Manufacturing Modernization and Diversification Act of 2010

Background

While the US economy is beginning to recover, too many manufacturers are unable to access the credit they need to sustain and expand their business. The manufacturing sector was particularly hard hit by the recession and financial crisis, leaving many firms with diminished cash flow and depleted collateral. As a result, even where banks have the capital to lend, many viable manufacturers are unable to qualify for the loan they need to recover and support our national recovery.

Summary

The Manufacturing Modernization and Diversification Act will help manufacturers access badly needed credit by directly addressing their cash flow and collateral shortfalls.

Based on a successful Michigan Economic Development Corporation model, the proposed legislation would allow states to access a revolving loan fund at Treasury to fund eligible loan programs. Each state would be able to target the type of lending it believes is most critical, such as financing for diversification of existing firms' business into new and growing sectors.

The Manufacturing Modernization and Diversification Act would make $20 billion in TARP funds available on an as-needed basis to participating states.

Each state's program would rely on private underwriting standards and commercial banks would in all cases bear the majority of the credit risk of the loan. States would be authorized to provide two types of assistance to eligible manufacturers:

Loan Participation Program

States would be authorized to purchase up to 49.9 percent of an eligible loan from a commercial lender and defer interest and principal payments for up to three years. The resulting combined loan would have lower initial payments, providing the manufacturer with a lower debt service burden until their business more fully recovers or their investment begins to generate cash flow. The terms of the loan would be determined on a commercial basis and the lender would continue to service the entire loan.

Collateral Support Program

States would be authorized to provide up to 49.9 percent of the required collateral for an eligible loan by placing cash on deposit in an interest bearing account with the lender. In the event of a default, the account would be available for repayment of the loan (with a haircut). As the loan is repaid, the state would draw down the deposit account.

States would earn interest under both programs and would be authorized to charge appropriate fees to participating manufacturers. States would return the funds to the Treasury with interest as the loans are repaid. Fees and interest beyond that required to repay the Treasury could be retained by the states for administrative costs.