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

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Mr. Chairman, 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) to speak with OneVoice on behalf of small-middle-market manufacturers producing stampings, fabrications, machined components, tooling, plastic injection molds, and other products. Together we have a combined membership of more than 2,500 companies located in every state and employing more than 500,000 people.

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 aerospace industries. This impacts hundreds of thousands of jobs, weakens our manufacturing base in the U.S. and limits our ability to innovate, allocate sufficient funds to R&D and provide growth opportunities for the future.

These are by far the most dire times I have seen for metal stamping, roll forming, machining, tooling and mold-building companies. Today, our typical metalforming company has annualized sales 35 percent lower than one year ago and they have had to eliminate nearly 38 percent of their employees. In our May business conditions survey, some 80 percent reported that they had either laid off employees or their facilities were working on short time, compared with roughly 20 percent this time last year. And it is going to get worse: 49 percent report that shipping levels will be down over the next three months and 39 percent report that new orders for products will decline over the next three months. Only 17 percent think shipments will rise in the next 90 days. It is highly likely that more than 20 percent of these privately-held or family-owned businesses will not exist one year from now, unless business conditions improve substantially or additional steps are taken to free up lines of credit.

To quote one metalworking company with 60 employees that responded to our credit survey, "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.

Metalforming companies across all industries report credit challenges. Of respondents to our survey, conducted May 9-11, 2009, 36 percent reported "serious" problems in their credit situation and 30% reported "moderate" problems. This includes companies in the medical, agriculture, electronics and appliance sectors along with those supplying the automotive and truck. More than half are having difficulty accessing credit for day-to-day operations, while over 70 percent have difficulty obtaining credit to finance capital investments to upgrade their domestic production facilities. Our greatest concern is that 72 percent anticipate difficulty securing the credit they will need to purchase raw materials and rehire workers as business conditions (hopefully) improve later this year.

So while the federal government is investing billions of dollars through the economic stimulus package for construction projects and through TARP to support the banking, automotive OEM and Tier 1 suppliers, small-middle market companies integral to our recovery lack the financing needed to supply the stampings, fasteners, tooling and molds to make the parts needed to assemble the bridges, acquire new equipment and manufacture fuel-efficient vehicles.

The Automotive Supplier Support Program is helpful to Tier 1 suppliers of General Motors and Chrysler, but the economic benefits of these expenditures have yet to trickle down to smaller middle-market Tier 2 and Tier 3 suppliers. Of course, help for OEMs and Tier 1 suppliers in turn helps our smaller companies survive, but we cannot continue providing components, tooling and services to the automotive supply chain if they cannot guarantee or insure payment. Middle-market companies need access to insured or guaranteed receivables to provide liquidity. This would provide assurance to our creditors that we will remain viable.

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, or they have almost no value at all. Most lenders are severely restricting lines of credit for manufacturing companies, especially automotive suppliers.

Recently the Small Business Administration announced changes in their 7(a) and 504 loan programs. Yesterday, I heard from one company 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 program, as the bank's underwriting standards were too strict to approve the loan.

The personal guarantees required by SBA on 100 percent of their loans are also a problem. 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. Last Thursday, at an automotive parts suppliers conference in Novi, MI, a representative of the SBA briefed participants about the new SBA financing opportunities including the waived fees and 90 percent loan guarantees. 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. If your business is connected with the automotive industry, you are highly unlikely to be able to qualify for SBA financing. That needs to be changed.

Mr. Chairman, thank you for your efforts to find solutions to the credit crisis in manufacturing. Policymakers must support the small-middle-market manufacturing 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 solutions.

Thank you for the opportunity to testify before you today.