



**Written Testimony before the
Senate Committee on Banking, Housing, and Urban Affairs
Subcommittee on Economic Policy**

delivered by

**Mr. Robert Kiener
Precision Machined Products Association**

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Chairman Brown, Ranking Member DeMint, thank you for the opportunity to testify today. My name is Rob Kiener. I have been with the Precision Machined Products Association for 18 years working for and with domestic manufacturers producing highly engineered components for the defense, medical, automotive, and agriculture industries, among others.

Many small and medium sized manufacturers began experiencing challenges accessing credit in October 2008 and are now often trapped between the troubles of their much larger customers and lenders. Today, many companies in our industry report their business is down roughly forty percent and that they have significantly reduced their workforce as they struggle to secure adequate and timely access to credit despite most having decades long relationships with their banks and a history of profitability.

Today, even when a manufacturer seeks to renew a loan with its existing bank, it can take 3 to 4 months to process based on new lending requirements and paperwork to complete – a process that took no more than 30 days in the past. In our industry, manufacturers are expected to deliver products just in time and any delays can cause significant disruptions in the nation's critical supply chain including in emerging green industries, thus stifling economic growth, and risking national security. If our customers cannot receive the products they need due to the credit crisis, they will source from overseas - these lost jobs will never come back to the U.S.

For example, a company was recently asked to leave their bank despite not violating loan terms over a 23-year relationship simply because they were reducing their exposure to manufacturing and automotive industries - this despite the lender receiving TARP funding.

Last evening, I received a call from a PMPA member who recently completed a major acquisition to support their on-going operations as a manufacturer.

To secure the necessary funding to make this acquisition possible and keep their business globally competitive, this member was forced to seek financing in

Germany, since they could not access the required financing in the United States as a small manufacturer.

Despite having well established relationships with two major lending institutions, and a strong track record of profitability, this member was forced to go offshore to find the required financing to support their operations.

As the economy picks up, will manufacturers be able to secure the capital required to invest in employees, equipment, and raw materials? If not, there is no doubt in my mind that we will lose those jobs to overseas manufacturers. While the federal government is urging manufacturers to diversify into green industries, 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.

We already see companies trying to expand their operations due to consolidation in the industry who are not able to access capital to fill job orders, purchase raw materials, machinery, and hire workers. The cash-for-clunkers program is a perfect example of the challenges ahead. As dealers and automotive manufacturers depleted their inventories, they are looking to suppliers to increase their output.

To simply blame the banks is not an accurate representation of the current crisis. Many lenders fear having their rating level reduced by federal regulators, due in part to manufacturing loans on their books. This scenario is extremely troubling. In these economic times, the federal government's policies should not create an environment in which manufacturers struggle to access adequate and timely credit.

We must reassure financial institutions that returning to sound lending practices with manufacturers is good for their business and critical for the country. Many are simply temporarily impaired but have a long history of profitability, do not break loan covenants, and maintain steady relationships with their lenders. These manufacturers 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. With this Committee's leadership, we are working with the Department of Commerce and members of the Administration on such proposals.

Policymakers place much emphasis on the Small Business Administration as a primary solution to the credit crisis facing SMMs. However, in Michigan manufacturers were told in June 2009 that no banks will lend to automotive suppliers under SBA programs.

In the current environment, lenders do not believe many manufacturers are "bankable" even under a 90 percent SBA government guarantee program.

The Michigan example aside, our members report additional challenges with SBA programs. Most manufacturers cannot put forth the personal guarantee required under SBA programs which may require their family home and children's assets to secure a loan. More than 70 percent of manufacturers are family-owned companies - meaning it is the family that must provide the guarantee whereas a traditional C Corporation will not face similar burdens – yet another example of discrimination against small manufacturers.

Mr. Chairman, we must all work together, lenders, manufacturers, and government to ensure we foster an environment that encourages manufacturing in America. We must remove disincentives for lenders to invest in small and medium sized businesses. 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.

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.