credit to companies like mine. I have been involved for 30 years in the innovation application of manufacturing technology toward the objective of increasing the reliability and efficiency of manufacturing processes. In 2008, we were a profitable business with $150 million in revenue. We can operate with minimal losses in this difficult environment and will remain a viable company if reasonable credit is available. However, in all my years in business, I have never seen a more difficult time than the present for companies in our industry to obtain the credit necessary to continue to stay in business.

Many companies in the manufacturing technology sector historically have been debt-financed, with some of that debt actually personally guaranteed by the owners themselves. For the last three years, however, it has become increasingly difficult to obtain financing for businesses like mine (and many of my customers) because we are small privately-owned manufacturing companies and more importantly because of our ties to the automotive industry. As you can imagine, the lending environment has gotten worse rather than better these last months as the automakers struggle to survive and restructure. The overall uncertainty in our economy has caused our customers to take defensive measures, delaying existing production improvement programs and cancelling near term orders. AMT members are reporting a reduction in backlogs of 40 - 70%.

The future holds promise, but an increasing number of banks are reluctant to lend to automotive manufacturing companies whose revenue forecasts are dismal for the next few quarters. ATW has been asked to quote material handling and test equipment for the General Motors (GM) Tier 1 electric vehicle battery suppliers, but we are hesitant due to the exposure to GM. This equipment is critical to developing an electric car platform for the United States.

An AMT survey on the credit crisis conducted earlier this year asked if and how our members are affected by the tightening of credit throughout the financial sector. An overwhelming majority of respondents have experienced a tightening of credit and altered the way they do business as a result. Additionally, most have experienced changes in lending terms, and some reported that banks have cut (or threatened to cut) their lines of credit altogether. Most telling are the comments given by survey respondents in the open-ended question at the end of the survey – comments from company owners across the country painting a profoundly bleak picture of what is really going on in the heart of American manufacturing, in case the grim statistics are not enough evidence that more must be done. I have included those comments with my written statement. AMT Credit Survey Comments

I appreciate that solving this problem is a hugely complex issue – and I do not presume to give you a simple answer – but I would like to offer suggestions that would help get credit flowing again to companies like those in the manufacturing technology industry.

SBA LOAN PROGRAMS

The recent global economic collapse has resulted in a severe curtailment in capital spending. Many AMT members have seen a dramatic decrease in orders. Some have suffered through months without a single order. Others have reported that their new orders are off by 70 or 80%. That is due not simply to a lack of demand but more significantly to the lack of credit up and down the manufacturing production chain. Although many of us have sought bank loans to stay in business, NO ONE is lending in this environment – **NOT EVEN** the SBA Preferred Lenders, who must rely on a level of credit scrutiny that many cannot pass due to the unprecedented recent events.

I applaud the Congress for including the Small Business Administration (SBA) and its 7(a) loan program in The American Recovery and Reinvestment Act of 2009 (ARRA). However, higher guarantees and lower fees alone will not enable many small businesses, including many AMT members and customers, to obtain urgently needed funds to stay in business and preserve jobs. The SBA recently reported an increase in 7(a) loan volume since the ARRA was enacted. However, even with 90% guarantees and no borrower fees, our members have not seen an increase in SBA lending. One reason is that it is impossible for many AMT members to quality for an SBA 7(a) loan in this current recession. Companies cannot obtain an SBA loan if they do not have sufficient cash flow in these trying times.

SBA loan regulations state, "Repayment ability from the cash flow of the business is a primary consideration in the SBA loan decision process." Given the extreme downturn in the economy, most small businesses have suffered a dramatic decline in business and will not, in the near term, be able to meet normal credit standards. We must reprioritize the metrics upon which 7(a) loan decisions are made *away* from cash flow as the primary consideration. I would suggest alternative but equally valid criteria for judging credit worthiness of a prospective borrower in the current economic environment such as: backlogs, assets, employment levels, and historic performance.

In addition to changing the metrics for SBA 7(a) loans, the Administration should move quickly to fulfill its pledge to purchase up to $15 billion in SBA secured assets. The secondary market for these SBA loans is frozen; forcing SBA preferred lenders, which include community banks and credit unions, to keep these loans on their books. This has severely restricted SBA 7(a) lending. The Administration's plan to purchase SBA securities should get banks lending again. However, a mechanism must be in place to ensure that banks increase their 7(a) lending.

Lastly regarding SBA, the House version of the ARRA contained a provision that would allow small businesses, repeatedly turned down for bank credit, to apply directly to the SBA for a loan. The agency would be required to first forward the application to lenders within 100 miles of the applicant's location. If none of these lenders decide to make the loan, the SBA would send the application to participants in the agency's Preferred Lenders program. If these lenders pass, the SBA itself could then originate, underwrite, close and service the loan. Unfortunately, this provision did not make it into the final bill. I urge Congress to take another look at establishing this type of direct loan program within the SBA.

TITLE III OF THE DEFENSE PRODUCTION ACT LOAN GUARANTEES

As I am sure you would agree, Mr. Chairman, our national security depends on a strong manufacturing technology industry. It is at the very foundation of America's defense industrial base – an industry that produces the high technology that America depends upon to maintain its military superiority over potential adversaries.

A bit of history is in order. In 1985, President Ronald Reagan acknowledged our industry's importance when he declared the criticality of certain categories of machine tools under Section 232 of the Trade Act of 1962, authorizing our Government to restrict the importation of machine tools for reasons of national security. President Reagan suspended that Section 232 finding after a Voluntary Restraint Arrangement (VRA) was successfully negotiated with Japan and Taiwan. That VRA limited the importation of machine tools into the United States for a period of five years so that the domestic industry could be rebuilt and strengthened. President Reagan's decision is one of the very few times in our history that our Government has made the decision to restrict imports for national security purposes. It demonstrates how essential our industry is to our national defense.

Unfortunately, the current credit crisis has left many AMT members' very existence extremely precarious. I would argue that it threatens to accomplish what low-cost foreign competition almost did in the 1980s – with even more serious consequences.

For the past seven months, banks have been denying credit to even the most creditworthy manufacturing technology companies. This lack of bank credit is threatening to drive those companies out of business. America can ill-afford to lose our machine tool industry and other critical parts of the defense industrial base that are now at risk. Without these companies, this country would be forced to rely on foreign sources to provide us the innovative manufacturing solutions the defense industry will require in times of critical need. The Chinese have been a generally reliable part of our peacetime industrial supply chain. But do we really want to be dependent on them – or any other foreign country – for critical products at a time of crisis?

ATW has a highly skilled domestic workforce that contributes to the technological advancement of U.S. and global manufacturing. The failure of our company would negatively impact this country's competitive edge in special equipment design to the benefit of our European and

Japanese competitors. Not only that, if the U.S. defense required redeployment of our domestic manufacturing capacity, ATW's expertise as a critical asset would be gone.

The Defense Production Act (DPA) confers on the President the power to mobilize the domestic economy in order to best supply the military in the event of a wartime mobilization. It authorizes the President to direct certain industries to produce vital military products. It also authorizes the President to direct those industries to place military production as a priority over civilian production in order to serve the defense needs of our nation.

In order to advance America's defense production needs, Title 3 of the DPA provides for federal loan guarantees to companies that play an important role in our nation's defense industrial base – companies, like ATW, that would be important to mobilization efforts if it were necessary to move from a peacetime economy to a wartime economy. The Banking Committee has jurisdiction over the DPA, and I understand that the DPA is up for reauthorization during 2009.

Mr. Chairman, I suggest that this Committee consider increasing the loan guarantee authority under Title 3 as it considers the DPA's reauthorization, so that credit is available to our defense industrial base companies that are unable to get credit elsewhere in the current economic environment. This program allows assistance to be quickly targeted and precisely applied to defense-related companies, such as those in the manufacturing technology industry, that are in desperate need of bank credit.

I would note, however, that the current Title 3 guarantee program funding is insufficient to have an effect in this current crisis. Thus, if this Committee decides to authorize Title 3 once again, it would be necessary to provide significantly greater lending authority. With U.S. Government guarantees under the DPA's Title 3, I believe banks in Ohio, and elsewhere around the country, would have the confidence to get credit flowing to manufacturing technology companies and the many other companies who make up the backbone of the defense industrial base. Reauthorization at a higher loan guarantee level would be a step toward protecting America's national security while at the same time saving jobs and small industrial companies that are so important to our economic health.

CONCLUSION

In his February 24 address to a joint session of Congress, President Obama said that "the flow of credit is the life blood of our economy." He also noted that "credit has stopped flowing the way it should. With so much debt and so little confidence, these banks are now fearful of lending out any more money to households, to businesses, or to each other. When there is no lending, families can't afford to buy homes or cars. So businesses are forced to make layoffs. Our economy suffers even more, and credit dries up even further."

Mr. Chairman, every member of AMT manufactures products in the United States, and our products are located in factories around the world. Each is fiercely competitive and determined to ensure that American manufacturing technology remains preeminent. Our members continue to create jobs and spur innovation by investing time and money in their businesses to grow their share of the American Dream not only for themselves and their families, but for their employees and their employees' families as well. However in this economic crisis, most of them are struggling not for that share of the American Dream but to simply stay alive.

We must get credit flowing again to America's producers of manufacturing technology and our customers. We are where it all begins and we are where it will end for "Manufactured in America." The only way to break this cycle of job loss and bankruptcy is to provide the manufacturing sector the cash flow we need to continue doing business and securing American jobs. Building upon successful programs, such as the SBA's 7(a) loan program and Title 3 of the Defense Production Act, and implementing new targeted programs, such as the SBA direct loan program included in the House version of the ARRA, are ways to support companies that are unable to get access to credit, like AMT members, while the economy recovers. AMT would be glad to discuss additional suggestions for supporting America's manufacturing technology sector during these difficult times.

The United States is perilously close to losing a critical industry – one that we depend upon for both economic stability and national security. The manufacturing technology industry provides productivity improvements that level the playing field for America's highly-skilled workforce, helping us to compete against producers in low-cost labor markets. It's not an exaggeration to say that essential future innovations in manufacturing are simply impossible without a robust supply chain that includes stable and healthy factory floor equipment producers. We need your help. I hope that you will be able to provide the legislative vehicles that can get us through this threat to our existence.

Thank you for allowing me to testify today.