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Written Testimony before the
House Committee on Small Business
delivered by
Mr. Ron Overton
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On behalf of the
National Tooling and Machining Association and Precision Metalforming Association

May 13, 2009

Madam Chair, Ranking Member Graves, members of the Committee, thank you for the opportunity to testify today. My name is Ron Overton, CEO of Overton Industries based in Mooresville, Indiana. In addition to my role overseeing day-to-day operations of our tool and die manufacturing business, I also serve as the current Chairman of the National Tooling and Machining Association (NTMA) which has partnered with the Precision Metalforming Association (PMA) in Washington to speak with OneVoice on behalf of small-middle-market manufacturers including thousands of North American automotive suppliers.

<u>About Overton Industries</u>

My father founded Overton & Sons Tool and Die in 1968 and it remains a family-owned company located in a quiet community in Central Indiana. I am proud to say that a third generation in our family currently works at Overton and weathering the current economic crisis is more critical than ever if I hope to pass the company down to a fourth generation of manufacturers.

Today we have 84 employees, down considerably from past years. Of our company business, roughly 65 percent is manufacturing tooling, plastic injection molds, and other products for exhaust systems, shocks and struts, and interior body panels supplied to the automotive industry. Due to instability in the automobile sector, we have made a conscious decision to reduce our work in this industry from a high of 95 percent in 2001. While we do not ship directly to Original Equipment (OE) automotive manufacturers, we primarily serve the General Motors, Chrysler, and Ford supply chains. Without proper tooling and component manufacturers like Overton Industries, the U.S. cannot produce vehicles.

<u>State of Downstream Automotive Suppliers</u>

Unfortunately, in the last several months, I have spent more time in meetings with the White House Automotive Task Force, General Motors, Tier 1 suppliers, and others rather than running our family business. In my 30 years in this industry, these times are by far the most dire for the automotive sector and particularly the thousands of small-middle-market suppliers around the country. I am saddened to hear that some experts believe that possibly 30 percent of these small companies will not exist one year from now unless the U.S. government takes additional steps to support not only the automotive manufacturers and large Tier 1 companies but also downstream suppliers.

The Chrysler bankruptcy is only the first step in a long recovery process and I believe that the double-hit of Chrysler's "duration of bankruptcy" shutdown that began May 4 and GM's removal of 170,000 vehicles from their build nine-week shutdown of most of their assembly operations that also began May 4, is already providing a glimpse of what could happen to the supply chain in the event GM files for Chapter 11. The greatest risk to companies like ours is if a large Tier 1 shuts its doors. At this time, Overton Industries has several million dollars in outstanding receivables from jobs for GM and Chrysler through Tier 1 companies. Tool builders like us must expend cash for steel, labor and machine costs months or years in advance of payment for the die or mold we build, and then we have to wait until the production part approval process (PPAP) on the parts or assemblies made with our tools is completed, before being paid.

By way of background, a tooling company like Overton Industries manufactures tools, dies, molds and fixtures used to stamp, mold or assemble the parts and components necessary to build a vehicle. The business relationship is that GM, for example, contracts with a Tier 1 supplier for major assemblies, like a completed dashboard, which they deliver to a GM assembly line. The Tier 1 supplier, in turn, contracts with tooling suppliers to build the tools they need to make parts and assemblies. It may take from 6 to 12 months or more to build all the required tooling. During this period, all of our costs for steel, labor and machine time are considered "work in progress" and we have to carry all these costs as direct costs. When the tool is complete, the parts made from that tool must be "approved" through the PPAP process – which typically is not completed until up to 18 months from the time we first received the contract to build the tool. It is only at this point that we can actually invoice our tooling cost to the Tier 1 supplier – and we normally have to provide 60-day payment terms. In the current environment, these accounts receivables remain open for a longer period of time than ever before. Members of the NTMA report that payments from Tier 1 suppliers can now take over 180 days despite a recent survey that shows GM is paying the Tier 1 company on average within 58 days and Chrysler within 55 days for the tooling work businesses like ours provide. If this trend continues, I fear the experts are correct, at least 30 percent of our industry will shut down and with it the foundation of the American automotive industry.

In the past, our company would participate in the open-ended PPAP approval and payment process where, as I have described, the tooling supplier is often not paid for over 18 months from when we start building the tool. Overton Industries stopped accepting open-ended PPAP terms two years ago, and while we have lost business as a result, we could no longer remain globally competitive under those terms – not knowing when or if we will receive payment. This contrasts sharply with our overseas competitors, which we have confirmed receive progress payments and have received at least 90 percent of their payments before the product leaves their shores for the U.S. How can small-middle-market companies like ours continue manufacturing in America under the current terms?

In the current environment, a Tier 1 supplier has little incentive to expedite payment to a downstream manufacturer. Recently, members of NTMA and PMA have begun receiving notices from their customers that the Tier 1 wants to expand payment terms to 90, 120 or even 180 days. Some of these companies are part of the Supplier Support Program funded under the Troubled Assets Relief Program (TARP). In providing relief to GM and Chrysler, the federal government worked with the vehicle manufacturers to establish a critical venders program, under which a supplier that ships directly to either company is eligible to guarantee their receivables and receive expedited payments. Under the well-intentioned program, the government assumed that payments to Tier 1 companies would "trickle down" to downstream suppliers. The government should help open the faucet because the only thing trickling down right now are pink slips.

Access to Credit and Insurance for Tier 2 and 3 Suppliers

Failure of payment to downstream suppliers in a reasonable amount of time severely impacts the cash flow of small-middle-market automotive suppliers. As a result, many companies have reported that few if any financial institutions will extend credit to their businesses. The moment a lender or receivables insurance broker sees we are involved in the automotive industry, they immediately move us to a high risk category, will not extend credit, or they will transfer us to a third-party lender. Simply put, they believe we are not "bankable" due to our auto industry work. Even insurance companies are renegotiating their terms and in some cases only insuring 10 percent of an account receivable of some open Tier 1 invoices, whereas in the past they would typically insure 70-80 percent. They are concerned, as are we, that downstream suppliers are not able to successfully collect on monies owed.

Securing insurance on our accounts receivables is only the tip of the iceberg. The increasing number of Tier 1 suppliers who have received "going concern" advisories from their auditors is escalating the problems Tier 2 and 3 suppliers are having securing financing. A sample survey now two months old of automotive suppliers among NTMA and PMA memberships indicates that only 29 percent of Tier 2, 3 and downstream suppliers surveyed have access to credit based on receivables from Chrysler-related business, while 37 percent of suppliers to GM have access to credit based on their receivables. A government guarantee of the receivables and allowing safe passage of tooling payments through Tier 1s to these downstream suppliers would allow the middle-market companies access to the lines of credit we need to continue day-to-day operations and invest in our domestic production.

As our traditional lenders will no longer loan money based on accounts receivable, nor offer terms on equipment, small-middle-market manufacturers have few options. The Administration has been touting the Small Business Administration's 7(a) loan program, which under the American Recovery and Reinvestment Act will now allow the government to back a loan at 90 percent. For the automotive industry, anything short of a 100 percent receivables program will not work. Lenders do not believe companies with Tier 1 automotive supplier and manufacturer receivables are "bankable" – meaning we are too high of a risk for creditors. In addition, the 7(a) program also requires all holders of 20 percent or more of a small business to personally secure the loans – something very few of us are willing to risk in the current environment. Being required to risk our family home and our children's future on our ability to collect from a much larger customer that may have other priorities is unreasonable. Without access to credit and without leverage to secure payments, small family-owned companies like ours are bearing the brunt of the automotive industry's problems.

I am also aware of the Department of Energy's Section 136 Advanced Technology Vehicles Manufacturing loan and grant program. The intention is to support automobile and part manufacturers with the cost of re-equipping, expanding or establishing manufacturing facilities in the United States to produce advanced technology vehicles or qualified components. The challenge for suppliers, particularly tooling manufacturers, is we often do not know what the end platform is or the final fuel efficiency specifications of the vehicle. In addition, while the program is well-intentioned and can benefit many in our industry, we believe Congress should act quickly to provide funding for the grant program in addition to the existing loans process under Section 136.

Role of Federal Government

The U.S. Government's Automotive Supplier Support Program plays an important role in supporting not only General Motors and Chrysler but also their Tier 1 suppliers. However, since establishment of the program, we have seen little benefit to Tier 2 and 3 companies. Of course, we need our customers healthy and to stay in business so we can survive, but we cannot continue providing tooling, components 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, for their own simplicity, they began to pass payment through the Tier 1 supplier. 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 supplier 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 our companies by insuring or guaranteeing receivables of businesses supplying a vehicle manufacturer which receives taxpayer funds. For example, a tooling company like ours would 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 will have assurance that we will remain viable. The entire automotive supply chain tooling payment process has been dysfunctional for some time, and we 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 the Tier 1s in the event of bankruptcy or disruption in the supply chain. There is no question in my mind; the federal government has much more leverage and resources to collect on outstanding invoices than a company with 84 employees in quiet Central Indiana.

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. In the current environment, we cannot continue if 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 and design and part design to make our domestic industry more competitive. It is critical that we all partner together – industry, government, labor – to help us emerge from the current situation more globally competitive and efficient.

I cannot stress enough, this is not just an automotive industry problem; it impacts all Americans in all communities. Small-middle-market manufacturers like Overton Industries are the backbone of this economy and are essential to the recovery of the auto industry and the U.S. economy. I look forward to continuing to work with the Obama Administration and members of Congress to strengthen manufacturing in America. Thank you for the opportunity to submit this testimony for your consideration.