U.S. House of Representatives
Committee on Financial Services
Subcommittee on Oversight and Investigations
Field Hearing
Improving Responsible Lending to Small Businesses
November 30, 2009

Herbert W. Trute

CURRICULUM VITAE

HERBERT W. TRUTE

801 Michaux Lane, Grosse Pointe Shores, MI 48236 | 313-300-0106 | htrute@twtool.com

EDUCATION

University Of Michigan, Ann Arbor, MI
B.S. Mechanical Engineering **1977**

RELATED EXPERIENCE

Richard & Trute Tool & Die Corporation
President – CEO
1977 – 1990

Managed banking relationships, Including successful implementation of an Industrial Revenue Bond to finance growth and acquisition of advanced technology.

Negotiated union contracts with the bargaining unit UAW local 155

Supervised all aspects of the business – technical as well as sales and financial

Supervised orderly dissolution of the business subsequent to the sudden loss of bank financing.

T & W Tool & Die Corporation
President – CEO
1983 – Present

Managed banking relationships financing all aspects of business credit requirements.

Supervised all aspects of the business, concentrating on growth and technical currency.

Fostered and managed strategic customer relationships.

Researched business opportunities and potential relationships in the Pacific Rim.

Successfully negotiated the GM, Chrysler Bankruptcies without loss of money owed the corporation.

In the absence of adequate and useable bank financing, successfully negotiated progressive payment plans with largest key customers allowing the business to remain viable.

TMTA – Tooling, Manufacturing & Technologies Association
Chairman of The Board of Directors **2005 - Present**

Transitioned from a Michigan based association to multi-state.

Actively represented members' interests in Washington, DC with multiple visits during the GM, Chrysler, and Ford financial aid hearings.

Meetings with Senator Stabenow, Michigan Governor Granholm, and other members of Congress during the Automotive Hearings.

Served in an advisory capacity to the Obama Transition Team with respect to domestic manufacturing and the need to "Build it here".

Helped in a united effort with the CPA – Coalition For A Prosperous America, with a common goal of furthering the interests of American Manufacturing.

MEMBERSHIPS

TMTA – Tooling, Manufacturing and Technologies Association

History:

A business, or an industry for that matter does not find itself at a particular point or in a particular situation in a vacuum. There is almost always an evolution, or progression of events that results in a situation or crisis. The current crisis with respect to small and mid-sized manufacturing in the Industrial Midwest is no exception, so a bit of history is in order, along with a perspective from the tooling side.

1950's – In the 1950's The entire industry prospered. America consumed what the auto industry produced. The auto companies grew and a huge supplier base began to grow with it. The American dream became a reality for millions.

1970's – In the 1970's the auto Execs decided that they would build their own highly automated toolrooms, believing they could produce tooling more efficiently inside than purchasing tooling from the supply base. A few of the least efficient large tool suppliers went out of business, but those workers were hired by the big three. In addition, virtually all of the automated modern equipment was purchased from American machine tool manufacturers.

1980's – In the 1980's the auto Execs decided that their internal tool building efficiency was not what they had hoped for, and realizing that cost-effective tooling could be purchased in the supply base, they did so, thereby boosting profits, and securing substantial bonuses as a result. Yes, a few toolrooms were closed, but the workers were picked up by the supply base and everything worked out. But herein lie the roots of the cycle of greed that then took over.

1990's – In the 1990's the auto Execs decided that to save money short term, they would purchase less expensive tooling from Japan. The effects of this were felt in the domestic supply base, which began belt tightening in the face of foreign competition. Profits were slim, and there was little funding available for modernization and or growth. The automakers however were able to boost profits, along with substantial bonuses for auto execs. In addition, this is how our manufacturing knowledge base was shipped offshore on a silver platter. The domestic machine tool industry was decimated in this decade, as Japanese machine tools flooded the market.

2000's – In the 2000's the auto Execs, searching for the next quantum leap in tooling savings, identified China and Korea as not only inexpensive tooling sources, but in the case of China a vast potential market for its products. Because of China's strict and unilateral laws on domestic content, the big three went to work investing heavily there building factories in order to create a market for its products. The added bonus was cheap tooling for the domestic side. Short-term profits rose, along with bonuses. The American tooling industry was decimated, as was almost all domestic manufacturing, as the landslide of cheap consumer products flooded our shores.

Personal Perspective:

I have been in this business for 32 years as an owner and entrepreneur, and have managed to weather all the changes necessary to survive to this point. In the 1980's I employed 200 people in three companies, supplying tooling and automation to the domestic automakers. My employees had families, mortgages, bought automobiles, and sent their children to college. They received competitive wages, full benefits, and pensions.

When the Japan influx started in the early 1990's, demand for domestic tooling and automation decreased dramatically. Determined to survive, I restructured and downsized. Downsizing is a word that doesn't begin to convey the pain inherent to the process. 140 jobs were lost in my manufacturing businesses, as well as thousands more locally. All was still "well" however. They migrated south to work for some of the transplants who had built assembly plants here.

In our leaner form, we were able to survive until the 2000's when the China tooling landslide hit. *The automakers were so manic in their zeal to build a market in China, it became apparent that if I wanted to submit a bid on a particular tooling program, I would have to certify that I would outsource part of it to China, or another Low Cost Country. At this point the automakers even mandated that the largest 1st tier suppliers of production parts have their tooling sourced to Low Cost Countries. Being faced with that or the prospect of no business, I complied.*

I traveled to China to develop business contacts. What I saw appalled me on two levels. On one hand was the vast modern factories built using money funneled into the industry by our own automakers. On the other hand, I saw the employees of these same plants living in what we would consider squalor, and working in dirty unsafe conditions.

I took on a sizeable tooling program, and proceeded to have it designed in India, by a firm introduced to me by my customer. The design was a total disaster. It was weeks overdue, and resulted in an end product totally unusable. I had to bear the cost of a total redesign domestically. During the process however, this Indian design house gained significant knowledge about how we do things, and are now able to compete. *Once again, we had outsourced our knowledgebase.*

Faced with time constraints and sizeable cost overruns due to design delays, I had to build the entire program domestically utilizing all-out overtime to meet production schedules. It was a huge cost disaster for us, but we shipped quality tooling on time.

The past year, faced with the dramatic slowdown in our industry, I re-structured again, cutting benefits, wages, and personnel in order to be able to compete on the new playing field. Again, we were able to hit the formula right. We began to win business in direct competition with foreign sources. We bid on and won a sizeable tooling program from Chrysler for their new Jeep. These programs take upwards of 40 weeks to build, payment to be made 60 or 90 days after shipment. Almost a year. During this time all costs associated with the program need to be financed – payroll, materials, outside services, etc.

I have a 15 year relationship with Comerica Bank that historically had made this possible. When I approached the bank, order in hand to obtain financing as I have done before, I was told that they were considering reducing their exposure to the auto industry and might not be able to finance this project.

Subsequent negotiations with the bank did not result in a financing package adequate to sustain manufacturing operations through build and eventual payment. Faced with the alternative of turning the work back and closing the business, we were able to secure progressive payment from our key customers in exchange for a discount, and thus remain viable. Many small and mid-sized manufacturers were not as fortunate, and have closed, with the loss of thousands of jobs.

The irony here is that I have survived, as have some others. We are successfully competing on a world stage as tier 1 suppliers. *The automakers have received the aid they have sought, but there are no controls in place to stop them from funneling money to offshore emerging markets, and the domestic manufacturing sector will be wrecked.*

The automakers are assemblers, not manufacturers. The type of manufacturing that takes raw materials, adds value to them and turns them into the tools that allow the automakers to do what they do takes place on the 1st tier. The economic trickledown effect as well as the implications of this is huge. *If wholesale outsourcing of tooling and purchased parts that are only assembled here is not stopped, our economy will not be helped, and we will have lost our ability to manufacture anything here.*

Current Situation:

A vital distinction that has been lost is not “Where was it purchased?”, but rather, “Where was it built?”

American multinationals have orchestrated a situation that has mandated that its 1st tier suppliers must buy from China and other low cost countries in order to compete, *while being able to state that they are buying locally from large 1st tier suppliers*. This smoke and mirrors act has decimated small and mid-sized manufacturing in the United States.

The current bank crisis, resulting in the banks unwillingness to lend to a decidedly precarious small manufacturing base has provided a convenient reason for large multinationals to continue sourcing overseas. Our company, along with other surviving manufacturers is proof that it is possible to manufacture domestically with only limited support from the banking industry, but in many cases we are not even offered the opportunity to compete.

General Motors has sourced virtually all of the tooling and purchased parts for the Volt, Gamma, and Delta programs in the Pacific Rim. *The only part of these major tooling programs we, and others were allowed to even submit proposals on were the uncrating of tooling produced in China for the new Chevrolet Volt. In addition to representing only a small portion of the tooling revenue on these major programs, it is an insult added to injury.* In the case of the Gamma and Delta programs, the aggregate amounts of tooling and purchased parts (known to me) is in the neighborhood of $100,000,000. This would represent employment for thousands of American workers.

Where is the outrage? These are American taxpayer dollars being funneled out of this country in an effort to build an overseas market. And, while the banking situation is very real, the devastation being wreaked upon American small and mid-sized manufacturers is the direct result of the automakers deliberate sourcing of tooling and purchased parts offshore. The lending situation, caused in large part by outsourcing, is now a convenient excuse.

Issues For The Field Hearing:

1. The general issues faced by small and mid-sized manufacturing businesses in the Industrial Midwest are largely the result of deliberate offshore sourcing by the automakers. They are using American taxpayer dollars to do this. To be sure, readily available credit would have helped many local manufacturing businesses to survive, but as long as work is being deliberately funneled offshore, no amount of credit will turn the situation around.
2. The banks are unwilling to assume any risk with respect to lending to small manufacturers. We were offered a loan package totally inadequate to finance the large amount of work we had been awarded. The interest rates were steep, collateral requirements outrageous, and the amount offered would not have been enough. There is definite need, but that is not part of the equation for the banks. They will assume no risk. My own belief is that the needs, along with the benefits far outweigh the risks in lending to small businesses. Small business provides a shot in the arm to any local community.
3. We have found it possible to survive on little or no credit, but if financing were readily available, we would easily be able to double our employment. This would be even more dramatic for a business that has had to close due to lack of financing. Most small businesses create jobs in the local communities surrounding them. The direct result would be reduction in unemployment and injection of dollars into local economies, thereby helping other small businesses
4. Any plan that fosters an increase in responsible lending to small business is a good thing, but I would reiterate that the banks will assume no risks whatsoever. In order for a plan to work, it would have to use the framework of the bank to act as a conduit for funds without risk to itself. While responsible lending is important, in order to maximize a rapid recovery it is unfair to expect the entrepreneur to assume all the risk of the loan personally.
5. Local manufacturing businesses are finding it almost impossible to access credit in any amount that would be of help.

In specific, I requested a $4,000,000 credit line to process $6,000,000 worth of new work, that would have provided jobs for my laid off workforce. I was offered $2,000,000 at high interest rates, with formulas for percentages of work in process and receivables, that would have made it impossible to even borrow the $2,000,000. This was coupled with blanket, and asset specific personal guarantees that made the offering unacceptable. Had I not been able to secure financing from my customer, Chrysler, I would have had to close the business. I have heard from colleagues who are also competitors, that some have been asked to pledge personal collateral in amounts triple to the amount of the loan as security.

Summary:

My belief is that the current crisis in our manufacturing sector is the culmination of years of short-sighted greed by large American multinational corporations, coupled by other countries' predatory trading practices. Our industries have been systematically targeted for extinction by our foreign competitors. The unfair international playing field has exacerbated the situation, making it almost impossible for small business to compete globally.

Yes, credit is almost impossible to get, and yes, readily available credit will help. But if the big three, and other large American corporations will not even try to buy American, there will be no recovery, and we will have lost our ability to manufacture anything. The arsenal of democracy will cease to exist.

Ironically, I was approached by Honda just last week. They are interested in buying tooling that is made in the United States. In conversation with the tooling buyer, I learned that even though they are owned by a Japanese parent company with access to cheap Chinese tooling, they have been instructed to buy tooling here. Why? Because they have gotten the message that since they are selling cars here, it is in their best interest to spend their tooling dollars here in order to reap the sales resulting from the trickledown effect.

They understand the concept of: "Where was it built?" versus "Where did you buy it?"

Our own taxpayer dollars are being used to create jobs overseas…

Where is the outrage?