DONALD A. MANZULLO
16TH DISTRICT, ILLINOIS

COMMITTEE ON FOREIGN AFFAIRS

SENIOR REPUBLICAN
SUBCOMMITTEE ON ASIA, THE PACIFIC, AND THE GLOBAL ENVIRONMENT

SUBCOMMITTEE ON TERRORISM, NONPROLIFERATION, AND TRADE

Congress of the United States
House of Representatives
Washington, DC 20515-1316

COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES

SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE

HOUSE MANUFACTURING CAUCUS
FOUNDER AND CO-CHAIRMAN

October 19, 2010

The Honorable Ben S. Bernanke
Chairman
Board of Governors,
Federal Reserve System
20th and Constitution Avenue, NW
Washington, DC 20551

The Honorable Sheila Bair
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Mr. John Walsh
Acting Director
Office of the Comptroller Currency
U.S. Department of the Treasury
250 E Street, SW
Washington, DC 20219

Mr. John E. Bowman
Acting Director
Office of Thrift Supervision
U.S. Department of the Treasury
1700 G Street, NW
Washington, DC 20552

Dear Regulators:

MANUFACTURING FINANCING

I continue to hear from struggling producers in the manufacturing sector that financing remains nearly impossible to obtain. Hence, little progress is being made on current projects, development, expansion, or job creation.

This is disappointing on several levels; chief among them is that new orders are coming in every day. Yet, the financing for the lines of credit necessary to support new business in the manufacturing sector is non-existent.

This observation was confirmed for me earlier in September when I met with several industry participants at the International Manufacturing Technology Show in Chicago. Once more, I was informed that companies have orders coming in, they want to expand and hire more staff, but they can not get financing. Because of the lack of credit, some of these jobs are going overseas. These are creditworthy borrowers with expanding business lines. These are companies who have traditionally been engines within the manufacturing industry and have strong brand recognition. Further, they have very creditworthy buyers for their products!

WASHINGTON, DC OFFICE:
2228 RAYBURN BUILDING, WASHINGTON, DC 20515 • 202/225-5676 • FAX: 202/225-5284
http://manzullo.house.gov

DISTRICT OFFICES:
❑ 415 SOUTH MULFORD ROAD, ROCKFORD, IL 61108 • 815/394-1231 • FAX: 815/394-3930
❑ 101 NORTH VIRGINIA, SUITE 170, CRYSTAL LAKE, IL 60014 • 815/356-9800 • FAX: 815/356-9803

According to the latest Institute for Supply Management (ISM) report released September 1, 2010, "Economic activity in the manufacturing industry has risen for the 13th month in a row." Further, ISM reported that new orders grew during the month of August, albeit at a slower pace than the month of July. This upward mobility is threatened by the lack of credit availability. However, this lack of credit is not due to the absence of another yet-to-be-created federal program. The cause is the fear banks experience when subjected to the over-exuberant examination environment.

When a large manufacturer cannot obtain financing, it disrupts the entire supply chain. Recently, I spoke with a manufacturer who is frustrated because he needs components from smaller manufacturers to build his product. He has an order in hand, is ready to submit a parts request to the smaller companies, but he simply cannot get a loan to buy the raw materials to fulfill the order. This order is not for inventory! It is for immediate consumption! This is what we have all been praying for: orders!

Additionally, a community bank president with whom I spoke recently said of the examination environment, "When they [the examiners] walk through the door it is as if each loan we have made is classified until we can prove otherwise." Moreover, it is increasingly frustrating for a community bank to close for the night as a sound financial institution only to open for business the next day as a troubled financial institution with nothing having changed other than a random notice from regulators that the bank is now being subject to new capital requirements.

RESIDENTIAL HOME FINANCING

Further, in the housing industry, I hear reports from local realtors that nine out of ten loan applications are rejected. At least half of those are otherwise creditworthy borrowers. Many of these borrowers are looking for loans to purchase short sale and foreclosure properties. The hold-up is not over a lack of money. The banking community has money to lend. However, banks are nervous about making loans that are sound yet still result in a pounding by overzealous and overcompensating examiners. You are aware that it is extremely important to move the inventory of short sale and foreclosed property because once we work through that inventory the industry will be more market-based. However, you are the hold-up on moving these properties.

Like my constituents, I am extremely frustrated, not because this is an issue of ill will on the part of examiners or bankers or you, the federal regulators. However, it is clear that what is hindering recovery is the choke-hold examiners have on the banks that should be making loans to creditworthy borrowers. Washington can not spend our way out of this recession. We must manufacture and sell our way out of this recession.

However, when we meet, when questions are asked at hearings, when statements are given in the press, the mantra continues to be that nothing has changed and there is no new aggressive directive. We are told that examiners are just doing their jobs. **Yet, credit in this country continues to be held hostage by financial institutions too overwhelmed with the examination environment to approve loans!**

The pendulum has swung way too far in the other direction. I am not suggesting a return to bad lending standards, though many lax lending standards were addressed when the new Regulation Z standards took effect October 1, 2009. I am looking for answers and action. I want to know what you are doing to ease the grip examiners have on the banking industry. If an answer cannot be given then it is no wonder examiners have been as ruthless in reviewing banks as observed, seemingly well beyond your expressed mandates. **The recovery is in your hands: the examiners work for you. You must change your model in working with these examiners. The status quo cannot be maintained or we will never escape this economic abyss.** I appreciate your prompt attention to this urgent request.

Sincerely yours,

Donald A. Manzullo
Member of Congress