Written Testimony before the
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Subcommittee on Economic Policy
delivered by
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Chairman Brown, Ranking Member DeMint, members of the Committee, thank you for the opportunity to testify before you today on restoring credit to small and medium sized manufacturers (SMMs). My name is Rob Kiener and I have been with the Precision Machined Products Association (PMPA) for 18 years working with our nearly 500 members - companies from around the country. Prior to joining PMPA, I worked on the shop floor in a precision parts company, having spent time during high school and college at a screw machine shop in the secondary machining department and quality lab. More than half of our members have fewer than 50 employees. They manufacture highly engineered components using a variety of materials such as: steel, stainless steel, aluminum, brass, and aerospace alloys for the defense, medical, automotive, and agriculture industries, among others.

Current SMM Credit Crisis

Small and medium sized manufacturers are often trapped between the troubles of their much larger customers and financial institutions. SMMs began reporting challenges accessing traditional lines of credit in October 2008. Today, many companies in our industry report their business is down roughly forty percent and that they have significantly reduced their workforce.

Countless members I speak with who still manage to maintain profitability tell me they have held decades long relationships with their bank but are now being told they must offer their life insurance collateral to help secure a loan - this is a true story from an Ohio-based manufacturer.

Even when a manufacturer seeks to renew a loan with its existing bank, it can take 3 to 4 months to process based on all the new lending requirements and paperwork to complete, despite taking no more than 30 days in the past. In our industry, small manufacturers are required to purchase raw materials on their own, in some cases not seeing full payment for up to 6 months. Without access to adequate and timely credit, these delays can cause significant disruptions in the nation's critical supply chain including in emerging green industries, stifle economic growth, and risk national security. If our customers cannot receive the products they need, they will source them from overseas - these lost jobs, once outsourced, will never come back to the U.S.

Several surveys of metalworking manufacturing companies estimate that roughly 75 percent of these businesses cannot secure sufficient credit for day-to-day operations, equipment acquisition, and expansion, among other activities. In most cases, an SMM will see their line of credit significantly reduced, revoked, or a loan called due to the health of their manufacturing customers or lenders and not because of their own business decisions. While we understand some in the Administration and industry believe we have an overcapacity in the manufacturing sector that requires some consolidation, without a financial bridge to support acquisition by those remaining companies disruptions in the supply chain will continue.

I recently heard a story of a company asked to leave their bank despite violating no terms of their loans over a 23-year relationship with the lending institution. The bank told this business that they were reducing their exposure in manufacturing and automotive industries and that they would have to leave the bank - this despite the lender receiving TARP funding. Another Ohio company incurred more than $600,000 in added expenses due to changes their lender demanded in their loan agreement.

Beyond access to credit today, one of our major concerns is as the economy picks up and we see an increase in job orders, will manufacturers be able to have the capital they need to invest in employees, equipment, and raw materials? If they do not, there is no doubt in my mind that we will lose those jobs to overseas manufacturers who already maintain a production cost advantage over U.S. businesses. The federal government is urging manufacturers to diversify into green industries, but without adequate and timely access to capital companies cannot make this investment and transition, which will only further China's goal of producing 90 percent of the world's solar panels.

A survey of metalworking companies shows 72 percent anticipate challenges accessing adequate lines of credit when volume grows. We are already seeing companies that are trying to expand their operations due to consolidation in the industry who are not able to access capital to fill job orders, purchase steel, and hire workers. The cash-for-clunkers program is a perfect example of the challenges ahead. As dealers and automotive manufacturers have depleted their inventories, they are looking to suppliers to increase their output. Similarly, manufacturers of wind turbines and solar panels will see shortages of domestic suppliers if SMMs cannot adequately ramp up production to meet a surge in demand as federal funds continue to flow to those technologies. The current system does not even reward our small business exporters, as manufacturers are unable to borrow against their foreign sales even if their customer's headquarters is in the U.S. A lack of access to capital to fill these job orders will cause disruption in the supply chain, risk our national and economic security, and Americans will lose the opportunity to sustain and create jobs to overseas competitors.

To simply blame the banks is not an accurate representation of the current crisis. Several manufacturers who also serve on the boards of financial institutions have indicated that many banks are not lending to manufacturing businesses because of fear of having their rating level reduced by federal regulators. This scenario is extremely troubling if indeed widespread. In these economic times, the federal government's policies should not create an environment in which manufacturers struggle to access adequate and timely credit. The nation's economy, in which manufacturing accounts for 12 percent of GDP, cannot recover without a sound manufacturing base.

Restoring Credit to SMMs: Opportunities and Potential Challenges

In order to ensure a timely and sustained recovery, the Administration and Congress must take proactive steps to support manufacturing in America. The first step is to reassure financial institutions that returning to sound lending practices with manufacturers is good for their business and critical for the country. Many of these companies are simply temporarily impaired and need a bridge into the next year as business conditions improve. These temporarily impaired manufacturers have a long history of profitability, did not break loan covenants, and maintained steady relationships with their lenders - they struggle today through no fault of their own but because they are in the manufacturing business.

We believe the Administration has the authority to work with creditors and borrowers to establish a mechanism by which lenders can loan to manufacturers without fear of a reduced credit rating. In addition, the Department of Treasury, through existing loan facility funds, should reassure financial institutions that lending to small and medium sized manufacturers will deliver a return on investment through a public-private guarantee of loans or accounts receivable program. Many SMMs need a return to traditional lending, while other companies and their lenders require reassurance that their customers will pay their outstanding accounts receivable. While guaranteeing loans is critical to supporting all manufacturers, guaranteeing accounts receivable is particularly important to SMMs requiring an immediate injection of cash to continue operations. PMPA and other metalworking industries are working with the Department of Commerce Manufacturing Council and members of the Administration on such proposals.

Since enactment of the stimulus bill, policymakers place much emphasis on the Small Business Administration as a primary solution to the credit crisis facing SMMs. One anecdote from Michigan tells much of the story: when a metalworking executive asked an SBA official in June 2009 if he was aware of any banks lending to automotive suppliers under SBA programs in the State he stated he was *not*. In the current environment, lenders do not believe many manufacturers are "bankable". If these businesses are not "bankable" even under a 90 percent government guarantee program, then it is clear the federal government must take additional steps to reassure lenders that investing in manufacturing is a sound decision.

The Michigan example aside, our members report additional challenges with SBA programs such as 7(a) and 504 from the borrower's perspective. The first concern remains the personal guarantee required under SBA programs. Most manufacturers cannot put forth their family home and children's assets to secure a loan. More than 70 percent of SMMs are structured as family-owned S Corporations or LLPs, meaning it is the family that must provide the guarantee whereas a traditional C Corporation will not face similar burdens. This is another aspect of the current financial structure that demonstrates a discrimination against small and medium sized manufacturers. Even when an SMM decides that they have no choice but to apply using a personal guarantee, the lengthy and costly process and paperwork involved is too much for smaller applicants who lack the full time and unlimited internal accounting services that their larger competitors maintain. Although several of our members indicated that increasing the SBA 7(a) loan limit to $5 million may make this program more attractive, most still cite an even larger personal guarantee requirement.

Mr. Chairman, we must all work together, lenders, manufacturers, and government to ensure we foster an environment that encourages manufacturing in America. A number of factors in the current financial conditions serve as disincentives for lenders to invest in small and medium sized businesses. Our customers will still require parts, regardless of our financial condition. We must maintain a strong domestic supply chain with solid and stable lending to manufacturers to fill job orders and are prevent millions more manufacturing jobs from going offshore. If these trends continue, stimulus projects will go unfulfilled, inventories will not rebound, and medical and defense supplies will not reach our citizens and soldiers.

We appreciate your efforts and that of your staff in drawing additional public attention to this important issue. Thank you for the opportunity to testify before you today and I look forward to continuing to work with you to strengthen manufacturing in America.