To the Graduate Council:

I am submitting herewith a dissertation written by James Wesley Slate entitled "The Business Development Corporation of North Carolina, 1955 - 1985: A Record of the First Statewide Development Credit Corporation in the South." I have examined the final copy of this dissertation for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy with a major in Economics.

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THE BUSINESS DEVELOPMENT CORPORATION OF NORTH CAROLINA, 1955 - 1981: A Record of the First Statewide Development Credit Corporation in the South

A Dissertation

Presented for the

Doctor of Philosophy

Degree

The University of Tennessee, Knoxville

James Wesley Slate

May 1995

DEDICATION

This dissertation is dedicated to my wife

Lisabeth Faye Slate

and daughter

Taylor McClure Slate

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ABSTRACT

The Small Business Administration was created in 1953 as a compromise between Democrats and Republicans over the closure of the Reconstruction Finance Corporation. In testimony leading to the SBA's establishment, the Federal Reserve Board asserted that short-term credit needs of businesses were adequately met by commercial banks, but that long-term credit and equity was insufficient for small scale manufacturing concerns. At the state-level a movement to assist businesses facing similar financial constraints had already begun. In 1949, for instance, Maine had established the Development Credit Corporation of Maine. During the 1950s this organizational form spread throughout the New England and Mid-Atlantic region. One such bank was established in North Carolina, the first of its kind in the South.

This dissertation investigates the birth, life, and eventual demise of the The Business Development Corporation of North Carolina, (BDC). As a quasi-public agency, the BDC possessed distinct operating rules from the SBA. Its capital base was formed through stock issues versus public funds, and its lending activity was financially supported by private financial members that became members of the BDC. In essence the BDC performed as a risk-pooling agency for the private sector with an objective of stimulating development across the State.

It is concluded that the Business Development Corporation of North Carolina evolved from a concern servicing native North Carolinian entrepreneurial hopes into a state level tool designed to attract and develop big business. Lacking the use of Industrial Revenue Bonds until 1977, the BDC operated as the only state authorized agency providing financial support for business recruitment between 1955 and 1977. Due to competitive forces, such as the growth of the SBA, and to external factors, such as the escalating Prime Rate, activity at the BDC declined in the 1970s. By the end of the decade it was no longer a viable development tool and was subsequently dismissed.

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CHAPTER ONE

INTRODUCTION

As a compromise between Republicans and Democrats over the liquidation of the Reconstruction Finance Corporation (RFC) in 1953, the Small Business Administration (SBA) was authorized. At the core of the debate that lead to this authorization was an alleged credit gap that was said, by proponents of the legislation, to affect small business. In the end, a political compromise gave America the SBA.

Initially the SBA was given a revolving fund of $275 million and temporary status. It was directed to extend credit to small businesses that could not secure financing in the private sector. By so doing, it served as a direct replacement of the RFC, but the SBA also provided management assistance that had previously been the exclusive domain of the Department of Commerce, and provided procurement assistance that had been the exclusive domain of the Small Defense Plants Administration. Financial assistance would become by far the largest activity of the SBA.[1]

From its start, financial assistance provided by the SBA consisted of "business loans" and of "disaster and displaced business loans." Business loans consisted of: direct loans made by the SBA; participation loans where extended credit was shared by the SBA and a private bank; and loan guarantees where the SBA insured a percentage of principle

[1] Addison W. Parris, The Small Business Administration. New York, etc.: Frederick A. Praeger, 1968, p. 57.

extended by a client bank.[2] In 1958 the SBA was given permanent status under the Small Business Investment Act, and was also authorized to provide venture capital to small businesses by way of loans to Small Business Investment Companies (SBICs) authorized under the same act.[3]

The original Small Business Act of 1953 was passed in spite of protest from the American Banking Association (ABA).[4] This group asserted that the private sector could adequately handle business credit. The ABA saw no credit gap and no need for a Small Business Administration. In 1957, the Federal Reserve partially confirmed the banking community's assertion. In Senate Hearings that produced the Small Business Investment Act of 1958, the Federal Reserve Board's position was placed on record. In a letter from the FRB to Senator Fulbright (the Chairman of the Committee on Banking and Currency), it was asserted that "if there is any gap today in institutional or mechanical means for providing the necessary financing for business enterprise it would appear to relate primarily to long-term debt and equity capital."[5] In a separate letter the Board of Governors continued their argument:

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[2] The Loan Guaranty Plan was implemented in 1963 to supplement the Deferred Bank Participation Plan. The deferred participation action consisted of a written agreement between the SBA and a participating bank that directed the SBA to assume a portion of the bank administered loan at a future date if the bank chose to execute the agreement. The guaranty action consists of the SBA insuring a loan for a percentage of the principle against default by the loan recipient.

[3] Carl M. Flora, "The Small Business Investment Act of 1958," Banking, October 1958, p. 38-39.

[4] Parris, The Small Business Administration, p. 21.

[5] Senate Committee on Banking and Currency, "Credit Needs of Small Business: Hearings before a Subcommittee of the Committee on Banking and Currency." United States Senate, 85th Congress, First Session, on

> As a general principle, it is the Board's view that the role of the Federal Government in aiding the financing of small business should be that of encouraging the development of additional private local or regional facilities rather than itself acting as a lender. ... [However], in the field of equity or risk capital there are identifiable impediments to the free flow of funds to small business. ... It is less clear that there are widespread artificial barriers to the availability of loan funds.[6]

The Board concluded that "the establishment of regional privately owned investment companies ... might contribute to the solution of both equity and long-term loan problems of small business."[7]

The Board's agreement with the ABA that short-term credit needs were met by the private sector was modified by the suggestion that acquiring equity or long-term loans was a problem for small business. This undoubtedly contributed to the passage of the Small Business Investment Act of 1958 and the establishment of the SBA as a permanent agency by that Act, as well as the creation of SBICs.[8] Loans by the SBA to SBICs were to be used as equity capital for start-up firms, and small but expanding firms, preferably in the manufacturing sector. (The SBIC

Various Bills to Amend the Small Business Act of 1953 as Amended. June 3, 4, 5, 6, 10, 11, 13, 18, and 20, 1957. Letter from Board of Governors of the Federal Reserve System to Hon. J.W. Fulbright, Chairman, Committee on Banking and Currency, Feb. 19, 1957, p. 53.

[6] "Credit Needs of Small Business", Letter from the Board of Governor's of the Federal Reserve System, Office of the Vice Chairman to Hon. J.W. Fulbright, Chairman, Committee on Banking and Currency, June 7, 1957, p. 52.

[7] Ibid.

[8] Parris, The Small Business Administration, p. 74-75, 151-152, 230.

program started slowly but by the end of the 1960s had become an important part of the SBA).

While debate and action over small business finance continued, a movement at the state level to address the same apparent credit gap emerged. Before the Small Business Investment Act of 1958 and before the Federal Reserve Board asserted that small businesses lacked access to long term financing, fourteen states had passed enabling legislation for Statewide Development Credit Corporations.[9] Each of these was created to stimulate economic development and to do so by providing long-term capital to new and expanding firms that could not secure credit or equity in the private sector. Like the 1958 Small Business Investment Act, Statewide Development Credit Corporations (SDCCs) were designed to address the problem of capital availability for extra-risky ventures.[10]

Studies of the SBA are many and varied. The same cannot be said of Statewide Development Credit Corporations. The purpose of this study is to address this gap. As with any major event, such as the establishment of the SBA, the move to establish SDCCs is a complex happening. Instead of investigating this complex event by considering each original SDCC,

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[9] U.S. Department of Commerce, Office of Area Development, Statewide Industrial Development Credit Corporations and State Development Authorities. Washington: Government Printing Office, 1958, Table A.

[10] One scholar asserts that the first SDCC was initiated by the concerns of bankers and businessmen.

H. Austin Peck & Associates, Sources and Availability of Funds to Small Manufacturing Firms in Maine. (Management Resource Reports, US SBA), 1962, p.61.

this dissertation is a 'microscopic' review of the Business Development Corporation of North Carolina (BDC).

The Business Development Corporation of North Carolina is an important part of the original SDCC movement because of its success and the related attention it received from other states pursuing the creation of their own SDCC. Also, it was the South's first Statewide Development Credit Corporation and served North Carolina's successful push for industrial expansion during the 1950s and 1960s.

Its story involves State-specific events that affected the organization and operation of the Corporation. For instance, North Carolina did not allow the use of industrial revenue bonds until 1977.[11] The BDC was organized in 1955 and began operations in 1956. Thus the BDC served as the only financial program authorized by North Carolina to promote economic development for 21 years. Compared to an SDCC operating in a state where bonding programs were allowed, one would expect that the behavior of the BDC would be distinctly different.

The fundamental similarity of the original SDCCs was their organizational form. Base capital for these organizations was raised by stock issues, but most of their activity was supported by loans from private commercial banks, savings & loan associations, and insurance companies. By gathering loans from the private sector that were then turned to loans for extra-risky business ventures, the original SDCCs served as risk-pooling agencies. This was a different approach than

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[11] Revenue bonds were used briefly during the 1960s in North Carolina but were ruled unconstitutional in 1968 by the State Supreme Court.

that incorporated in the Small Business Investment Act of 1958. How well it worked and with what specific geographic and structural consequences in the State of North Carolina is the subject of this study.

The research for this project was done in several libraries across the State of North Carolina including those on the campuses of Appalachian State University, Western Carolina University, UNC-Asheville, UNC-Greensboro, and Wake Forest University. Primary materials used are located at The University of North Carolina at Chapel Hill and at the North Carolina State Library and Archives. The former retains archival materials on North Carolina governors at the North Carolina Collection and at the Southern Historical Collection. Additional correspondance and documents are located in the Governor's Papers files housed at the North Carolina State Archives. Finally, Reports of Examination of the Business Development Corporation conducted by the State Banking Commission as well as Annual Reports of the Business Development Corporation of North Carolina, and memos and letters of the same, are located in the Old Records Center of the North Carolina State Library.

Analysis of the BDC begins in Chapter Three of this study. A review of the SDCC and of North Carolina's industrial policy during the Sunbelt boom follows.

CHAPTER TWO

STATEWIDE DEVELOPMENT CREDIT CORPORATIONS: The Other Industrial Policy Tool of the Post WW II Era

OVERVIEW: Statewide Development Credit Corporations

The first Statewide Development Credit Corporation (SDCC) was organized in August, 1949 in Maine.[1] The enabling legislation and by-laws of the Development Credit Corporation of Maine (DCCM) served as example for SDCC's that followed. The legislation stipulated that the DCCM operate as a private corporation. No state funds were to be used in the agency. Funds were raised by stock issues and by pledged loans of member financial institutions. By becoming a member of the DCCM, commercial banks, savings & loan associations, and insurance companies agreed to extend credit to the DCCM to assist its objectives. These extensions were not to exceed 2 & 1/2 percent of the member's capital and surplus.[2]

The enabling legislation proclaimed that the DCCM's mission was stimulation of new industry and business and the promotion of the state's "growth and thrift".[3] The DCCM was the nation's first quasi-public state investment bank in the twentieth century.

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[1] U.S. Department of Commerce, Office of Area Development, Statewide Industrial Development Credit Corporations and State Development Authorities. Washington, D.C.: U.S. GPO, 1958.

[2] H. Austin Peck & Associates, Sources and Availability of Funds to Small Manufacturing Firms in Maine. (Management Resource Reports, US SBA), 1962, p. 61-62.

[3] Ibid.

Following Maine's initiative, New Hampshire authorized a SDCC in 1951, as did Massachusetts, Connecticut, Rhode Island, and Vermont in 1953. As Table 2.1 demonstrates, the SDCC was largely a Northeastern phenomenon initially; North Carolina being the only non-Northeastern state to organize such a bank before 1956. Each SDCC to that date followed the general organization and objectives set by the DCCM. Each issued stock to individuals and businesses, and each allowed private financial institutions to become members in the development bank whether the private concern held stock in the development bank or not. Finally, each SDCC had limitations placed on the amount of outstanding debt owed to private members of the development bank, typically stated as a multiple of paid-in capital.

TABLE 2.1
States with Development Credit Corporations in Operation
1958

NAME OF ORGANIZATION	DATE ORGANIZED
Development Credit Corporation of Maine	August, 1949
New Hampshire Business Development Corporation	July, 1951
Massachusetts Business Development Corporation	July, 1953
Connecticut Development Credit Corporation	(1953)
Rhode Island Development Company	February, 1953
Business Development Corporation of North Carolina	May, 1955
New York Business Development Corporation	April, 1955

Source: U.S. Dept. of Commerce, Statewide Industrial Development Corporations, p. 2-4, Table A.

By 1968, SDCCs could be found in 37 states:[4]

Alaska	Kansas	North Dakota
Arizona	Kentucky	Ohio
Arkansas	Maine	Oregon
California	Maryland	Pennsylvania
Colorado	Massachusetts	Rhode Island
Connecticut	Minnesota	South Dakota
Delaware	Mississippi	Tennessee
Florida	Nebraska	Utah
Hawaii	New Hampshire	Vermont
Idaho	New Jersey	Virginia
Illinois	New York	Washington
Indiana	North Carolina	Wyoming
Iowa		

Of the four leading forms of financial programs used at the state level to aid industrial development in 1968, the SDCC ranked second in use. As Table 2.2 shows, the SDCC remained a favorite financial institution through the 1970s and into the early 1980s.

Table 2.2 also shows that SDCC organizations peaked in number in 1975. Ten SDCC's were closed between 1975 and 1983, including Maine's and North Carolina's. The Business Development Corporation of North Carolina, the first SDCC in the South, went into liquidation in 1982 and was dissolved in 1985.[5]

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[4] Linda Liston, "The 50 Legislative Climates Come Under Fire", Industrial Development, November-December, 1968, p. 17.

[5] Certified Copy of Resolutions of The Board of Directors of The Business Development Corporation of North Carolina, April 9th, 1982. North Carolina State Library.

Letter from Lacy H.Thornburg, Attorney General, State of North Carolina, to Clyde Smith, Deputy Secretary of State, April 29th, 1985. North Carolina State Library.

TABLE 2.2
Number of States Using Various Financial Programs
to Aid Industrial Development
by Select Years

PROGRAM	Number of States In 1968	1975	1981	1983
State Industrial Development Authority	30	31	32	33
Statewide Development Credit Corporation	38	39	33	32
Revenue Bond Financing -- State Agency	13	17	25	28
Revenue Bond Financing -- City / County	39	43	47	49

Sources: (1) Liston, "Legislative Climates", p. 17.
(2) Site Selection Handbook, June 1975, 20:2:126
(3) ______________________, Sept. 1981, 26:3:386
(4) ______________________, Sept. 1983, 28:3:540

Statewide Development Credit Corporations differed from another new state institution, the Industrial Development Authority, by its exclusive use of private funds.[6] The SDCC is a quasi-public institution while the Development Authority is strictly public.

Since WW II industrial inducement tools have proliferated at the state level in the United States. Industrial revenue bonds, tax exemptions on goods in transit, tax exemptions on raw materials used in manufacturing, and tax exemptions on manufacturers' inventories are but some of the tools that came into wide use during the period. In 1968, for example, 13 states used revenue bonds and 39 states allowed cities and counties to issue these bonds. Forty states exempted goods in

[6] The BDC did accept loans from the SBA beginning in 1958. Presumably other SDCCs did as well.

transit from taxation, and 36 exempted raw materials of manufacturers from taxation. Finally, 28 states allowed some variety of exemption for manufacturers' inventories.[7] In addition, Southern states pursued aggressive marketing campaigns to attract industry, and emphasized right-to-work laws as an advantage.

The literature covering this aspect of American history is extensive. In Selling of the South, James Cobb discusses the use and proliferation of industrial inducement tools.[8] A review of current analysis by regional economists of these efforts is provided in Industry Location and Public Policy.[9]

The analysis of, and debate over, industrial revenue bonds is as old as their original use in Mississippi. Thomas L. Stokes wrote a series of negative articles in 1936 almost immediately after Mississippi began using industrial revenue bonds.[10] After revenue bonds had spread to no fewer than 34 states, the Financial Analysts Journal in November of 1968 published a couplet of articles that debated the merits of tax

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[7] Liston, "Legislative Climate", 17-18.

[8] James C. Cobb, The Selling of the South: The Southern Crusade for Industrial Development, 1936-1990, Second Edition. Urbana & Chicago: Univeristy of Illinois Press, 1993. Cobb's definition of the South equals those states of the confederacy plus Kentucky and Oklahoma. The definition is used in this chapter.

[9] Henry W. Herzog, Jr. & Alan M. Scholottman, eds., Industry Location and Public Policy. Knoxville: The University of Tennessee Press, 1991

[10] John M. Lovorn, Jr., "Bonds For Industrial Expansion: Origin and Experience in Mississippi", AIDC Journal, 11:3:7-33, July 1976, p. 17.

exempt industrial revenue bonds.[11] Previously, John E. Moes had written a text covering the merits and nature of industrial subsidization.[12]

Post WW II industrial development tools have been considered at length in the literature. However, Statewide Development Credit Corporations have received relatively little attention. The majority of articles and texts that do mention SDCC's cite their existence but do not go so far as to describe and analyze their functions in detail. Little analysis has been conducted on their evolution or operations. Usually they are merely mentioned and the differences from Industrial Development Authorities noted.[13]

Two studies are available that do present details on individual SDCC's. Joe S. Floyd, Jr. and Luther Hartwell Hodges, Jr. use the Business Development Corporation of North Carolina as representative of all SDCC's.[14] Their presentation is brief, but does cover the overall

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[11] Arthur A. Thompson, "The Social Benefits of Tax-Exempt Industrial Development Bonds", Financial Analysts Journal, November-December, 1968, p. 99-103.

Kenneth J. Crepas and Richard A. Stevenson, "Are Industrial Aid Bonds Fulfilling Their Intended Purpose?", Financial Analysts Journal, November-December, 1968, p. 105-109.

[12] John E. Moes, Local Subsidies for Industry. Chapel Hill: The University of North Carolina Press, 1962.

[13] For example see:

William R. Thomas, Historical and Functional Aspects of State Industrial Development Organizations. South Carolina University. Bureau of Business and Economic Research. Occasional Studies, no. 9, May, 1975. See in particular page 50;

Adolph T. Schimdt, "Industrial Development Becomes Big Business", Commercial and Financial Chronicle, 205:6692:2436-2437, June 22, 1977, p. 2436.

[14] Joe S. Floyd, Jr. ad Luther H. Hodges, Jr., Financing Industrial Growth: Private and Public Sources of Long Term Capital for Industry. School of Business Administration, University of North Carolina, Chapel Hill, Research Paper no. 10, 1962.

growth of the BDC from 1955 to 1961.[15] Austin Peck's study for the Small Business Administration is a review of available capital in Maine and includes coverage of the DCCM.[16] Peck presents an overall summary of the DCCM's operations to 1959.[17] More often than not, however, SDCC's are not mentioned in the literature on industrial development efforts, perhaps because SDCCs operated as private corporations and did not make use of public funds.[18]

Of course it is also possible that the activities of SDCCs were so insignificant that scholars simply ignore them, but it is notable that financial activity of SDCC's outranked that of Industrial Development Authorities during the late 1950s. In 1958, for example, loans made by SDCCs equaled $31.3 million, while credit and equity provided by Finance Authorities was $4.2 million.[19] As mentioned earlier, 32 states retained at least one SDCC in 1983: Presumably the SDCC is not as historically insignificant as the literature suggests.

This study considers the life of the Business Development Corporation of North Carolina. A primary intent is to determine the significance of BDC financing to the State's industrial development. North Carolina did not use industrial revenue bonds until 1977.

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[15] Ibid, p. 29-31.

[16] Peck, Availability of Funds... in Maine, 1962.

[17] Ibid, p.61-67.

[18] This ommission in the literature begins with the first attempt to describe the evolution of state development policy and programs written by; Alfred W. Swinyard, Henrik O. Helmers, and James N. Vedder. State Economic Development: Status and Appraisal. Michigan Business Reports, no. 51. Ann Arbor, MI: Bureau of Business Research, Graduate School of Business Administration, The University of Michigan, 1967.

[19] U.S. Dept. of Commerce, Statewide Industrial Development Corporations, p.2-7, Tables A & B.

Further, the industrial policy of the State since WW II has some peculiar aspects. Therefore, a review of North Carolina's industrial policy for the period is in order.

OVERVIEW: North Carolina's Industrial Policy, 1954 to 1984

It is useful to review North Carolina's industrial policy in terms of similarities and differences with other Southern states even though other regions of the U.S. also pursued similar programs. In 1968, thirty-nine states allowed local governments to issue revenue bonds for industrial purposes. Of these, twenty-eight were located outside of the South.[20] Of 13 states with a State Authority or Agency issuing Revenue Bonds, 11 were located outside of the South.[21] In addition, "tax concessions" were not exclusively a Southern phenomenon as the evidence presented in the earlier section of this study shows.

The South, however, has been the subject of special treatment by scholars in part because the area lagged behind the Northeast and Great Lakes region in industrial development for most of this century. The role of industrial policy in the recent Sunbelt boom has been of great interest. Special treatment is reinforced by the origin of revenue bonding in the state of Mississippi, and the early emphasis on revenue bonding in Mississippi, Alabama, Kentucky, and Tennessee. The presence of right-to-work laws and a lower rate of unionization, along with an increase in manufacturing employment from 1947 to 1987, as the

20 Liston, "Legislative Climate", p. 17.
21 Ibid.

percentage of industrial employees declined for the nation,[22] reinforces this interest.

Other than North Carolina's right-to-work legislation, shared by 10 other Southern states in 1968,[23] the main similarity of its industrial policy with that of Southern states was the recruitment program. Direct appeal to Northern industrialists to locate branch facilities in the South became a primary tactic in Southern states. In the 1940s, 50s, and 60s, Southern Governors took it upon themselves to get out in the field and recruit industry directly. The main advantage of using Governors was their ability to talk directly with the highest officials in prospective firms.[24] Executives using this approach included Governor George Wallace of Alabama, Governor J. Lindsay Almond, Jr. of Virginia, and Governor Luther Hartwell Hodges of North Carolina.

During Hodges years as Governor (1954-1961), industrial recruitment became a primary policy tool in North Carolina. Governor Terry Sanford (1961-1965) continued the tradition of the itinerant executive. Thereafter, state agencies assumed more responsibility for recruitment while relying less on recruitment trips by the governor.

North Carolina's Department of Conservation and Development, established in 1925, managed recruitment during the post WW II era. In 1971, Conservation & Development merged with the Department of Water & Air Resources, as part of Governor Robert Scott's reorganization

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22 U.S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1947 & 1987. Washington, D.C.: Government Printing Office.

23 Liston, "Legislative Climate", p.19.

24 Cobb, Selling of the South, p. 75.

program. In this scheme, recruitment was conducted by the new Department of Natural & Economic Resources (NER). Governor James Hunt, in 1977, moved recruitment out of NER and into the Department of Commerce.

While these reorganizations were taking place, the Statehouse began to turn its attention, in economic matters, to state-wide planning. This resulted in part from Federal influence. In particular, the programs of the Appalachian Regional Commission and the Economic Development Administration played a strong role in the growth of multi-county planning and state-wide planning in North Carolina.

The Appalachian Regional Commission designated 29 North Carolina counties as within its district. The Coastal Plains Regional Commission, operating as a division of the Economic Development Administration, designated 41 counties as within its district. With these Federal divisions in the background, Governor Scott began a campaign to organize multi-county planning units in 1970. This was done in part to eliminate conflicting territorial objectives of similar Federal and State programs.

The end result of this campaign was 17 multi-county planning regions (MPR's). The regional definitions, and the 17 MPR's, were the foundation of state-wide planning efforts that began in the 1970s.[25] It was not a coincidence that the boundaries for these districts maintained the Federal definition of North Carolina's Mountain and Coastal Plain regions.

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[25] Presumably, the Coastal Plain Regional Commission had similar effects on the States of South Carolina and Georgia as well.

The regional diversity of industry in North Carolina influenced the boundaries established by the Federal programs. The Piedmont in the central portion of the state dominated the industrial structure: the Mountain region to the west and the Coastal Plain and Tidewater regions to the east lagged in the 1960s.

Individuals in North Carolina's government had voiced their concerns for the lagging regions before the Federal programs of the mid-1960s. In 1955, Ben Douglas -- outgoing department head of Conservation & Development -- declared the eastern portion of North Carolina as "the greatest underdeveloped area ... of any area in the entire nation".[26] Governor Hodges asserted a particular concern for "the counties east of Raleigh" in 1955.[27] These concerns continued, but it was not until 1972 that an explicit policy was pursued to assist the lagging regions in the State.

During Governor Scott's tenure, (1969-1973) the Statewide Development Policy emerged. The main objective of this policy was to place jobs where people lived, and alleviate population pressure on the State's industrial core -- the Piedmont. This policy was reborn in 1978 under the guidance of Governor Hunt as the Balanced Growth Policy. In contrast to Mississippi's Balanced Agriculture With Industry program,

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[26] "Industrial Parley Told How To Get New Plants", Charlotte Observer, 12/13/55, p. 3a.

[27] "Address Before the North Carolina Citizens Association," Raleigh, March 23, 1955, James W. Patton, ed. Messages, Addresses, and Public Papers of Luther Hartwell Hodges: Governor of North Carolina, 1954-1961, Vol I. Raleigh: Council of State, State of North Carolina, 1960, p. 108.

North Carolina's Balanced Growth Policy intended to balance the regional composition of industry, not the sectoral composition of employment.

The regional concerns and government reactions were peculiar to North Carolina, though Georgia and South Carolina shared similar diversity in regional location of industry. Two strict differences in North Carolina's industrial policy were the relative absence of tax concessions over the period and the organization of a major research facility to encourage development that would bring higher wages.

The Research Triangle Park of North Carolina was intended, in part, to attract industry providing higher income than North Carolina's traditional industries of textiles, furniture, and tobacco. These industries paid low wages, and every Governor of North Carolina since WW II addressed the need of the State to attract higher wage industry. Governor Hodges' main effort to achieve this was the Research Triangle Plan. During the 1970s, Governor James Holshouser made a point of encouraging state and local agencies to target high wage industries in their recruitment programs.

Political rhetoric, of course, has embraced the "more and better jobs" slogan. In North Carolina, however, the ring was more sincere from the 1950s to the 1970s since North Carolina already had a large, but low wage, industrial labor force at the conclusion of WW II. In fact, North Carolina's industrial labor force of 1947 was the largest in the South including the state of Texas.[28]

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[28] U.S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1947. Washington, D.C.: Government Printing Office.

In use of tax concessions North Carolina cannot be considered aggressive.[29] During the 1950s, Governor Hodges asked the Legislature to adjust the corporate tax code, though not dramatically. The new code simply followed the national pattern of excluding taxes on corporate income that could not be attributed to industrial facilities operating in North Carolina. This avoided taxation of all taxable income of corporations that operated branches within the State. North Carolina was not alone in this stipulation. In fact, the code was adjusted to "...bring [North Carolina] in line with the approach used by the great majority of other states."[30]

North Carolina did provide other tax incentives during the post war era. First, the State allowed an Inventory Tax Exemption on Goods in Transit, but so too did 11 other Southern states. Second, North Carolina provided a preferential rate of 1% sales tax ($80 maximum) on new industrial equipment. Ten other Southern states used some form of Sales/Use Tax Exemptions on New Equipment. Third, North Carolina taxed tobacco used in manufacturing at 60 percent of the normal raw material rate, cotton at 40 percent, and peanuts at 20 percent. All Southern states used some form of tax exemption for raw materials used in manufacturing. Fourth, beginning in 1981, North Carolina allowed an exemption for manufacturers' inventories, joining nine other Southern

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29 Site Selection Handbook. June 1975, 20:2:127. Feb. 1977, 22:1:8. Sept. 1978, 23:3:78. Sept. 1981, 26:3:388. Sept. 1982, 27:3:530. Sept. 1983, 28:3:542.

30 "Inaugural Address: Before a Joint Session of the General Assembly," February 7, 1957, Patton, Messages, Governor Hodges, Vol. II, p. 20.

states in doing so. Of twelve possible tax incentives[31] mentioned in the Site Selection Handbook survey, North Carolina used only four between 1968 and 1981. This number is well below the average for the nation.

The most striking difference in North Carolina can be found in its financial program for new and expanded industry. While being the first Southern state to organize an SDCC, North Carolina was the last to use industrial revenue bonds for industry development. In 1977, the Legislature finally allowed cities and counties to issue these instruments. Nine years earlier, the North Carolina Supreme Court had ruled revenue bond financing at the State level as unconstitutional.[32] As Table 2.3 shows, the timing of North Carolina's revenue bond financing program was uncharacteristic of a Southern state. Even in 1962, nine Southern states authorized the use of industrial revenue bonds by local governments.[33]

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[31] These include: Corporate Income Tax Exemption; Personal Income Tax Exemption; Excise Tax Exemption; Tax Exemption or Moratorium on Land or Capital Improvements; Tax Exemption or Moratorium on Equipment and Machinery; Inventory Tax Exemption on Goods In Transit; Tax Exemption on Manufacturers' Inventories; Sales/Use Tax Exemption on New Equipment; Tax Exemption on Raw Materials Used in Manufacturing; Tax Credits for Use of Specified State Products; Tax Stabilization Agreements for Specified Industries; and Tax Exemption to Encourage Research and Development.

[32] Liston, "Legislative Climates", p. 17.

[33] Cobb, Selling of the South, p. 36.

TABLE 2.3
Number of Southern States Using Various Financial Programs
to Aid Industrial Development
by Select Years

PROGRAM	Number of States In 1968	1975	1981	1983
State Industrial Development Authority	9	10	10	9
Statewide Development Credit Corporation	7	13	9	7
Revenue Bond Financing -- State Agency	1	1	4	4
Revenue Bond Financing -- City / County	11	12	13	13

Sources: (1) Liston, "Legislative Climates", p.17
(2) Site Selection Handbook, June 1975, 20:2:126
(3) ______________________, Sept. 1981, 26:3:386
(4) ______________________, Sept. 1983, 28:3:540

Though North Carolina began using industrial revenue bonds comparatively late, cities and counties of the State made up for the delay by using these instruments aggressively. By 1983, six years after authorization, 430 transactions had been made totaling 1.4 billion dollars.[34] This amount surpassed the total amounts issued by 1983 in Florida, Oklahoma, South Carolina, and Mississippi.[35]

Did the Business Development Corporation of North Carolina serve as a substitute for revenue bonding before 1977? Only in the sense that the BDC was the only finanical institution in the State -- public or quasi-public -- engaged in the economic development of North Carolina from 1956 to 1977.[36] First of all, the BDC was not offered by Governor Hodges, the founder of the BDC, to North Carolina's General Assembly as

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[34] Site Selection Handbook, Sept. 1983, 28:3:550.
[35] Ibid.
[36] Revenue bonds were used briefly in 1966-67 but were ruled unconstitutional in 1968 by North Carolina's Supreme Court.

an alternative to revenue bonding. Hodges confessed after his term as Governor that the BDC was simply a replication of a Northern innovation in development finance.[37] As described below, the BDC was created to provide financing to smaller North Carolina businesses, new or expanding, that could not secure credit in the private sector. Unlike revenue bond programs, the BDC was not created to subsidize new industry for local communities. The BDC was not a state initiated 'alternative' to revenue bonding. The BDC could not provide the advantages of revenue bonding. For example, the use of municipal bonds effectively allowed industrialists to secure a lower rate of interest, rental payments to municipal owned properties could be deducted from Federal taxes, and municipally owned plants were frequently exempt from state and local taxes.[38] In contrast, the BDC borrowed money from private banks at rates slightly above prime, reloaning the funds at rates sufficient to pay salaries and expenses and to provide profits. If seen as a substitute by default, it was still a poor one.

Why then was the BDC established? Before answering that, it is useful to speculate on the conspicuous absence of revenue bonding in North Carolina. During the 1950s a national debate about the use of revenue bonds continued as did the spread of bonding programs. North Carolina refused to join the national trend of using revenue bonds, and actually voiced concerns similar to those heard in the North, the home of most revenue bond critics.

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[37] Luther Hartwell Hodges, Businessman in the Statehouse. Chapel Hill: The University of North Carolina Press, 1962, p. 38.

[38] Cobb, Selling of the South, p. 37.

Senator John F. Kennedy, a leading critic, wrote in an article that appeared in the Atlantic Monthly of a "hypothetical case" involving the liquidation of 13 New England textile mills, and their relocation to the South.[39] Kennedy attributed the shift of the nation's industrial base, from North to South, to many factors, and included bond programs among them. Kennedy asserted that "one of the most obviously unfair inducements offered to those considering migration is the tax-free plant built by a southern community with the proceeds of Federally tax-exempt municipal bonds."[40] By "those considering migration" Kennedy meant textile companies. The article refers to the Massachusetts town of Lawrence that was "particularly dependent upon the textile industry," and to several textile firms including the Kilburn Cotton Mill that was "partially liquidated and moved to North Carolina."

However, the recipient town of travelling Kilburn certainly did not secure its location through tax-exempt revenue bonds. At the time, municipal bonds could not be used for such purposes in North Carolina. Further, it appears that the strong textile base in North Carolina played a leading role in preventing the use of revenue bonds in the State. North Carolina businessmen (many associated with the textile industry) based their opposition to revenue bonding on the injurious effect revenue bond programs had on the State's textile industry.[41] Thus in the early fifties, when revenue bond programs had an image of

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39 John F. Kennedy, "New England and the South: The Struggle for Industry." <u>The Atlantic Monthly</u>, (January, 1954), p.32-36.

40 Ibid., p. 33.

41 "The Trend: The Economic Consequences of BAWI." Business Week, (April 26, 1952), p. 180.

subsidizing the migration of textile plants, North Carolinian textile men stood together with New Englanders in opposition to such programs.

So why was the BDC organized? It may have been the result of North Carolina's political reality. Governor Hodges, founder of the BDC, was himself from the textile industry. Hodges' political career in North Carolina was undoubtedly supported financially by textile wealth, his own and others. Obviously, once Hodges assumed the Governor's office it would have been difficult for him to support a revenue bonding program given the opposition of the textile industry. On the other hand the State was littered with underdeveloped communities, many with community development corporations seeking means to improve their towns' lot. There is no record of Hodges supporting or considering a revenue bond program, nor is there a record of local groups petitioning the State to enable the use of one during his term. Though I found no record to confirm it, it is possible that the BDC was established as a compromise measure intended to assist local communities while avoiding the wrath of North Carolina's giant textile industry.[42] It can not be known, however, if in fact this was the case. All of the evidence considered and discussed below indicates that there was no connection between the revenue bond debate of the 1950s and the birth of North Carolina's BDC. It seems that the BDC was simply a piece of Governor Hodges general

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[42] As described below, the BDC did in fact upset one stockholder of the BDC when it loaned money to a textile firm. The complainant, Caesar Cone, averred that he did not intend to subsidize competition to his own textile empire.

program for economic development, the piece intended to assist smaller ventures that were neglected by private financial markets.

During the 1960s a movement to join in the national trend of using revenue bonds began in North Carolina. At least eight communities had issued revenue bonds by 1966 even though State law did not permit their use.[43] In September of that year, a vote by Wake County commissioners to make a revenue bond issue[44] -- in an attempt to secure the location of American Well Works, Inc. of Aurora, Il. -- became a catalyst to legalize the issue of revenue bonds. The debate was not settled until May of 1968.

In December of 1966, the State Department of Conservation and Development (C&D) declared that tax-exempt revenue bonds should be legalized. C&D supported the legalization as a defensive measure. C&D's director reported that North Carolina had lost eight industrial prospects during the last half of 1966 "because revenue bond financing was not available."[45] The C&D board recommended that Governor Moore and the General Assembly of 1967 authorize the use of revenue bonds.

Joined by the North Carolina Industrial Development Association, C&D pursued a campaign to rally support for revenue bonds. Top officials of the Department met with news editors across the State,

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43 "Local Bond Financing of Private Industry Will Be Discussed at C&D Meeting Dec. 12," News and Observer, Raleigh, Nov. 29, 1966, p.12.

44 "Plant Gets Tax-Free Financing in County," News and Observer, Raleigh, Sept. 7, 1966, p.30.

45 "C&D Body Backs Tax-Free Bonds," News and Observer, Raleigh, Dec. 13, 1966, p. 1-2.

explaining how revenue bonds would benefit North Carolina.[46] A financial consultant to the C&D continued to spread the word that authorization was a necessary defensive measure for the State. At one meeting in January of 1967, he reported that "only last week an industrial prospect which would have invested $21 million initially and hired more than 300 people decided not to locate in North Carolina. This triple A industry is now looking in Georgia where revenue bonds are available."[47] The C&D board chairman also argued that approval of a revenue bond bill was "vital if we are to hold our competitive position with other states."[48]

Opposition to revenue bonds came from the Mayor of Raleigh and from the N.C. League of Municipalities. The general counsel for the League argued that industrial revenue bonds threatened the tax-exempt status of municipal bonds, and that revenue bonds posed "a threat to the free enterprise system."[49] The Mayor of Raleigh asserted at a C&D meeting that "this is a subsidy program period. We need to concentrate our interests in eliminating this use in other states."[50] The director of C&D was not moved and responded that "we have no way of knowing how many

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46 "C&D Seeking Support of Editors on Bonds," News and Observer, Raleigh, Feb. 1, 1967, p.19.

47 "Revenue Bonds Supported by Industrial Association," News and Observer, Raleigh, Jan. 10, 1967, p. 22.

48 "York Says Approval of Bonds is Vital," News and Observer, Raleigh, Feb. 24, 1967, p.12.

49 "C&D Body Backs Tax-Free Bonds," News and Observer, Raleigh, Dec. 13, 1966, p.2.

50 Ibid.

large companies pass North Carolina over without even a contact because they know we cannot utilize revenue bond financing."[51]

In May of 1967 North Carolina's General Assembly passed a revenue bond bill. Opponents described the legislation as "an absolute fraud on the people of the State and on every triple-A corporation. Corporations such as General Motors and IBM don't use and don't contemplate using revenue bonds. Industries that want revenue bonds have a credit so precarious that they can't use regular means of financing."[52] One supporter responded that "it's easy for those of you who are surrounded by industry to argue against this, but some areas, such as my county, are not so fortunate. The bill is designed to help these areas."[53]

While North Carolina joined the revenue bond wagon, several of the bill's supporters tried to remove the tax-exempt status of industrial revenue bonds at the federal level. North Carolina's State Treasurer supported the bill, but noted that he would prefer that the Internal Revenue Service remove the tax-exempt status of the bonds. He announced in April of 1967 that "as long as the IRS considers the bonds legal one state cannot fight alone."[54] In concert with the Treasurer's wishes, Rep. Bowles of North Carolina introduced a bill that asked Congress to repeal the tax-exempt status of industrial revenue bonds.[55]

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51 Ibid.

52 "Revenue Bond Bill Nears Passage," News and Observer, Raleigh, May 12, 1967, p.2.

53 Ibid.

54 "Bond Tax Exemption Repeal Is Supported," News and Observer, Raleigh, May 10, 1967, p. 8.

55 Ibid.

Congress eventually limited the tax-exempt amount of revenue bond issues to $5 million.

C&D desired a 'friendly' lawsuit to test the legality of the new legislation[56], and by the end of the summer a charge had been brought against the State. George C. Mitchell had filed the lawsuit and declared that it was not "a favor to the C&D Board."[57] Nevertheless, C&D and the State received a friendly ruling. The Wake Superior Court judged that heard the case ruled that revenue bond issues "constitutes a valid use of public funds for public purposes."[58] The victory for industry hunters was short-lived, however. On appeal, the State Supreme Court ruled that the legislation authorizing the use of revenue bonds was unconstitutional. In the majority opinion Justice Susie Sharp recorded: "If we are to bait corporations which refuse to become industrial citizens of North Carolina unless the State gives them a subsidy, the people themselves must declare. Such fundamental departures from well established constitutional principles can be accomplished in this State only by a constitutional amendment."[59]

In the meantime the BDC continued to lend funds. By the end of 1968 the Corporation had made 193 loans valued at $26.6 million. During 1968 alone, the BDC had made 11 loans amounting to $2.7 million.[60]

Cobb, <u>Selling of the South</u>, p.45-46.

56 "C&D to File 'Friendly Suit: Court Test Set on Revenue Bonds," <u>News and Observer</u>, Raleigh, May 19, 1967, p. 1.

57 "State's Revenue Bond Law Challenged in Suit Here," <u>News and Observer</u>, Raleigh, p.1-2.

58 "Bond Law to Get Industry Receives Favorable Ruling," <u>News and Observer</u>, Raleigh, Oct. 5, 1967, p.1.

59 "Court KO's State Revenue Bonds," <u>News and Observer</u>, Raleigh, March 7, 1968, p. 1.

60 Business Development Corporation of North Carolina, <u>Annual Report, 1968</u>. North Carolina State Library.

While the State struggled over the bond question the BDC remained an active and viable entity.

CONCLUSION

North Carolina was indeed unique as a Southern industry-hunting state during the Sunbelt boom period. Compared to her neighbors, North Carolina did not use the standard development model. Tax concessions were few and the talisman of Southern development efforts, the industrial revenue bond, was litte used until the latter part of the 1970s. Perhaps the most attractive allure of North Carolina was the Research Triangle Park. High-tech jobs and the R & D industry were looked upon favorably by the industry hunters of the South, and North Carolina pursued aggressively, and early on, the benefits of higher wage employment through R & D firms. In reference to the Triangle and the Southern push for high-tech firms, one scholar writes: "The desire to attract higher quality, more sophisticated industries to the South bore its most impressive fruit in North Carolina."[61]

While the Research Triangle became a success it did little to assist the lagging regions of the State. Several regions within the South, such as the Delta, Appalachian, and the Coastal Plain, stood at a disadvantage in development following WW II. In the Southeast the Piedmont gained the most in manufacturing employment for the first half of the twentieth century. Thus the state's of North Carolina, South Carolina, Georgia, and Alabama faced a dual problem during the boom era.

61 Cobb, Selling of the South, p. 171.

In addition to their efforts to recruit industry and remain competitive with other Southern crusaders, each was challenged by lagging regions within. Insofar as securing new industry, these states could do little but accept the chosen location of landed game. Since the effect of agglomeration tended to reinforce the dominance of manufactures that the Piedmont region held throughout the Southeast, the lagging regions tended to fall further behind during the 1960s and 1970s. North Carolinians fought the dilemma with a variety of tactics culminating in Governor Hunt's Balanced Growth Policy of the 1970s.

Just as the Balanced Growth Policy favored the efforts of the federal government's Appalachian Regional Commission and Coastal Plains Regional Commission, so too did the Business Development Corporation favor the Small Business Administration. The Corporation, however, operated on a very different premise. The SBA relied, or intended to rely, on a revolving fund provided by tax revenues of Washington. The BDC relied on loans from the private sector while its capital base was raised through stock issue. The striking characteristic of the BDC is, of course, its location in the last Southern state to use revenue bonding as a means to attract new industry. In a sense the BDC served as a substitute for revenue bonding, but only by default. As demonstrated below, when the BDC did serve to secure new industry the subsidy provided came from local development groups and not from the bank itself. The BDC was not organized as a subsidy granting institution.

The SBA was in transition, having been established as a temporary agency, and Northern Senators threatened to remove the tax-exempt status of revenue bonds, seeing the bonds as vehicles for industrial migration from North to South. Statewide Development Credit Corporations had been organized throughout the Northeast in an effort to stimulate development in regions that were once strong industrial dominions. In this environment Luther Hodges offered a plan to assist the establishment or expansion of small businesses in North Carolina. The SBA was young and tentative, and revenue bonding was not likely to be favored by the dominating textile wealth of the State even if Hodges so desired its legalization. With one eye on young entrepreneurs in North Carolina, Hodges looked northward to the state development credit corporations.

CHAPTER THREE

BEGINNINGS OF THE BUSINESS DEVELOPMENT CORPORATION OF NORTH CAROLINA

GOVERNOR LUTHER HARTWELL HODGES, 1954-1961: Father of the Business Development Corporation

The Business Development Corporation (BDC) began during the tenure of Governor Luther H. Hodges and was part of his general industrial program. Luther H. Hodges was born on March 9th, 1898. His parents were tenant farmers in the Virginia county of Pittsylvania. During High School, Hodges worked at the Marshall Field and Company's Fieldcrest Mills in Leaksville, North Carolina. After graduating from the University of North Carolina in 1919, Hodges returned to Marshall Field and Company, rising by the end of his business career to vice-president of the firm. He retired in 1950.

In 1952, Luther Hodges, relatively unknown in North Carolina political circles, ran for Lieutenant Governor and won. In November of 1954 he succeeded on the death of Governor William B. Umstead. Hodges was elected Governor in 1956, and served until January 4th, 1961. He was succeeded by Terry Sanford.

As Governor of North Carolina, Hodges pursued several programs intended to raise North Carolina's per capita income relative to the nation's. For instance, Hodges began the Governor's Small Industries Plan, (GSIP), and the Research Triangle Plan, (RTP). GSIP soon became a non-profit corporation with these intentions:

> [First], to stir the people throughout the state to ask themselves and find an answer to the question: "What can we make here that we can sell profitably?" [Second], to organize a state-wide human structure of permanent character interested in the continued promotion of industrial development. [Third], to prepare technical aids to a skillful approach to community action in industrial organization.[1]

The idea of a Research Triangle in North Carolina had been around for some time when Hodges assumed office. With the assistance of William Saunders and George Simpson, the Governor convinced Karl Robbins, a wealthy businessman, to purchase the original tract that became the Research Triangle Park.[2] As Hodges saw it, the Research Triangle was "a means to promote the state and to attract industry."[3]

Besides these innovative approaches to industrial development, Hodges created an aggressive recruitment campaign. James Cobb noted in Selling of the South that inducements and promotional campaigns for industry in Southern states became largely a matter of 'keeping up with the Joneses.' Cobb writes:

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[1] "Remarks at Luncheon with Directors of the Seaboard Air Line Railroad Company," Charlotte, October 11, 1955, Addresses, Vol. I, p. 245.

[2] Aside from George Simpson who was a Professor of Sociology at UNC, the lead players in the creation of the Research Triangle demonstrate the business connections of the Hodges administration. William Saunders had been appointed by Hodges to replace Ben Douglas as the Director of the Department of Conservation and Development. Saunders had retired as a successful executive of the textile industry, and had been a friend of Hodges since their days at UNC. Karl Robbins -- also from the textile industry -- was a close and wealthy friend of Saunders, and had been a friend of Hodges for twenty years. Further, it was a businessman from Asheville, according to Hodges, who had convinced the Governor of the benefits to industrial development that a research park would provide.

[3] Hodges, Statehouse, p.205.

> [in] the midst of heated competition for industry a state or community that did not engage in extensive promotional activity was likely to be labeled as indifferent or antigrowth. ...Once publicly supported efforts to seduce, subsidize, and otherwise accomodate new industry became the norm, leaders of industry-hungry states... had little choice but to participate.[4]

As demonstrated earlier, North Carolina was not as 'competitive' in subsidies and tax concessions as other Southern states.[5] Governor Hodges, however, was widely credited at the time for developing a leading Southern development program. For instance, in 1957 the Tennessee Municipal League declared that North Carolina had "... launched the South's most successful industrial development campaign."[6] In November of 1957, Business Week ran an article on Governor Hodges applauding the Governor for exhibiting a "keen awareness" of North Carolina's economic problems and pursuing their solution aggressively.[7] Additional applause came from the US Department of Commerce. In reference to North Carolina's recruitment trip to Europe in the fall of

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[4] Cobb, Selling of the South, p.228.

Perhaps the best example of the effect in North Carolina of this "heated competition" was the revenue bond debate of 1966-68. Though ultimately failing, proponents for the legalization of revenue bonds viewed the measure as a defense against those states in which the bonds were allowed.

[5] Governor Hodges did assert in Statehouse that a reformed tax code was pursued to become reasonably equivalent in terms of the State's tax burden on business operations with other Southeastern states. Hodges, Statehouse, p. 42-47.

[6] Enclosed copy of a Memphis newspaper article in a letter from W.P. Saunders to Governor Hodges, November 26, 1957. From the Luther Hartwell Hodges Papers, Southern Historical Collection, The University of North Carolina at Chapel Hill.

[7] Business Week, November 2, 1957. The North Carolina Collection, NCC Clipping File through 1975, Biography, Reel 17, p.676-877, The University of North Carolina at Chapel Hill.

1959, representatives of Commerce told Hodges that "... it was the first time in history that any state had shown such vision and initiative to go out on their own and undertake a serious trade and business mission."[8] During Hodges term recruitment trips were made to New York (10/13/57 - 10/18/57), Chicago (4/28/58 - 5/8/58), California (6/8/58 - 6/14/58) and Philadelphia (11/18/58 - 11/24/58), as well as the trip to Europe where ten cities were visited in ten days.

The method of marketing on the New York trip served as the standard for other trips. The trip was intended to "explain the new changes in North Carolina's tax laws to industrial prospects...", and to "... promote generally the State's attractions for industry."[9] A variety of media were used to present the message. Governor Hodges interviewed on local radio and made an "audience appearance" on the Ed Sullivan Show "...to let it be known that the Governor is in New York."[10] Special interviews were arranged with business editors of the New York Times, Herald Tribune, World Telegram and Sun, Business Week, and the Wall Street Journal.

Separate luncheons were held for businessmen with North Carolina connections and for food industry executives. The delegation hoped that the former would bring potential industrial prospects to the meeting: The latter luncheon was held in hopes of attacking a peculiar problem in

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[8] "Report from Europe", November 8,1959, by Governor Hodges. From the Luther Hartwell Hodges Papers, Southern Historical Collection, The University of North Carolina at Chapel Hill.

[9] "Proposals Pertaining to Governor Hodges' New York Trip October 13-18", Memo enclosure from W.P. Saunders to Governor Hodges, Governors' Papers, North Carolina State Archives.

[10] Ibid.

North Carolina. Hundreds of thousands of small farms graced North Carolina's landscape in the mid-50s. This was a particular concern for Governor Hodges. He frequently cited correlations between small farms and low income during his tenure. In 1955, Hodges declared that "North Carolina had more individual small farms than any state... and this must be recognized as contributing to our low per capita income."[11]

Mechanization of agriculture caused the release of thousands of farm laborers annually. Most migrants who remained in the State headed for the industrial cities of the Piedmont. The Hodges administration believed that part of the solution to the dual farm problem could be found in agricultural diversity. Therefore, the recruitment trips included food processing industrialists as a standard target. On a Chicago trip, Governor Hodges pointed to a recently constructed Gerber plant as evidence that North Carolina's farmers could grow more than tobacco. The Governor presented crop and livestock figures to demonstrate the State's agricultural diversity. Tons of snap beans, tomatoes, and peppers; millions of turkeys, hogs, and chickens; everything was cited save tobacco and cotton.[12]

The spiel was not always successful. On the Philadelphia trip, Governor Hodges and an assistant called on William B. Murphy, the President of the Campbell Soup Company. Murphy noted that Campbell

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[11] "A Report to the People of North Carolina After One Year as Governor", State-Wide Radio-Television Network, November 30th, 1955, Addresses, Vol. I, p. 268.

[12] "Hodges Cites Food Figures", The News & Observer, Raleigh, 4/29/58, Newspaper clippings from Chicago Trip, Governors' Papers, North Carolina State Archives.

intended to place a processing facility in the Southeast in a few years. He also noted that the availability in quantity and quality of tomatoes was a "prime factor" in determining the final location and that "if tomato supplies could be developed in an area, all other needed raw materials for a new plant could easily be obtained."[13] Hodges' assistant concluded that "the State must develop a much a greater production per acre of tomatoes in order to be seriously considered."[14]

On the Chicago trip, representatives of Libby, McNeill, & Libby expressed concerns similar to those of Murphy. The North Carolina delegation was informed that "[Libby] needs large farms available as sources of supply and that [Libby] could not operate in an area populated only with small ones."[15]

There were, however, some successes in the food processing sector. A Gerber Products facility, for instance, was constructed in Asheville in 1958, and in 1960 Seabrook Blanching opened a facility in Chowan County. The latter firm was courted by Conservation & Development and chose the Northeast section of North Carolina because of its abundance of peanut farms.

The recruitment trips also targeted industries other than the traditional low-wage industries in the State. In 1954, 50 percent of the State's 426,830 industrial workers were employed in textiles.

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13 "Report on Call to Campbell Soup, November 24th, 1958", by G.F. Albright, Governors Papers', North Carolina State Archives.

14 Ibid.

15 "Chicago Trip Report, May 5th, 1958", Governors' Papers, North Carolina State Archives.

Another 27.5 percent were employed in either tobacco, apparel, lumber, or furniture manufactures.[16]

Successful industrial recruitment included the Gilbert Spruance Company (estbl. 1962), the Sperry Rand Corporation (estbl. 1967), and the Radio Corporation of America (estbl. 1970). However, immediate results were not expected from the recruitment campaign. In Chicago, Governor Hodges warned the 60-member staff: "When you get home people will say 'What did you bring back? How many plants [did] you get us?' We know it won't work that way. It will be years before we know the results."[17] A long term perspective was taken for the Research Triangle Plan as well. Hodges announced in 1957 that one day the Park would employ over 20 thousand people.[18]

Hodges received national attention for RTP, as he did from his recruitment campaigns. Having been convinced in 1955 that the Research Triangle was an outstanding idea,[19] the Governor teamed up with William Saunders and George Simpson. The three invited Karl Robbins (who as noted above was a close and wealthy friend of Saunders) to breakfast at the Mansion. Robbins agreed to contribute the money necessary to purchase 4 thousand acres of land that would become the Research

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16 U.S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1954. Washington, D.C.: Government Printing Office.

17 "Story of N.C. Told Chicago By Governor: Food Processors Hear Hodges; Radio, TV Appearances Made", Greensboro Daily News, 4/29/58, Newspaper clippings from Chicago Trip, Governors' Papers, North Carolina State Archives.

18 "Address at a Joint Meeting of the Hamilton Lakes Civitan Club with Representatives of Other Greensboro Civic Clubs", Greensboro, September 13th, 1957, Addresses, Vol. II., p. 164-165.

19 Hodges, Statehouse, p. 205.

Triangle Park.[20] It was later purchased from Robbins by the Research Triangle Institute and donated to the Research Park Foundation.[21]

The initial growth of the Park was lead by the Chemstrand Corporation and the US Forestry Service laboratories.[22] During the early sixties, lack of growth in the Park nearly caused its financial collapse.[23] The rebound began in 1965 when IBM and the National Institute of Environmental Health Sciences set up operations. By 1988 the Park employed well over 20 thousand people, and was estimated to be responsible for approximately 52 thousand jobs in the region either directly or indirectly.[24]

Though it did not receive as much national attention as RTP and the Governor's recruitment trips, GSIP was recognized by some observers outside of the State as an integral part of Hodges' program. In 1959 the Kiplinger Washington Letter stated:

> A novel plan to build new industries in communities is working in North Carolina. The plan has already created 80 new companies there. It works on the theory that many items that are now bought out of the State can be made at home. Leading industries help circulate lists of items and then communities decide what products they can make... and make them.[25]

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[20] Ibid, p. 208.

[21] Hugh Talmage Lefler & Albert Ray Newsome, The History of a Southern State: North Carolina. Chapel Hill: The University of North Carolina Press, 1963, p. 653.

[22] Ibid.

[23] Research Triangle Foundation, Park Guide 1993, p. 9

[24] Ibid, p. 15.

[25] The Kiplinger Washington Letter, 9-19-59, Draft copy sent to W.P. Saunders, Governors' Papers, North Carolina State Archives.

By the time this was published, GSIP,Inc. no longer existed. It had been dissolved on March 13th, 1959 with approximately 500 dollars on the books.[26] Governor Hodges apparently believed that the "...permanent character interested in the continued promotion of industrial development ..."[27] had been established, and that GSIP was no longer needed. By character Hodges meant a network of local leaders with a long term goal of economic development.

An important project, though, had begun before GSIP,Inc was dissolved. From the Statehouse in Raleigh, under the guidance of GSIP, the Governor's Small Industries Committee made a strong recommendation that the State authorize a development credit corporation. Unlike RTP and the recruitment trips, immediate results were expected.

BIRTH OF THE BUSINESS DEVELOPMENT CORPORATION

Under the authority of the Small Industries Committee, a survey was conducted to determine the needs of entrepreneurs in the State. The recommendations included finding a way to provide credit to start-up ventures. Since the younger citizens often "... lacked the necessary money to go into business," and the banks "...were generally not in a position to lend money for long periods of time..." Capus Waynick, who directed the survey, suggested that a development credit corporation be formed.[28] From its start, the stated intent of the BDC was to assist

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[26] Governor's Small Industries Program, Inc., Bank Papers, Governors' Papers, North Carolina State Archives.

[27] "Remarks... Seaboard Air Line Railroad", Addresses, Vol I., p. 245.

[28] Hodges, Statehouse, p. 37.

"individuals and groups to start small businesses or to expand existing businesses."[29]

Governor Hodges presented his arguments, based on the Waynick report, to the 1955 General Assembly. He explained to Assembly members that several Northern states had created development credit corporations, and that North Carolina could benefit from a like institution. The Assembly affirmed the request with no opposing votes.[30] Senator Cicero P. Yow of New Hanover questioned the tax-exempt status of the proposed credit corporation(s), but voted for the legislation, having been informed that the tax-exempt provision was intended to encourage participation of the private sector in the new development bank.[31]

The enabling legislation of 1955 passed as Chapter 1146. The legislation authorized one or more Business Development Corporations "... for the purpose of promoting, developing, and advancing the prosperity and economic welfare of the State."[32] This was to be accomplished by "... loans, investments, or other business transactions, [to assist] the location of new business and industry in this State and to rehabilitate and assist existing business and industry."[33]

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29 Ibid, p. 37.
Governor Hodges pointed out in Statehouse that the recruitment campaign and the adjusted tax code was focused on securing "larger industries", while the BDC was intended to "push small ones." Hodges, Statehouse, p. 43.

30 "Small Industry Fund Bill Passed By Legislature," News and Observer, Raleigh, May 19, 1955, p.28.

31 Ibid.

32 North Carolina 1955 Session Laws, Chapter 1146, p. 1117.

33 1955 Session Laws, Ch. 1146, Sec. 2.3, p. 1118.

The Assembly authorized a maximum of one million dollars of stock for initial issue, and posited the participation of State financial institutions in the BDC's operations through membership. The plan was to sell stock to the public and to use the proceeds to establish the bank as an ongoing entity and not simply as a finder agency for would-be borrowers. Any financial institution in the State was eligible for membership in the BDC whether the firm held BDC stock or not. As members, financial firms were obliged to make loans to the BDC on call at an interest rate not less than one-quarter of one percent above the prime rate as determined by the BDC board of directors.[34] The optimism of BDC proponents about the bank's future is revealed by the borrowed funds interest rate asserted in the legislation and the implicit promise of a return to stock.

At any point, funds borrowed by the BDC from individual private members of the Corporation were not to exceed;

1. 2 percent of capital and surplus of commercial banks,
2. 1 percent of total outstanding loans of S&L's,
3. 1 percent of capital and surplus of insurance companies,
4. one-tenth of 1 percent of assets for fire insurance companies.

These ratio's were to be based on the last fiscal audit for banks and S&L's, and the last annual statement to the Commissioner of Insurance for remaining members.[35] (In addition to outstanding loans, these

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[34] 1955 Session Laws, Ch. 1146, Sec. 6.5, p. 1122.
[35] 1955 Session Laws, Ch. 1146, Sec. 6.3b, p. 1121.

limits were to include the value of capital stock of an individual member if indeed the member held stock in the company).

To encourage private financial firms to become BDC members, the legislation stipulated that "... each call made by the [BDC] shall be prorated among the members of the corporation in substantially the same proportion that the adjusted loan limit of each member bears to the aggregate of the adjusted loan limits of all members."[36] Each call made, therefore, effectively spread the risk of BDC operations amongst its members. Undue burden was not to be placed upon an individual member at the whim of BDC management.

As an additional encouragement, the legislation provided a tax credit for certain losses associated with the BDC. In particular, if the BDC defaulted on any loans from members, by way of partial or complete liquidation of the Corporation or for any other reason, the affected members were to be given a tax credit for a percentage[37] of the loss on any subsequent taxes coming due to the State.[38] This effectively reduced the risk of membership in the BDC.

Additional stipulations were made to reduce the riskiness of BDC operations in total. The BDC was to retain as earned surplus ten percent of its net earnings for each year until the surplus was equal to one-half of outstanding capital stock.[39] In addition, the BDC was not to allow outstanding debt to all members to exceed ten times the amount

36 1955 Session Laws, Ch. 1146, sec. 6.4, p. 1122.

37 This percentage would equal the highest rate of tax assessed on business firms for the year in which the loss occured.

38 1955 Session Laws, Ch. 1146, Sec. 15, p. 1125.

39 1955 Session Laws, Ch. 1146, Sec. 11, p. 1124.

of paid in capital. If the BDC issued one million dollars of stock, then its total obligations to members was not to exceed ten million dollars.[40]

At first, Governor Hodges and his advisors believed that no more than one hundred thousand dollars could be obtained from stock subscriptions. With this target, several individuals were recruited to sell stock in various areas of the State at $10 per share. A Fayetteville resident proceeded to sell in that area and quickly raised $10,000 in subsriptions.[41] Paul R. Younts reported in the fall of 1955 that "... it looks like the Esso Standard Oil Company will come through with about [5 to 10 thousand] dollars. [I also met] with the Belk interests this morning in hopes of securing the full $25,000."[42]

Capus Waynick had since decided that "[we] will work ourselves to death trying to sell stock at $10 a share to individuals.": He convinced Governor Hodges that "... only the governor of the state could reach some of the larger groups."[43] Waynick also argued that the full issue allowed by law should be targeted. With this new objective, the Governor began to sell the program to Duke Power and other large companies.

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[40] 1955 Session Laws, Ch. 1146, Sec. 6.2, p. 1121.

[41] Letter to Governor Hodges from Warren Williams, November 23rd, 1955, Governors' Papers, North Carolina State Archives.

[42] Letter to Governor Hodges from Paul R. Younts, November 30th, 1955, Governors' Papers, North Carolina State Archives.

[43] Hodges, Statehouse, p. 39.

One such group was the Seaboard Air Line Railroad Company. At an October luncheon, the Governor addressed Seaboard executives. He remarked:

> We want to sell a million dollars worth of stock in this corporation. We have sold approximately one-fourth of it. ... I regard this meeting today as a proper occasion for me to make an appeal to you to join us and give us substantial aid in this movement ... I want you as substantial stockholders in this corporation.[44]

Using the new tactic, and million dollar objective, the BDC had issued $500,650 in stock subscriptions by December of 1955. The larger stockholders included Duke Power ($100,000), Carolina Power & Light Co. ($50,000), Burlington Industries ($25,000), Malcolm McLean & Mclean Trucking Co. ($20,000 total), the Cone brothers of textile wealth ($15,000), and the Virginia Electric Power Co. ($7,500).[45] At the first audit of the BDC in June of 1956, $916,270 of stock had been issued.[46] By November of 1957 Waynick's objective of a million dollars of stock issue had been reached.[47]

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[44] "Remarks... Seaboard Air Line Railroad", Addresses, Vol. I, p. 246.

[45] "List of Stockholders in the Business Development Corporation of North Carolina, 12/5/55", Governors' Papers, North Carolina State Archives.

[46] John C. Muse & Co., CPAs, "Report on Examination, Business Development Corporation of North Carolina, 6/30/56", Governors' Papers, North Carolina State Archives.

[47] "The Business Development Corporation Continues to Grow", News Release (11/22/57) for the Tarheel Banker, Governors' Papers, North Carolina State Archives.

It was reported in May of 1959 that there were actually 1,860 stockholders, though the total issue was $1 million. "Loans Total $7 Million", News and Observer, Raleigh, May 22, 1959, p. 10.

Agitation by the Governor was necessary to affect private subscriptions. As a capital investment, BDC stock -- being a new corporation that intended to extend credit to risky ventures -- would certainly not appear attractive to corporate managers of working capital as compared to, for example, short term issues of the U.S. Government. Though mentioning the profitability and business-like nature of the BDC often, Hodges never passed up an opportunity to lean on businesses to contribute to the development bank. In September of 1956, Hodges addressed members of the North Carolina Motor Carriers Association:

> I cannot do no more than express my disappointment at your failure in participating more substantially in subscriptions to the stock in the Business Development Corporation. You may recall that I did my best at the last annual conference of your [group] to explain the importance of supporting this privately financed corporation devoted to the development and financing of locally-owned, locally-financed new industries. I shall say no more other than to point out that the Business Development Corporation is moving along successfully and actually made money in its first months of operation.[48]

The BDC was also successful in acquiring member financial institutions. At the close of 1955, 48 commercial banks had become members in the Corporation, including the seven largest banks in North Carolina, and 17 of the top 20 banks in the State.[49] By November of

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48 "Address at Special Dinner Preview of a New Industrial Brochure Sponsored by the North Carolina Motor Carriers Association, Incorporated, and the American Trucking Association, Incorporated," September 13, 1956, Addresses, Vol. I, p. 432.

49 "The 75 Largest Banks in North Carolina", BDC Office, Governors' Papers, North Carolina State Archives.

1957 the membership roll included 92 banks, 11 life insurance companies, and 2 S&Ls.[50] Hodges played a role in recruiting private members as well. In December of 1959 Hodges addressed a meeting of commercial bankers:

> There are many reasons why every financial institution in North Carolina should participate in this program. I will not list these advantages since, I am sure, most of them are obvious. I would, however, like to cite one fact that stands out above all others in connection with this undertaking. Loans made by the Business Development Corporation since its establishment in 1956 have provided direct employment for more than 13,000 North Carolinians, and indirect benefits have affected more than 78,000 citizens in our state. Certainly, this is sufficient cause to warrant 100 per cent membership in this corporation by our financial institutions. It should not even be necessary for me to point out that the institutions themselves derive considerable benefits form this increased business activity and increased personal income.[51]

Private participation through membership did increase through the 1960s. There was a problem in the beginning, however.

The encouraging stipulations of Chapter 1146 had failed to attract many S&L firms. According to Governor Hodges, S&L participation was "... a little slow because of legal requirements."[52] Presumably the regulations of the FSLIC inhibited the participation of S&Ls. In any case, the BDC Charter was amended on February 3, 1958 so that the dollar

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[50] "The Business Development Corporation Continues to Grow", News Release (11/22/57) for the Tarheel Banker, Governors' Papers, North Carolina State Archives.

[51] "Address at a Raleigh Chamber of Commerce Bankers Meeting," December 15, 1959, Addresses, Vol. III, p. 308-309.

[52] Hodges, Statehouse, p. 41.

limit of BDC calls for funds from member S&Ls was reduced to one-half of one percent -- from the previous one percent -- of the member S&Ls' outstanding loans.[53] By September 19, 1958, 19 S&Ls were BDC members, and by October 15, 1960, 40 S&Ls were members.[54]

H. Powell Jenkins, the original Executive Vice-President of the BDC, suggested the change. Jenkins brought much experience to the young BDC. Previously, he had served on the loan committee of the SBA, and as a senior loan specialist for the same. Before that, Jenkins had served as a member of the business loan board and as a senior loan examiner for the Reconstruction Finance Corporation.[55] It was Jenkins who led the BDC to a strong start during the 1950s. Actual lending by private financial firms in the Jenkins-led BDC began slowly, however.

During the first four months of operations no loans had been made by members to the Corporation, though the BDC had lent $139,871 and already agreed to lend an additional $432,065[56]: This situation was temporary. To July of 1957, the BDC had disbursed loans totaling $740,065[57], and had borrowing power of approximately 3.5 million dollars.[58] Not only were members lending directly to the BDC by that

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53 "Loans Totaling $4 Million Made by Business Development Corp.", News and Observer, Raleigh, February 16, 1958, p. I:7.

54 State Banking Commission, Report on Examination, Business Development Corporation of North Carolina, 9-19-58, 10-15-60, North Carolina State Library.

55 "Business Observer: Jenkins to Retire From BDC Post", News and Observer, Raleigh, August 23, 1966, p. 17.

56 John C. Muse, Report on Examination,...,6/30/56, Governors' Papers, North Carolina State Archives.

57 BDC Memo, "Loans Approved through July 11th, 1957", Governors' Papers, North Carolina State Archives.

58 Press Release from the Statehouse, 10/18/56, Governors' Papers, North Carolina State Archives.

date, but a new arrangement -- participation loans -- had emerged that was not anticipated during the BDC's original organization.

The practice of "participation loans" consisted of private lenders extending additional credit to BDC clients after the BDC assessed the risk or potential success of applicants. Since the BDC only loaned when an applicant had been rejected in the private sector, it appears that banks began to direct 'risky' borrowers to the BDC, and then added to the total borrowed if the BDC extended initial credit to the applicant.

To July of 1957, private banks had participated in 4 loans for a total of $106,800.[59] In September of 1958 there were 5 outstanding participation loans totaling $161,980.[60] In October of 1960 there were 14 outstanding participation loans totaling $673,030.[61]

Jenkins' success in securing the participation of private financial firms was part of the overall burst of activity at the Corporation during the late 1950s. BDC loan activity grew rapidly during the first 19 months of operation. Approved loans stood at $3.6 million, and participation loans added another $161,980. Over half of the BDC loans were used to construct new facilities, or to expand existing facilities. One quarter of the loans were used to purchase machinery and other equipment, and 12 percent had been used as working capital. Loans had

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59 BDC Memo, "Loans Approved... July 11th, 1957", Governors' Papers, North Carolina State Archives.

60 State Banking Commission, <u>Report of Examination, Business Development Corporation of North Carolina, 9/19/58.</u> North Carolina State Library.

61 State Banking Commission, <u>Report of Examination, Business Development Corporation of North Carolina, 10/15/60</u>. North Carolina State Library.

been extended to a ceramic tile company, several food processing concerns, furniture and wood products companies, and fabricated metal companies.[62]

One loan made in the fall of 1957 to the Vel-Cord Southern Corporation provoked Ceasar Cone, a stockholder, to complain that he did not intend to subsidize competition to his own textile empire of North Carolina by buying stock in the BDC.[63] Jenkins wrote Hodges noting that the $150,000 loan to Vel-Cord was the only textile loan made by the BDC, excluding a $3,000 loan that had been cancelled.[64]

In the same letter, Jenkins reported that 15 loans had been made to the food processing industry totaling $1,311,765, or approximately 33 percent of all loans made by the BDC. These included 5 loans for meat processing facilities, 4 loans for poultry processing facilities, 1 loan for a seafood facility, 3 loans for other food processing facilities, and 2 loans for grain storage elevators. It appears -- by Jenkins' inclusion of the food processing figures in the letter -- that the BDC loan committee maintained an unofficial tactic of assisting the Governor's attack on the State's farm problem. Further evidence of this position is found in a News and Observer article published in early 1958. Jenkins reported that "broiler production is one of the brightest spots in the State's economic picture today... We are in third place

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62 "The Business Development Corporation Continues to Grow", Governors' Papers, North Carolina State Archives.

63 Letter to H. Powell Jenkins, cc Governor Hodges, from Ceasar Cone, October 29th, 1957, Governors' Papers, North Carolina State Archives.

64 Letter to Governor Hodges from H. Powell Jenkins, November 6th, 1957, Governors' Papers, North Carolina State Archives.

nationally and only four million behind second place Arkansas. With the help of the corporation, I don't see why we can't forge ahead of Arkansas this year."[65]

A tactic that does not appear to have been an original part of the BDC plan, but came quickly into use, was the provision of loans to construct facilities for new industries based outside of the State that had been enticed to locate in North Carolina. The Division of Commerce and Industry, (Department of Conservation & Development) reported in 1959 that "...a wider use of [speculative shell buildings for industry] would make a substantial contribution to our [development] program."[66] A close relative of the speculative building technique is the construction of buildings to meet specifications of a guaranteed tenant. BDC loans had long since been used in this technique by the time of the Commerce & Industry suggestion. From April 1956 to July of 1957, for instance, several loans had been made to local development organizations. These included $60,000 to the Chadbourn Development Corporation, $60,000 to the Elizabethtown Development Corporation, $100,00 to the Reidsville Development Corporation, and $50,000 to the Robbins Development Corporation.[67] Development Corporation loans, as will be demonstrated later in this study, were used primarily to

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65 "Loans Totaling $4 Million Made by Business Development Corp." News and Observer, Raleigh, 2-16-58, p. I:7.

66 Division of Commerce & Industry, Annual Report, 1959,Governors' Papers, North Carolina State Archives.

67 "Loans Approved through July 11th, 1957", BDC Office, Governors' Papers, North Carolina State Archives.

contruct buildings for branch facilities of companies based outside of the State.

During Governor Hodges term, the largest deal made to a Development Corporation came in September of 1959. The BDC and Payton Berry, of the Tarboro-Edgecombe Development Corporation, had arranged to partially finance a facility in Tarboro for Glenoit Mills, Inc., a subsidiary of Botany Mills, Inc. of New York.[68] Up to 200 workers were expected to be employed by Glenoit once the mill was fully operable.[69] A total investment of $700,000 was also expected[70], $300,000 of which came by a first mortgage loan by the BDC.[71] A participation loan of $100,000 was also made in combination by the Edgecombe Bank & Trust Co., North Carolina National Bank, and the Edgecombe Homestead & Loan Association.[72]

The use of loans to attract industry from outside of the State was not an original motivation for the founding of the BDC. Presumably the spirit of GSIP and the existence of 70 local development companies in the State[73], along with the founding of the BDC, provided a convenient

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[68] Letter to Governor Hodges from Payton Berry, September 24th, 1959, Governors' Papers, North Carolina State Archives.
"Textile Plant Will Locate In Edgecombe", News and Observer, Raleigh, 10-3-59, p. 3.

[69] Statehouse Press Release, 10/2/59, Governors' Papers, North Carolina State Archives.

[70] Ibid.

[71] State Banking Commission, Report of Examination, The Business Development Corporation of North Carolina, 10/15/60. North Carolina State Library.

[72] Ibid.

[73] U.S. Department of Commerce, Office of Area Development, Communities With Locally Financed Industrial Development Organizations. Washington, 1958, p. 29-30.

combination conducive to the use of this technique. The Chadbourn, Elizabethtown, Reidsville, and Robbins Development Corporation loans, as well as the Tarboro-Edgecome loan, indicates that it did not take long for the technique developed for one purpose to be used for quite another.

The enabling legislation did not exclude nor suggest the use of loans to construct facilities in this manner. The object was to assist the development of the State as a whole. Governor Hodges was satisfied with the BDC's operations. Hodges explained;

> One of the most important results [of the BDC], was the spirit of the people who had decided that we in North Carolina could pull ourselves up by our bootstraps. All over North Carolina there began to rise up small companies, partnerships, individuals with ideas who could now get capital to put to work. It was wonderful to watch.[74]

During Governor Hodges term, plus the 11 months following the term, the BDC had approved 160 loans totaling $20.2 million: Of this, $13 million had been disbursed. Most of the funds were used to contruct plants and buy machinery, while the remaining 9 percent was used for working capital and to repay existing debt of borrowers.[75]

With $20 million of approved loans, (and $27,000 of retained profits in five years), the BDC appears to have had a strong start. As

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[74] Hodges, Statehouse, p. 42.

[75] Joe S. Floyd, Jr. & Luther H. Hodges, Jr., Financing Industrial Growth: Private & Public Sources of Long Term Capital for Industry. School of Business Administration, University of North Carolina at Chapel Hill, Research Paper 10, p. 29-31.

estimated by the Corporation, loans by the BDC to December of 1961 had assisted in creating 16,588 jobs and in preservation of an additional 10,000.[76] Measured by its own objective of "creating or maintaining an average of better than one and one-third direct jobs for each $1000 of loan"[77] the BDC had been successful. (The actual jobs created or maintained ratio, based on $13 million disbursed, equaled 2.04 to December of 1961).

In fact, the BDC appears to have actually produced more direct results in terms of employment than either Hodges' Triangle Plan or his much applauded recruitment campaign. Consider that it would be the 1970s before the Research Triangle Park exceeded the number of employees that the BDC had helped to create in just five years. Accurately measuring the results of the recruitment campaign is difficult at best, but a comparison of contacts made on the New York, Chicago, California, and Philadelphia trips with the Industrial Directory of North Carolina for 1972 yields little success.[78] In any case, it is unlikely that the recruitment campaign matched the employment success enjoyed at the BDC from 1956 to 1961.

The BDC not only appears to have produced more direct results than Hodges' other development programs, but also appears to have stimulated

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76 Ibid.

77 "The Business Development Corporation Continues to Grow", Governors' Papers, North Carolina State Archives.

78 Recruitment Trip Reports, Governors' Papers, North Carolina State Archives.

Department of Natural & Economic Resources. Division of Commerce & Industry. Directory of North Carolina Manufacturing Firms, 1972-73 Edition. Raleigh, 1973.

the private banking sector to engage in more risky ventures. As Jenkins pointed out in 1958, the BDC "... pick[s] up where banks leave off. We can make loans for longer periods than banks usually like to have their money tied up and then too, our board of directors can make rather broad lending policies."[79] Banks, however, began to engage in participation loans. Presumably none of these loans would have been made nor would the 'risky' applicant involved acquired the necessary capital without the existence and participation of the BDC. That is, the private bank would not have directed the 'risky' applicant towards the BDC if the banks' management believed that the applicant showed a strong potential for success. If success was projected, then a rational manager would not share expected income from interest with members of the BDC. That some BDC loan recipients received additional financing from the private sector suggests that the institutional arrangement of the BDC allowed some banks and S&Ls to directly participate in 'risky' ventures that would not have been financed at all under different circumstances.

CONCLUSION

Particular characteristics of BDC loans for its first five years of operation, and thereafter, are investigated in the following four chapters. A primary question to be answered is how long did the BDC enjoy success? Placed in liquidation in 1982 and dissolved in 1985, the BDC apparently did not continue its success.

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[79] "Loans Totaling $4 Million Made by Business Development Corp." <u>The News and Observer</u>, Raleigh, February 16, 1958, p. I:7.

The judgement of early success is based on the Corporation's objective of one and one-third jobs per $1000 of loan. Outside of this declaration, there were no additional objectives other than to promote the economic development of the State. There are additional questions to be investigated, however.

Hodges suggested that farmers needed to diversify and that the development of more food processing firms in the state would serve such diversification. The BDC appears to have supported Governor Hodges' concerns for the farm community. Did it continue to lend a considerable percentage of its funds to the food and agricultural industry? It also appears that the BDC meant to avoid loans to the textile industry as indicated by Jenkins letter of 1957. Did this policy continue? To what degree did the BDC encourage the development of industries other than the State's traditional industry of textiles and, for that matter, of furniture production?

What of the geographic distribution of loans made? Recall that Governor Hodges held a particular concern for "the counties east of Raleigh". Given the BDC's apparent support for other facets of Hodges' development program, it seems possible that an unofficial tactic of developing the counties east of Raleigh was in place. No evidence from letters, papers, and reports of the BDC indicates that a regional policy was in place at the BDC during the initial years of operation: A review of loans made, however, may indicate otherwise. A regional concern at the Statehouse continued throughout the life of the BDC: In the later period, then, a similar loan review will indicate if Statehouse concern for lagging regions was reflected at the BDC office.

A final question of interest is whether the BDC compensated for the State's lack of an industrial revenue bond program. The Tarboro-Edgecome loan to facilitate the location of Glenoit Mills in Tarboro is only one case that suggests a pattern of substitution. If other loans to development corporations are assumed to have been used to construct similar facilities, then a pattern of substitution becomes clear. A review of examinations by the State Banking Commission should indicate the extent of the BDC's participation as an industrial bond program substitute.

The extent of this substitution is described in Chapter Six along with an investigation into the industrial distribution of loans from 1956 to 1981. Chapter Five describes the evolution of regional concerns at the Statehouse in North Carolina and provides a test of the BDC's reflection of these concerns. The decline of the BDC is investigated in Chapter Seven. First, an overview of BDC operations, that includes a record of success and failure, follows.

CHAPTER FOUR

THE BUSINESS DEVELOPMENT CORPORATION OF NORTH CAROLINA: General Overview, 1956 to 1981

INTRODUCTION

The BDC was very small compared to North Carolina's financial sector. Even though participation by private banks, insurance companies, and savings & loans was widespread, the BDC never ranked as a major institution in business finance for the State. The bank did experience rapid growth in its first years of operation. Thereafter, its expansion leveled, and eventually the BDC declined as measured by aggregate assets. Consider the following BDC comparison to State banks.

The Jenkins-led BDC experienced a 107 percent increase in assets between 1960 and 1964. Nonetheless, BDC assets were only $9.1 million in 1964 compared to an average asset value of federally insured North Carolina banks of $30.5 million. While BDC assets were $11.3 million in 1969, the average value of assets for North Carolina banks was $70.6 million. For 1981, BDC assets were only $7.3 million, while the average value of assets for North Carolina banks equaled $359.3 million.

The ratio of BDC assets to total assets of insured banks in North Carolina was only 0.0013:1 in 1960. In 1964 the ratio was at its highest (for years considered), reaching 0.0019:1. The rapid growth of the BDC did little to alleviate the minimal size of the organization as compared to the State's financial sector.

TABLE 4.1

BDC ASSETS AND AVERAGE ASSETS FOR FEDERALLY INSURED BANKS
IN NORTH CAROLINA, SELECT YEARS
(IN MILLIONS)

YEAR	BDC (1)	AVERAGE ASSETS NC BANKS (2)	(1)/(2)
1960	$4.4	$18.2	.24
1964	9.1	30.5	.29
1969	11.3	70.6	.16
1977	10.5	194.6	.05
1981	7.3	359.3	.02

Source: State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1960, 1964, 1969, 1977, 1981. North Carolina State Library.

U.S. Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1970, 1977, 1982-83. Washington: Government Printing Office.

Federal Deposit Insurance Corporation, Annual Report, 1960, 1964. Washington: FDIC.

TABLE 4.2

BDC ASSETS AND TOTAL ASSETS OF INSURED BANKS
IN NORTH CAROLINA, SELECT YEARS
(IN MILLIONS)

YEAR	BDC (1)	TOTAL ASSETS NC BANKS (2)	(1)/(2)
1960	$4.4	$3,341.3	.0013
1964	9.1	4,637.1	.0019
1969	11.3	7,628.0	.0014
1977	10.5	17,324.0	.0004
1981	7.3	26,234.0	.0002

Source: See Table 4.1

As the evidence shows, the BDC was small. That it was is not cause to dismiss it as insignificant. Outstanding loans of the SBA in 1965, for instance, were only one percent of those outstanding for private institutions.[1]

As indicated, the declining status of the BDC from 1964 forward, was not simply a case of strong growth in the commercial banking sector of North Carolina, but also resulted from the absolute decline of assets held by the BDC. As the commercial sector expanded, the BDC contracted. The asset pattern of expansion, leveling, and decline can also be seen in: the number of loans made by the BDC; the dollar amount of notes receivable; and the dollar amount of funds available from BDC members, i.e. private financial institutions. A closer view of this pattern is assumed in the following sections.

GENERAL TRENDS: Notes Receivable and Funds Available

Notes Receivable

To September 19th, 1958, the BDC had disbursed 30 loans totaling 2.2 million nominal dollars.[2] By the end of 1979, the Corporation had made 252 loans equaling 45.1 million nominal dollars.[3] At an average of ten loans per year for 24 years of operation, or 1.8 million nominal dollars per year, it appears that the BDC was not extremely active in

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[1] Parris, The Small Business Administration, p. 93.

[2] State Banking Commission. Report of Examination, Business Development Corporation of North Carolina, 9/19/58. North Carolina State Library.

[3] Business Development Corporation of North Carolina. Annual Report, 1979. North Carolina State Library.

the business affairs of the State. The average, though, is reduced by a low level of activity during the 1970s. During the first 12 to 14 years of existence, the BDC was very active in promoting economic development. (The BDC averaged 13 loans a year during the first five years of operation, compared to three per year from 1975 to 1979. As reported in the last examination by the Banking Commission, only two loans were made between 1/31/79 and 1/31/81: Further, the BDC received only six applications during that period).[4]

Most of the 252 loans made by the BDC (to 1979) were actually made during the 1960s. The BDC had made 193 loans by 1968. Further, the Corporation averaged well above ten loans per year from 1956 to 1968. From 1968 to 1979 the loan pattern reversed. Between 1968 and 1970 the BDC averaged less than ten loans per year, and this average continued until the BDC closed.

As one would expect, the cumulative dollar amount of loans made shows the same pattern. As shown in Table 4.4 (following page), most of the $45 million disbursed to 1979 had been loaned before 1970. As with BDC assets, that were made up mostly of notes receivable, the additional dollar amount of loans made peaked in the mid-1960s. As measured in current dollars, it appears that the BDC maintained a steady level of activity throughout the 1970s.

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[4] North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1/31/81. North Carolina State Library.

TABLE 4.3

CUMULATIVE LOANS MADE
BY THE BDC TO 12/31/79

DATE[5]	CUMULATIVE LOANS	ABSOLUTE INCREASE	TWO YEAR AVERAGE INCREASE
9/19/58	30		
10/15/60	66	36	36
8/31/62	106	40	40
9/11/64	139	33	33
12/31/68	193	54	27
12/31/70	212	19	19
12/31//74	237	25	12;13
12/31/79	252	15	6

Source: North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1958,1960,1962,1964. North Carolina State Library.

Business Development Corporation of North Carolina, Annual Report, 1968,1970,1974,1979. North Carolina State Library.

TABLE 4.4

CUMULATIVE VALUE OF LOANS MADE
AT THE BDC TO 12/31/79

DATE	NOMINAL AMOUNT	ABSOLUTE INCREASE	TWO YEAR AVERAGE INCREASE
9/19/58	2,231,085		
10/15/60	6,054,535	3,823,450	3,823,450
8/31/62	11,510,819	5,456,284	5,456,284
9/11/64	18,712,878	7,202,059	7,202,059
12/31/68	26,665,000	7,952,122	3,976,061
12/31/70	31,548,000	4,883,000	4,883,000
12/31//74	39,148,000	7,600,000	3,800,000
12/31/79	45,111,000	5,963,000	2,385,200

Source: See Table 4.3

5 The dates presented in this table are not sequenced in a specific interval because Annual Reports were not available at the North Carolina State Library (or elsewhere) previous to 1968. Further, the ROE's used for 1958 to 1964 include a series that indicates the cumulative number of loans made: When the examination was changed to odd years beginning in 1969, this series was discontinued. Therefore Table 4.3 is derived from separate primary sources and serves as the best case presentation for the data considered.

When using price adjusted dollars, it appears that the 1970s was a decade of decline: The two year average increase of loans made between 1970 to 1974 -- in 1982 dollars -- was one-half of the two year increase for 1958 to 1960. From 1974 to 1979 it was one-quarter. (Please see Table 4.5). This evidence, along with the evidence derived from current dollars, indicates that the strongest contribution of the BDC came during its first 14 years of operations. Additional evidence from BDC records on Notes Receivable demonstrates the same.

TABLE 4.5

AVERAGE TWO YEAR INCREASE OF CUMULATIVE LOANS MADE EXPRESSED IN 1982 DOLLARS.

TERMINAL DATE	AVERAGE INCREASE
10/15/60	$12,333,710
8/31/62	17,104,339
9/11/64	21,842,421
12/31/68	10,490,926
12/31/70	11,571,090
12/31/74	6,934,306
12/31/79	3,004,030

Source: See Table 4.3

In nominal dollars, notes receivable for the BDC increased at a decreasing rate up until 9/30/1971. At that time notes receivable were $10.6 million. As measured in 1982 dollars, outstanding loan assets peaked in 1967 at $28.2 million. By the latter measure, BDC growth ended with 1967, and a steady decline, with one exception, marked the remainder of its existence.

The notable exception occurred in 1975 as indicated in both Tables 4.6 and 4.7. In the 1973 Examination, management commented on the declining loan pool at the Corporation. They correctly predicted in the same report that a rebound was due at the BDC. They stated "...loan demand has historically increased during so called 'credit crunches'. If the 'credit crunch' forecast for this year materializes, demand may again improve."[6]

Whether or not the 'credit crunch' contributed to -- or fully caused -- the 1975 rebound, management did not intend to wait on such an event. It was stated in the 1973 report that "[during] the past two to three years, the demand for loans has declined. This has been a source of disappointment and concern for active management. ... In an effort to stimulate demand, the Board of Directors ... [has authorized] the granting of loans in larger amounts."[7]

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[6]North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 3/31/73. North Carolina State Library.

[7] Ibid.

TABLE 4.6

NOTES RECEIVABLE AT THE BDC IN TWO YEAR INTERVALS FROM 1958 TO 1981, NOMINAL DOLLARS

DATE[8]	NOTES RECEIVEBLE	PERCENTAGE CHANGE
9/19/58	1,822,386	
10/15/60	4,410,143	% 142
8/31/62	7,619,767	73
9/11/64	9,131,816	20
12/31/67	10,175,604	11
11/30/69	10,666,644	5
9/30/71	10,689,613	0.22
3/31/73	9,014,121	-15.67
3/28/75	11,375,200	26
3/31/77	9,262,000	-19
1/31/79	7,492,800	-19
1/31/81	6,190,700	-17

Source: North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1958,1960,1962,1964,1969,1973,1977,1981. North Carolina State Library.

TABLE 4.7

NOTES RECEIVABLE AT THE BDC IN TWO YEAR INTERVALS FROM 1958 TO 1981, EXPRESSED IN 1982 DOLLARS.

DATE	NOTES RECEIVABLE	PERCENTAGE CHANGE
9/19/58	6,135,980	
10/15/60	14,226,268	% 132
8/31/62	23,886,417	68
9/11/64	27,672,170	16
12/31/67	28,265,567	2
11/30/69	26,600,110	-6
9/30/71	23,914,123	-10
3/31/73	18,028,242	-25
3/28/75	18,990,317	5
3/31/77	13,680,945	-28
1/31/79	9,436,776	-31
1/31/81	6,523,393	-31

Source: See Table 4.6

[8] This interval is changed to odd years between 1964 and 1967 to maintain consistency with the ROE's report year change. See footnote to Table 4.3 for more information.

The objective of increasing loan amounts was successful. With one exception, the average loan amount increased between each Report of Examination considered in this study. The average amount for the 56 loans appearing in the 1969 Examination fell to $186,374 from the previous period's average of $188,234, but this was the only decline in average based on loans analyzed for this study. Thus, when management decided in 1973 to increase the average amount of individual loans, their decision was in keeping with the trend of the BDC for its first 17 years of operation. (The move by management to increase loan amounts was not that dramatic in 1982 dollars. {Please see Table 4.9, following page}. The policy raised the average by only $12,000 for the 1973 to 1977 period.)

In addition to the increasing loan amount, the evidence shows a declining number of recipients from 1962 forward. This, along with the increasing average loan amount, suggests that in effect the BDC moved away from smaller ventures, and presumably away from Hodges' and Waynick's original intention of assisting small scale entrepreneurs of North Carolina.

In summary, the BDC's life cycle consisted of three stages. First was the initial growth of the late 1950s. Between 1956 and 1960, the BDC made 66 loans totaling $6 million. Second was a period of continued expansion that peaked during the late 1960s. Between 1960 and 1968 the BDC made 127 loans totaling $20.6 million. Third was a period of decline occurring in the 1970s. From 1968 to 1979 the BDC made only 59 loans totaling $18.5 million.

TABLE 4.8

AVERAGE LOAN AMOUNTS OF THE BDC
1958 TO 1981

TERMINAL YEAR	NUMBER OF LOANS	TOTAL DOLLARS	AVERAGE LOAN AMOUNT
1958	30	$2,231,085	$74,369
1960	35	3,631,450	103,755
1962	38	5,421,283	142,665
1964	31	5,835,260	188,234
1969	56	10,436,997	186,374
1973	17	4,066,547	239,208
1977	18	5,978,180	332,121
1981	10	3,445,000	344,500

Source: State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1958, 1960, 1962, 1964, 1969, 1973, 1977, 1981. North Carolina State Library.

TABLE 4.9

AVERAGE LOAN AMOUNTS OF THE BDC, 1956 TO 1981
EXPRESSED IN 1982 DOLLARS

TERMINAL YEAR	NUMBER OF LOANS	TOTAL REAL DOLLARS	AVERAGE LOAN AMOUNT
1958	30	$7,512,070	$250,402
1960	35	11,714,355	334,695
1962	38	16,994,618	447,226
1964	31	17,682,606	570,406
1969	56	26,027,424	464,775
1973	17	8,133,094	478,417
1977	18	8,830,398	490,577
1981	10	3,630,137	363,013

Source: State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1958, 1960, 1962, 1964, 1969, 1973, 1977, 1981. North Carolina State Library.

Funds Available

The enabling legislation limited BDC obligations to private financial members at ten times the amount of BDC capital. With one million dollars of outstanding stock issued, the official limit on BDC obligations to members equaled ten million dollars initially.

The BDC borrowed a total of 2.5 million dollars from the Small Business Administration during the 1960s under the provisions of section 501 of the Small Business Investment Act of 1958.[9] It also used "renewable short term notes" that were not counted in the official talley of BDC obligations to members.[10] The latter technique was employed to handle short-term liquidity constraints while the SBA loans were used to expand the lending capacity of the BDC. This tactic was complemented by an amendment to the BDC charter. In 1963 an additional 100,000 shares of stock were authorized. Also, the BDC had been authorized to issue one million dollars in subordinated debentures.[11] The bill to allow this was introduced by Senator P.D. Midgett Jr,[12] who had been a beneficiary of the BDC by way of $20,000 loan made between

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[9] An Investment Division was established under this act to loan funds to Small Business Invesment Corporations chartered by provision of this act. The Investment Division was also authorized to loan funds to Statewide Development Corporations and to Local Development Corporations.

[10] State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 8/31/62. North Carolina State Library.

[11] North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 11/30/64 North Carolina State Library.

[12] "BDC Lending Rise Sought", The News and Observer, Raleigh, March 7, 1963, p. 28.

March, 1956 and September, 1958.[13] (Midgett's father was on the BDC Board of Directors in both 1958 and 1963). By 1969 neither the stock nor the debentures had been issued. Further, the BDC had 1.9 million in unused drawing rights.[14] In 1981, the 1963 authorizations were still recorded as unissued.[15]

In 1962 Floyd and Hodges Jr. suggested that the BDC needed more funding to be an effective entity.[16] This suggestion was pursued but to no avail. Over the life of the Corporation it was original membership loans, based on the original stock issue and earned surplus, that enabled a large majority of BDC financing.

The use of private funds by the BDC began slowly. Between 1958 and 1969, the share of funds used by the BDC -- of funds made available by private institutions -- increased from 17 percent to 80 percent. In the same period, total funds available increased from 13.4 million (1982) dollars to 23.9 million (1982) dollars. Further, the amount of funds available increased constantly during this period while declining thereafter.

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[13] State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 9/19/58. North Carolina State Library.

[14] State Banking Commission, Report of Examination,Business Development Corporation of North Carolina, 11/30/69. North Carolina State Library.

[15] State Banking Commission, Report of Examination,Business Development Corporation of North Carolina, 1/31/81. North Carolina State Library.

[16] Joe S. Floyd Jr. and Luther H. Hodges Jr., Financing Industrial Growth: Private and Public Sources of Long Term Capital for Industry. School of Business Administration, University of North Carolina, Chapel Hill, Research Paper no. 10, 1962, p. 31.

TABLE 4.10

FUNDS USED BY, AND AVAILABLE TO, THE BDC
FROM 1958 TO 1981, IN 1982 DOLLARS

DATE	(1) AMOUNT OUTSTANDING TO BDC MEMBERS	(2) AMOUNT AVAILABLE FROM BDC MEMBERS	(1)/(2)
9/19/58	2,292,929	13,438,384	% 17
10/15/60	6,978,065	16,465,806	42
8/31/62	10,840,125	21,558,307	50
9/11/64	16,385,455	21,928,788	75
11/30/69	19,135,287	23,950,524	80
3/31/73	13,954,680	19,262,040	72
3/31/77	10,918,523	14,275,480	76
1/31/81	5,389,779	10,169,747	53

Source: North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1958,1960,1962,1964,1969,1973,1977,1981. North Carolina State Library.

(The BDC never went above its charter limit of $10 million of debt obligation to private members. When obligations to the SBA are included, however, the BDC did surpass $10 million, owing $10.2 on 9/31/71 and $10.9 on 3/28/75).

In any case, the use of private funds was substantial once the Corporation gained its footing. Even in 1977 the BDC used 76 percent of available funds though loan demand was down. Funds available did decline from 1969 forward. However, the funds available to the BDC remained above the 1958 level, at least until 1977.

Since the BDC did not issue the new stock or the subordinated debentures, and the funds available did not fall off until after the BDC began to decline in 1967, it can be said that restricted finances did not play a primary role in the descent.

In summary, the BDC's most active years came in the 1960s. During the 1970s, management's main concern did not center about providing needed financing to risky but worthy ventures as was the case in the late 1950s. Rather, BDC management was concerned with a declining demand for loans, and thus its survival.

GENERAL TRENDS: Jobs Created and Recipient Longevity

Jobs Created

One and one third jobs per thousand dollars of loan was the objective declared in the Tarheel Banker, 1957. The number of jobs created through lending is an internal measure of success applicable only to quasi-public or public institutions. Private financiers are not directly interested in such a measure. As a quasi-public institution, however, the BDC mimicked the private sector's objective of profits.

For instance, Jenkins explained to a West Virginia audience in 1959 that "direct profits for itself are not [the BDC's] primary purpose, [however], the corporation has been on a profitable basis since operations began."[17] R.A. Bigger, President of the BDC, asserted in 1960 that "the shares of the corporation are becoming increasingly stronger and more attractive and should be regarded as a security of investment quality for long term growth potential along with reasonable dividends."[18]

That the BDC mimicked the private sector's profit objective is directly attributable to the father of the corporation. Governor Hodges -- the business governor -- strongly asserted that the "North Carolina Business Development Corporation was to operate on a strictly business basis."[19] Hodges' background and position produced an institution that gained support from the public by operating in a business-like manner. Indeed, Hodges saw this as the key to getting the public behind his efforts to build up small industry in the State.

> Later, at one of the meetings of the North Carolina Business Development Corporation, I asked the board of directors why they did not pay a small dividend. I did this, not because I thought the stockholders needed the money, but because I thought it would show that the corporation was being run on a businesslike basis if it

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[17] "Loans Total $7 Million", The News and Observer, Raleigh, May 22, 1959, p. 10.

[18] "Loans Made to 30 New Firms During Last Year", The News and Observer, Raleigh, February 2, 1960, p. 7.

[19] Hodges, Statehouse, p. 38.

> could make a profit and still perform the great service for which it was intended.[20]

The BDC faired well insofar as net income is concerned. Positive net income was enjoyed by the BDC through at least 1972, and dividends were paid in 1960, 1964, 1967-1969, 1971-1973, and 1977.[21] Presumably the businesslike manner of the BDC encouraged private support. For instance, funds available from BDC members did increase by 61 percent between 1958 and 1962.[22]

Ironically, the BDC showed a net loss of $14,900 in 1975, the same year the Corporation rebounded as measured by notes receivable. The 1975 loss was attributed to high interest rates paid by the BDC to private members for borrowed funds.[23] This caused management to negotiate a new procedure for determining interest payments to members. The new arrangement limited the rate on funds borrowed by the BDC from member institutions to one percent above the institution's prime rate with a minimum rate of 7.5 percent and a maximum rate of 10 percent.[24]

This arrangement did not prevent further financial loss at the BDC. For 1980 net income equaled $156,600. The gain was realized, however, when a delinquent account was unexpectedly paid off in the amount of

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[20] Ibid, p. 42.

[21] Years not observed for net income figures include 1970, 1973, 1974, 1977, and 1978. Years not observed for dividends distributed include 1965, 1966, 1970, 1974, 1978.

[22] Table 4.10

[23] State Banking Commission. Report of Examination, Business Development Corporation of North Carolina, 3/31/77. North Carolina State Library.

[24] Ibid.

$157,958.[25] When the Banking Commission conducted its last examination of the BDC on 1/31/81, net income -- for the month -- was negative by $11,200.

Part of the BDC's poor performance, measured by profits, is attributable to a lack of demand for its services. The "great service" that Hodges had mentioned was in reference to the creation of jobs. This facet of BDC activity, of course, reflects the public measurement of success. Failure was well in hand before the monetary loss of 1975.

Initially the BDC satisfied its self-proclaimed objective of one and one-third jobs per thousand dollars of loan. To 1961 the Corporation had disbursed 13 million dollars according to the Annual Report of that year. It had also created or maintained 26,588 jobs. Based on a jobs created ratio of 1.333, success would be declared at 17,329 jobs. The BDC was successful. In fact, the jobs created or maintained ratio equals 2.045 for the period.[26]

Net dollars disbursed between 1961 and 1968 were $13,665,000. Using the jobs created ratio of 1.333, the successful benchmark equals 18,215 jobs. Actual net jobs created between 1961 and 1968 was 6,584. This yields a jobs created or maintained ratio of only 0.482. The BDC was no longer successful according to the self-declared objective. Net dollars disbursed between 1968 and 1970 were $4,883,000. The successful benchmark equals 6,509 jobs for that period. Actual net jobs created

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[25] State Banking Commission. Report of Examination, Business Development Corporation of North Carolina, 1/31/81. North Carolina State Library.

[26] Floyd Jr. and Hodges Jr., Financing Industrial Growth, p. 29-31.

was only 336, producing a jobs created ratio of only .068. In the seventies the BDC continued to struggle to create jobs. Net dollars disbursed between 1970 and 1979 were $13,563,000. If one and one third jobs had been created for every thousand dollar of loan then 18,709 jobs would have been created. Only 3,598 jobs were created producing a jobs created ratio of 0.265.

For the last examination period (1/31/79-1/31/81) the BDC disbursed two loans totaling $630,000. If the BDC had met its jobs created ratio, then it would have created or maintained 840 jobs -- 630 multiplied by 1.333. However 840 jobs were not created. E-Z Mix Animal Nutrition, one of the last recipients, employed between 5 and 9 people in 1988. Master Woodcraft, Inc., the other recipient between 1979 and 1981, employed between 50 and 99 people.[27]

It is possible that slowed activity beginning in 1967 accounts for the declining jobs created ratio. However, a decline in activity would have a smaller impact on the jobs-created ratio than would an increase in the share of loans made to capital intensive firms. Since the ratio of jobs created was only 0.482 per thousand dollar of loan for 1961-1968, and the average loan amount pattern suggests an increasing emphasis on capital intensive firms from the 1960s forward, it seems that the latter is the case.

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[27] North Carolina Department of Commerce, Office of Economic Development, 1987-1988 Directory of Manufacturing Firms in North Carolina. Raleigh: NC Department of Commerce, 1987.

Recipient Longevity

Based on available evidence, the true jobs created ratios can not be known. That is, gross figures are unavailable, and the real creation of jobs, for whatever length, would certainly produce higher ratios for the 1960s and 1970s. Nevertheless, new loans did not prevent the closure of previous BDC 'firms' and the concommitant loss of jobs. Longevity of BDC loan recipients is obviously important in evaluating jobs-created ratios. Further, longevity of borrowers was itself of obvious importance to BDC operations. Though never explicitly stated as an objective, firm longevity was certainly desirable.

For each Examination, I have divided new loans into old accounts and new accounts, and compared the latter with North Carolina's industrial directories for 1973 and 1988.[28] (New accounts are new loans made to firms that had not previously borrowed from the BDC. Old accounts are new loans made to previous borrowers of BDC funds). For instance, if some BDC loan recipients from 1956 to 1964 appear in the 1988 directory, then some success has been achieved.

However, there are interpretive problems. Given that the BDC did not accept applications unless the applicant was unable to secure credit in the private sector, a successful program could have involved a good many failures, as the applicant pool consisted of risky ventures. Secondly, 'success' might actually indicate failure, since the provision

[28] Since some BDC recipients may have changed their operating names both firm-names and geographic locations were searched in the Directories for BDC loan recipients.

of credit to risky ventures motivated the founding of the BDC. Too much 'success' would indicate dereliction of duty.

In order to understand more fully the nature of longevity, surviving firms were categorized as to;

1. Whether they existed prior to the BDC loan.
2. The industrial sector of the surviving firm.
3. The regional location of the surviving firm.
4. The average loan amount of surviving firms.

Firms that are not listed in the directories are categorized likewise with the exception of item one. This will be explained later.

Old accounts are excluded from each sucessive Report of Examination in order to avoid double counting. They are, however, considered as a separate category to see if continued BDC support played a role in longevity.

Data are presented for three periods -- 1956 to 1964, 1964 to 1969, and 1969 to 1981 -- to reflect the BDC's initial growth, the transitional years of the late 1960s, and subsequent decline.

During the first nine years of operation, the BDC extended credit to 89 separate firms.[29] Of these, 42 were listed in the 1973 directory and 21 in the 1988 directory. Of these, sixteen firms in the 1973 directory and 10 in the 1988 directory began with use of BDC credit.[30]

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[29] State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1958, 1960, 1962, 1964. North Carolina State Library.

[30] Department of Natural and Economic Resources, Division of Commerce and Industry, Directory of North Carolina Manufacturing Firms, 1972-73 Edition. Raleigh: NC Department of Natural and Economic Resources, 1973.

TABLE 4.11

GENERAL FIRM LONGEVITY AND START-UP FIRM SURVIVORS
1956 - 1964

YEAR	NEW ACCOUNTS	NUM. OF SURVIVORS 1973	1988	START-UP SURVIVORS 1973	1988
1958	22	9	6	4	2
1960	27	16	8	6	5
1962	26	12	5	4	2
1964	14	5	2	2	1
TOTAL	89	42	21	16	10
PERCENT	-	47%	24%	18%	11%

Source: Appendix B, Items A.2, B.2, C.2, & D.2.

(It is impossible to determine the number of start-up versus established applicants for each Examination. Start-up firms can only be identified if they are indeed listed in the directories, and then, only if an establishment date is provided. Therefore the composition of loans to start-up firm versus established can not be determined, nor can the percentage of surviving start-up firms of all start-up recipients be determined).

North Carolina Department of Commerce, Office of Economics Development, 1987-1988 Directory of Manufacturing Firms In North Carolina. Raleigh: NC Department of Commerce, 1987.

As indicated, start-up firms account for a good share of firms listed in both directories. In fact, nearly half of the firms listed in the 1988 directory began by way of a BDC loan. Though significant, start-up firms do not form a majority of listed firms. The evidence shows that firm longevity was enjoyed by a mixture of new and old businesses.

Also, it appears that the BDC carried out its duty of assuming risky applicants. The average failure rate per 10 thousand businesses for 1963 to 1972 -- in North Carolina -- equals 14.54.[31] By comparison, the equivalent failure rate -- based on the above 89 recipients compared to the 1973 directory -- is 5,280. The BDC was not in dereliction of duty, if defined as lending to risky firms.[32]

I have classified each firm by 6 industrial categories: textiles & apparel (TA), furniture & wood products (FW), electrical, machinery, and fabricated metals (EMF), chemicals (CH), food & agriculture (AG), and other.[33] The longevity record by this classification is mixed as well. The 'other' and CH categories show the weakest contribution to longevity, while the remaining categories account for at least ten percent of listed firms in either directory year.

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[31] Dun & Bradstreet, Business Economics Department, The Failure Record Through (1966,67,68,69,70,72), A Comprehensive Study of Business Failures. New York: Dun & Bradstreet.

[32] Though the extrapolation is questionable, the failure rate for the 89 firms (47 closed by 1973) does indicate that the BDC assumed risky applicants.

[33] Other includes remaining two-digit classisfications.

TABLE 4.12

PERCENTAGE OF SURVIVORS BY INDUSTRIAL CLASSIFICATION
1956 - 1964

INDUSTRY	PERCENTAGE OF 1973 SURVIVORS	PERCENTAGE OF 1988 SURVIVORS
AG	19	24
CH	7	10
EMF	16	19
FW	14	10
TA	40	33
Other	2	5

Source: Appendix B, Items A.1, B.1, C.1, & D.1.
The percentages do not sum to 100 due to rounding.

Textiles and apparel contribute the most to longevity for the observed period. This can be attributed, in part, to the industrial composition of loan disbursals, but TA's longevity contribution was also due to a strong probability of success. For example, AG had nearly the same number of recipients as TA, but AG's probability ratio for longevity was only .33 compared to .72 for TA, based on 1973 survivors. (The changed attitude of management regarding textile loans was not unwise insofar as job longevity was concerned). On the other hand, EMF had the largest probability of success for 1973, but fewer recipients than TA between 1956 and 1964. (Please see Table 4.13 on the following page). Therefore, EMF accounts for only 16 percent of 1973 survivors compared to TA's share of 40 percent.

TABLE 4.13

PROBABILITY RATIOS OF LONGEVITY BY INDUSTRY
1956 - 1964
BASED ON LISTINGS OF THE 1973 INDUSTRIAL DIRECTORY

SECTOR	ALL RECIPIENTS	1973 SURVIVORS	RATIO
AG	21	7	.33
CH	3	2	.66
EMF	10	8	.80
FW	10	7	.70
TA	22	16	.72
OT	13	2	.15

Source: Appendix B, Items A.1, B.1, C.1 & D.1.
Since 'unsure' recipients are not considered, the total number of recipients does not equal that of Table 4.11.

For the first period (1956-1964), the successful recipients were concentrated in one region.[34] Of 42 firms listed in the 1973 directory, 67 percent operated in the Piedmont. Of 21 firms listed in the 1988 directory 66 percent operated in the Piedmont. As with TA's contribution to longevity, the Piedmont's dominance was a combination of a larger number of accounts as well as a strong probability for success.

TABLE 4.14

PROBABILITY RATIOS OF LONGEVITY BY REGION
1956 - 1964
BASED ON LISTINGS FOR THE 1973 INDUSTRIAL DIRECTORY

REGION	ALL RECIPIENTS	1973 SURVIVORS	RATIO
Mountain	8	1	.125
Piedmont	50	28	.56
Coastal Plain	31	13	.419

Source: Appendix B, Items A.3, B.3, C.3, & D.3.

34 The regional demarcation used here is derived from geographers' determination of North Carolina's fall lines, etc. A full explanation of regional derivations used in this study is included in Chapter Five.

The Coastal Plain's probability ratio is fair, though an equivalent failure rate for ten thousand observations would equal 5,806 compared to 4,400 for the Piedmont region. The equivalent rate for the Mountain region equals 8,750. Clearly, BDC financing had a small impact in the Mountain region for the first period. (The Mountain and Coastal Plain regions had the most to gain from the development bank. As indicated, the direct benefits of BDC financing from 1956 - 1964 favored the Piedmont region. Regional concerns and BDC distributions will be discussed more fully in Chapter Five.)

Even though Piedmont firms experienced greater longevity and demonstrated a stronger probability for success, the riskiness of BDC financing was present in each region. That is, the Piedmont's equivalent failure rate of 4,400 is well above the average reported earlier. The strong performance of Piedmont recipients is relative. Further, this strong performance is probably due to a stronger industrial base in the region for the period, (1956-1973). (This is discussed later in the study).

The average loan amount for listed firms versus the average loan amount for non-listed firms is the final category considered. I have collected the averages of listed and non-listed accounts for each Examination in the first period. The dollar amounts are in current dollars, and do not include credit extended to old accounts. Consider Table 4.15.

TABLE 4.15

AVERAGE LOAN AMOUNT FOR LISTED & NON-LISTED BDC LOAN RECIPIENTS IN THE 1973 & 1988 DIRECTORY: RANGE 1956-1964.

YEAR	Avg. Loan: 1973 SURVIVOR	Avg. Loan: 1973 NON-LISTED	Avg. Loan 1988 SURVIVOR	Avg. Loan 1988 NON-LISTED
1958	$104,500	$57,505	$116,666	$64,691
1960	104,533	190,500	105,503	123,815
1962	121,904	172,827	148,720	177,795
1964	322,000	160,722	437,500	181,791

Source: Appendix B, Items A.4, B.4, C.4, & D.4.

The trend to 1958 suggests a relationship between high dollar amounts and longevity, while the middle years suggest the opposite. The 1964 <u>Examination</u> shows a reversal. The number of new accounts for that period is 14 (versus 22, 27, & 26), and the 1973 and 1988 listed firms equal 5 and 2 respectively.[35] Beginning with 1962, then, the larger accounts experience greater longevity than the smaller accounts. This trend continues through the 1960s.

Between 1964 and 1969, 20 new firm loans were extended. Of these, 16 are listed in the 1973 directory and 11 in the 1988 directory.[36] The average loan amount for firms in the 1973 directory equals $288,156 while the average for non-listed loan recipients equals $162,955. For the 1988 directory the figures are $324,682 and $188,202 respectively.[37]

For the 1969 to 1981 period, the pattern reverses. Of 23 new firm loans between 1969 and 1981, 13 are listed in the 1988 directory. The

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35 See Table 4.11.
36 Appendix B, Item E.4.
37 Ibid.

average loan amount for listed firms equals $260,575, and the average for non-listed equals $363,927.[38]

Firm longevity for most of the first 14 years is related to larger loan amounts. In the remaining 12 years, when management consciously pursued larger loan amounts, the relationship reverses. In relative terms, the smaller accounts exhibit greater longevity for the period.

The Piedmont's association with longevity continues for the 1960s. The region accounts for roughly 65 percent of listed firms in the 1973 and 1988 directories for loans extended from 1964 to 1969. The region accounts for 69 percent of firms listed in the 1988 directory for recipients in the 1969 to 1981 range.

As before, the Piedmont's association with longevity is a combination of a larger number of accounts and a strong probability ratio as demonstrated in Tables 4.16 and 4.17. The Mountain region, though remaining a small part of the recipient pool, has a better record of success in the remaining years of operation.

TABLE 4.16

PROBABILITY RATIOS OF LONGEVITY BY REGION
1964 - 1969

REGION	ALL RECIPIENTS	1973 SURVIVORS	RATIO	1988 SURVIVORS	RATIO
Mount.	3	3	1.0	2	.666
Piedmont	12	10	.833	7	.583
Ctl. Pl.	5	3	.80	2	.40

Source: Appendix B, Item E.3.

[38] Appendix B, Items F.4, G.4, and H.4.

TABLE 4.17

PROBABILITY RATIOS OF LONGEVITY BY REGION
1969 - 1981

REGION	ALL RECIPIENTS	1988 SURVIVORS	RATIO
Mountain	2	2	1.0
Piedmont	16	9	.563
Coastal Plain	5	2	.40

Source: Appendix B, Item E.3.

The data affirms the risky nature of BDC financing. In a range of 3 to 8 years (1964/69 through 1972), four firms (or 20 percent of new accounts) closed before the end of 1972.

Two of those firms were located in the Coastal Plain. As shown, new accounts in that region were few for the last half of the 1960s. For the remaining years of operation new accounts were few for the Coastal Plain as well. In fact, between 1979 and 1981, only one new firm account was established in the region.[39]

For loans made between 1969 and 1981, 13 of 23 new accounts (56.5 percent) managed to survive until 1988. Both firms in the Mountain region survived, but the Piedmont, with many more recipients, contributed the most to longevity. As indicated above, this was mostly a matter of greater loan activity in the region.

The association between firm longevity and industry for the 1964 to 1969 period favors the textile and apparel sector as before. This is mostly a matter of more recipients, however, than a strong probability ratio.

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[39] Appendix B, Items H.1 & H.2.

TABLE 4.18

LONGEVITY BY INDUSTRY
1964 - 1969

SECTOR	ALL RECIPIENTS	1973 SURVIVORS	1988 SURVIVORS
AG	1	1	1
CH	3	2	2
EMF	5	5	3
FW	0	0	0
TA	8	7	4
OT	1	1	1

Source: Appendix B, Item E.1.
Since 'unsure' recipients are not considered, the total number of recipients in Table 4.18 does not equal 20.

Eight of 20 new accounts, or 40 percent, were established with textile or apparel firms. Seven of 16 firms listed in 1973, or 44 percent, were textile or apparel firms. The best combination of total number of accounts and survival ratio, however, is found in the EMF sector, as Table 4.18 demonstrates.

Notably, the furniture and wood products sector produced no new accounts from 1964 to 1969. In addition, the AG sector, that had been the center of attention in the late 1950s, shows only one new account for the period. This was a $30,000 loan to the Bayboro Dehydrating Company. This small crab meat processing facility (established in 1946) did survive at least until 1988. In the CH sector two of three new accounts survived until at least 1988 as well. Bandag, Inc. received a loan of $500,000 in 1969. The headquarters for this company -- with a reported range of 100 to 249 North Carolina employees -- is Muscatine, Indiana. In contrast, Worth Chemical Corporation received a loan of $400,000 in 1968. This firm was based in North Carolina and employed no more than four people, at least until 1988. The remaining CH account was Avondale Chemical Company of Jamestown, NC. The loan was for only $53,820 suggesting that Avondale made a minor expansion or used the money to retire previous obligations. In any event, the company was out of business by 1973.

The three TA recipients that did not survive to 1988 included: Airtowne Mills and Hilde Industries ($208,250), Durham Hosiery Mill ($450,000), and the Winchester Spinning Corporation ($168,750).

Winchester, located in the Mountain region, was a subsidiary of Fieldcrest Mills of Eden North Carolina. In 1973, the firm employed between 100 and 249 people. Apparently, a re-structuring of Fieldcrest operations was responsible for Winchester's demise.[40]

The Durham Hosiery Mill had been established in 1898. It would seem that a firm with such a tradition would have no problem securing credit in the private sector. That it did not, and subsequently closed, suggests that the BDC did indeed assume extraordinarily risky ventures.

The loan to Airtowne Mills was either an expansion loan, or a loan to retire previous debt. Airtowne was established in 1964, but owed the BDC $206,320 on November 30, 1969. The origmial amount was only

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[40] Fieldcrest Mills was established in 1966. It was still in business in 1988, employing between 250 and 499 people.

$208,250, suggesting that the loan was made after 1964. In any event, Airtowne Mills was out of business by 1988.

In the EMF sector, firms that did not survive included JFD Electronics-Southern, of Oxford, North Carolina and P. Wall Manufacturing of Kinston, North Carolina. JFD Electronics, a subsidiary of the Riker Maxson Corporation of New York, borrowed $137,000. Even though JFD, was no longer operating by 1988 (at least in Oxford), it is difficult to argue that the BDC engaged a risky venture in this case. P. Wall Manufacturing borrowed $75,000 in 1966. Apparently, BDC financing assisted the establishment of P. Wall Manufacturing. With 20 to 49 employees, the P. Wall loan reflects the original vision of Capus Waynick. The firm lasted at least seven years.

The association between firm longevity and industry for the 1969 to 1981 period favors TA as well. Again, this is mostly a matter of more recipients in that sector versus a strong probability ratio.

Once again, only one new account was established in the AG sector. A loan of $130,000 was extended to E-Z Mix Animal Nutrition of Wendell, North Carolina. E-Z Mix employed approximately 7 people in 1988. The significance of the AG sector to BDC operations was minimal in the 1970s.

The net jobs created ratio between 1970 and 1979 was only 0.265. During the last period, however, firm longevity performance was strong. Consider that 56.5 percent of new recipients for the period were listed in the 1988 directory. From the 1969 to 1973 loan period, 5 of 9 firms (55 percent) managed to survive for at least an additional 15 years.

From the 1973 to 1977 loan period, 5 of 9 firms survived for at least another 11 years. From the 1977 to 1981 loan period, 3 of 5 firms survived for at least another 7 years.

From 1964 to 1981, start-up firms continued to contribute to the firm longevity record. During the middle period (1964-1969), new firms account for 50 percent of 1973 listees and 64 percent of 1988 listees. In the latter period (1969-1981), new firms account for 31 percent of 1988 listees. Again, longevity was enjoyed by a mixture of new and old firms.

TABLE 4.19

LONGEVITY BY INDUSTRY
1969 - 1981

SECTOR	ALL RECIPIENTS	1988 SURVIVORS
AG	1	1
CH	2	2
EMF	2	2
FW	5	2
TA	8	4
OT	4	2

Source: Appendix B, Items F.1, G.1, & H.1.
Since 'unsure' is not considered, the total number of recipients does not equal 23.

The following relationships exist for the four categories considered:

1. The longevity record can not be attributed to loans being made to firms already established. The BDC remained true to its original intention of assisting up-start ventures.

2. Longevity is associated with the textile and apparel sector. This is due throughout the period to greater loan activity in this sector, and throughout the earlier period to a greater probability of success ratio for the sector.

3. Longevity is associated with the Piedmont region. This is due to a larger loan count in the region and a strong probability of success ratio over the period.

4. Longevity can be assigned to a larger average loan amount for most of the period to 1969. Thereafter, longevity is associated with a smaller average amount for surviving firms.

In addition, it can be said that the jobs created ratios derived earlier in this study would be higher if gross figures were available. That is, the large number of recipient failures over the life of the Corporation adversely effect the reported jobs created figures, since the BDC only reported existing jobs due to BDC financing.

The BDC frequently extended new loans to old accounts, and the additional support tended to increase the longevity of the recipient. During the first 14 years, for instance, the BDC extended 23 loans to 19 previous recipients. Fifteen of the firms (79 percent) were listed in the 1973 directory and 8 of the firms (42 percent) were listed in the 1988 directory. In other words, 15 of 58 firms (26 percent) listed in the 1973 directory (from the 1956-1969 loan period) received additional financing from the BDC.[41] Further, of $14,880,904 acquired by 1973 listees, $4,480,020 (30 percent) came by additional loans. Combined with a higher average loan amount for survivors, it can be said that extensive BDC support is associated with longevity for the first 14 years.

Additional loans were not generally small. Crown Aluminum Industries, who had received $129,030 loan in the late 1950s, was extended a new loan for $344,850 between 1960 and 1962. Vel-Cord Southern, the recipient of a $150,000 loan in 1957 that had angered a stockholder, received an additional $225,000 between 1962 and 1964. Glenoit Mills, originally financed in part by a $300,000 BDC loan, and used as an example of success by the Hodges administration, gained $402,000 of additional support between 1962 and 1964. Finally, National Welders Supply ($300,000 originally), received $375,000 between 1962 and 1964, and two additional loans between 1964 and 1969 totaling $110,000.

National Welders Supply is listed in the 1988 directory as are seven additional old account firms, accounting for 25 percent of the 1988 listees from the 1956 to 1969 period. Monetarily, extended loan amounts to 1988 listees equals $1,976,270 of $8,785,404 or 22 percent.

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[41] 8 of 32 firms listed in the 1988 directory -- from the 1956 to 1969 loan period -- received additional financing.

Two additional extensions were made in the 1969 to 1973 period, including one to Homes by Fisher and another to National Welders Supply of $256,500 and $206,092 respectively. Thus 26 percent of credit extended to 1988 listees (from the 1956-1969 period) came by way of additional loans.

In the latter period, the only extension of additional credit -- to firms receiving previous support from the BDC from 1969 to 1981 -- went to Artee Industries of Cleveland County. This start-up firm received a $500,000 loan in 1970, a $36,000 extension between 1973 and 1977, and an additional loan for $285,000 between 1977 and 1981. Artee Industries was still operating in 1988.

SIGNIFICANCE OF THE BDC TO THE STATE'S ECONOMIC DEVELOPMENT: Another Perpsective

North Carolina's innovation was recognized by other states, and in particular those in the South. Though the SDCC had been invented in Maine, the BDC's early success became an example to mimic. (In 1966, it was reported that North Carolina's SDCC was second in size in the entire nation. Only New York's SDCC was larger).[42]

By February of 1958, ten states and the Hawaiian Islands had contacted Jenkins about the corporation's function.[43] In May of 1959, West Virginia officials invited Jenkins to address their Industrial

42 "Business Observer: Jenkins to Retire From BDC Post", The News and Observer, Raleigh, August 23, 1966, p. 17.

43 "Loans Totaling $4 Million Made by Business Development Corp." The News and Observer, Raleigh, February 16, 1958, p. I:7.

Development Conference.[44] In early 1960, the Lieutenant Governor of Kentucky, Wilson Wyatt, visited the BDC's office in Raleigh.[45] He was accompanied by Kentucky's Commissioner of Economic Development and the Director of Industrial Development of the Kentucky Chamber of Commerce. Thomas Graham, the president of Bankers Bond Company of Louisville also attended. Their intent was "... to find out exactly how it is being done."[46] Plans were being made to start a bill in the Kentucky Legislature patterned on the BDC, and Wyatt intended to call a meeting of Kentucky bankers, on his return, to discuss the possibilities for a SDCC in the State. As he told Jenkins, "You have done so well here in North Carolina, we wanted to get the benefit of your experience."[47]

Kentucky had organized a Development Credit Corporation by 1968.[48] (If West Virginia did so, it was no longer in operation in that year). Other Southern states with SDCCs in that year included: Arkansas, Florida, Mississippi, Tennessee, and Virginia.[49] (The Hawaii Business Development Corporation was organized in July of 1957).[50]

North Carolina's innovative success apparently encouraged the spread of this peculiar institution. But how significant to North Carolina's economic development was the BDC?

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44 "Loans Total $7 Million", The News and Observer, Raleigh, May 22, 1959, p. 10.

45 "Kentucky Group Visists N.C. Development Corp." The News and Observer, Raleigh, February 10, 1960, p. 28.

46 Ibid.

47 Ibid.

48 Liston, "Legislative Climate", p. 17.

49 Ibid.

50 US Department of Commerce, Office of Area Development, Statewide Industrial Development Credit Corporations and State Development Authorities. Washington: Government Printing Office, 1958.

It has already been established that the BDC had difficulty creating jobs during the 1970s and that its general operations were declining. It experienced a strong start, however, and enjoyed early success as measured by its self declared objective. To place this growth in perspective, I have compared the net loan amount of the BDC to the value of new capital expenditures in industry for the period 1956-1974. Though a small portion of BDC loans was used to retire existing debt and for working capital, the comparison should indicate the degree of significance of BDC operations for the period.

TABLE 4.20

Value of BDC Loans Compared to New Capital Expenditures on Industry in North Carolina, 1956-1974

PERIOD	BDC LOANS	NEW CAPITAL EXPENDITURES	RATIO
1956-1958	$2,231,085	$567,823,000	.004
1959-1960	3,823,450	475,724,000	.008
1961-1962	5,456,284	521,470,000	.010
1963-1964	7,202,059	666,900,000	.010
1965-1968	7,952,122	2,546,300,000	.003
1969-1970	4,883,000	1,470,200,000	.003
1971-1974	7,600,000	4,049,900,000	.002

Source: Table 4.4.
U.S. Department of Commerce, Census of Manufactures, 1963,1967,1972,1977. Washington: U.S. Govt. Printing Office

The BDC never threatened the private sector. For each dollar spent on new machinery and buildings in the private sector (1954-1964), the BDC provided a penny to risky, small scale, ventures. Of approximately 800,000 industrial workers in North Carolina in 1979,[51] BDC loans had contributed to the maintainenance or creation of only 27,106.[52] Though important to BDC borrowers, the Corporation had a very small role in the expansion of industry experienced by North Carolina during the Sunbelt boom.[53]

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51 NC Office of State Budget & Management, Management and Information Services, State Data Center, Statistical Abstract of North Carolina Counties, 1991. Raleigh: The Office, 1991, Table I-9, p. I-17.

52 The Business Development Corporation of North Carolina, Annual Report,1979. North Carolina State Library.

53 In the Sunbelt, only California (1,440,428) and Texas (616,947) experienced a greater absolute increase than North Carolina (460,920) in manufacturing employment between 1947 and 1987.

US Department of Commerce, Bureau of the Census, Census of Manufactures, 1947, 1987. Washington: Government Printing Office.

CHAPTER FIVE

THE BUSINESS DEVELOPMENT CORPORATION OF NORTH CAROLINA
Regional Disbursal of Loans, 1956 to 1981

REGIONAL CONCERNS AT THE STATEHOUSE

This chapter describes the regional pattern of loans by the BDC in context of the particular concern of North Carolina's government for the State's regional diversity in industrial development. Did the BDC reflect these concerns? There is no official indication that the Corporation pursued an explicit policy of regional influence for one region or another. Early operations, however, appear to have reflected Governor Hodges' industrial policies, and it is presumed that management may have attempted to deliver more funds for lagging regions to satisfy the Governor's program objectives. If the Corporation did not pursue a regional policy, then their may have been a tendency to reinforce the industrial dominance of the State's Piedmont region over the period.

During the period from the late 1870s to WW I -- a period often described as that of the 'origins of the New South'[1] -- North Carolina emerged as a Southern industrial stronghold. From 1877 to 1913, the State gained considerable shares of the textile, furniture, and tobacco products industries. As with the entire South from North Carolina to Alabama though, the Piedmont was actually the location of most

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[1] C. Vann Woodward, Origins of the New South, 1877-1913. Baton Rouge: Louisiana State University Press & The Littlefield Fund for Southern History, The University of Texas, 1951,1964.

industrial enterprise.[2] In North Carolina, the Mountain and Coastal Plain regions remained largely dependent on agriculture.

During the early half of this century, North Carolina's big three industries continued to expand as did the Piedmont's dominance. The textile industry received a boost from James B. Duke's hydro-electric plants contructed from 1907 forward. By 1927, Duke's power plants served over three hundred cotton mills or approximately 6 million spindles.[3] To facilitate the company's expansion, Duke often purchased stock in companies of skeptical mill owners, reselling the issues at the same price once facilities had been converted to electric power.[4]

The turn to electric power, and use of new technologies in textiles thereafter, along with low wages, assisted the State's dominance of the textile industry at the close of the second World War.[5] As North Carolina (and Southern mill owners in general) accepted new techonologies, Northern mills continued to use old techniques until they were played out.[6] As the older textile centers in the North collapsed, a new center in the Southern Piedmont emerged, and was lead by North Carolina companies such as Cannon Mills and Burlington Mills, later

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[2] Rupert B. Vance, Human Geography of the South: A Study in Regional Resources and Human Adequacy. New York: Russell & Russell, 1932,1968, p. 275-315.

[3] John Wilber Jenkins, James B. Duke: Master Builder. New York: George H. Doran Company, 1927, p. 172.

[4] Nannie May Tilley, The Bright-Tobacco Industry, 1860-1929. Chapel Hill: The University of North Carolina Press, 1948, p. 639.

[5] US Department of Commerce, Bureau of the Census, Census of Manufactures, 1947.

[6] Irwin Feller, "The Diffusion and Location of Technological Change in the American Cotton-Textile Industry, 1890-1970", Technology & Culture, October, 1974, 15:4:569-593.

known as Burlington Industries. Both empires were formed by the purchase of smaller mills throughout the Piedmont.[7]

Most of these smaller mills were created between 1900 and 1930. The mill village -- where the company owned everything from housing to stores -- had already begun its decline in North Carolina by the Depression. From the mid-thirties forward, the pace of this decline picked up speed.[8] As small shop owners began to liquidate real estate holdings, the larger companies, such as Burlington, began to purchase plant facilities.

The mill villages of North Carolina contributed to the dominant status of the industrial Piedmont.[9] Scattered throughout the Piedmont, mill villages surrounded the larger textiles centers such as Gastonia in the south and the Winston-Salem & Greensboro area in the north central Piedmont.

North Carolina's furniture industry was located between the two textile centers. This industry received a boost when the Southern Furniture Exposition building was constructed in 1921. Formerly serving a Southern demand for cheap household furniture, North Carolina's

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[7] Hugh Talmage Lefler & Albert Ray Newsome, The History of a Southern State: North Carolina, revised edition. Chapel Hill: The University of North Carolina Press, 1963, p. 599.

[8] Harriet L. Herring, Passing of the Mill Village: Revolution in a Southern Institution. Chapel Hill: The University of North Carolina Press, 1949.

[9] Ralph R. Triplette, Jr. "One Industry Towns: Their Location, Development, and Economic Character", Phd Dissertation, Department of Geography, The University of North Carolina at Chapel Hill.

industry moved to a national level with the opening of the Exposition.[10] Towns such as Hickory, Statesville, Lexington, and Thomasville led the State's growth in furniture, with High Point as the center. By 1954, "... the 150 mile radius surrounding [High Point] comprise[d] the greatest concentration of furniture making in the world."[11]

Augmenting the location of furniture factories and textile mills on the Piedmont was the tobacco products industry. While the market battle between Camels, Chesterfields, Lucky Strikes, and Old Golds carried on in the press and on billboards between 1913 and 1930, the production of cigarettes occured in the cities of Durham, Greensboro, Winston-Salem, and Reidsville, all of which are located in the northern Piedmont of North Carolina.

A 'Piedmont Crescent' emerged in North Carolina, within the larger Piedmont Crescent of the Southeast that stretches from Virginia to Alabama.[12] North Carolina's development followed the path of the North Carolina Railroad constructed in 1856 and later incorporated into a major north-south rail route.[13] From Raleigh, Durham and Chapel Hill, to Greensboro, High Point and Winston-Salem, to Charlotte and Gastonia, an urban belt emerged that dominated the State's industry.

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[10] Charles H. V. Ebert, "Furniture Making in High Point", North Carolina Historical Review, July, 1959, p. 330-339.

[11] S. Huntington Hobbs, Jr., North Carolina: An Economic and Social Profile. Chapel Hill: The University of North Carolina Press, 1958 p. 120.

[12] Vance, Human Geography, p. 275-315.

[13] Allen W. Trelease, The North Carolina Railroad, 1849-1871, and the Modernization of North Carolina. Chapel Hill: The University of North Carolina Press, The Fred W. Morrison Series in Southern Studies, 1991.

In the Mountain region, pockets of urban-industrial areas emerged during the first half of the century, but a considerable portion of the region remained isolated and agrarian. What industry there was located mostly in the city of Asheville and the counties of Buncombe and Henderson.

Besides the old colonial ports of New Bern and Wilmington, the urban centers in the east of North Carolina were connected in one way or another to the tobacco crop. Market towns, where major annual tobacco auctions were held, included Kinston, Goldsboro, Smithfield, and Farmville.[14] Their significance to the local economy grew as the cigarette industry grew, since the Coastal Plain provided the best environment in the State for flue-cured tobacco crops:[15] Flue-cured tobacco had become a standard ingredient in the production of cigarettes.

The origin of the Piedmont's industrial dominance has been attributed to factors including its abundance of water power, and a large and cheap labor pool supplied by the yeoman farm community in the region. Regardless of the initial cause, the Piedmont's advantage was strengthened during the 20th century. The Piedmont's industrial lead at mid-century was nearly unchallenged.[16] With 4 thousand-plus factories,

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[14] Anthony J. Badger, Prosperity Road: The New Deal, Tobacco, and North Carolina. Chapel Hill: The University of North Carolina Press, The Fred W. Morrison Series in Southern Studies, 1980.

[15] Tilley, Bright-Tobacco, p. 148.

[16] The regional definition used here has been derived from geographers determination of Mountain, Piedmont, and Coastal Plain topographical characteristics. The following section of this chapter

and over a quarter of a million production workers, the Piedmont was clearly dominant.

Between the major regions, the average number of production workers per county, for 1954, was lowest in the Coastal Plain even though it had more factories and a higher factory average per county than the Mountain region. The Coastal Plain also had the lowest average payroll per county and the lowest average wages per worker for 1954.[17]

In contrast, the Coastal Plain was the State's leading agricultural region in the mid-1950s. Of course, the leading crop in North Carolina at the time was tobacco. Of the estimated income of $931 million from farming in 1954, $497 million, or roughly 53 percent, was made in tobacco farming.[18] Tobacco is generally split into two crops, burley and flue-cured. The latter variety -- also known as bright leaf -- became popular as the primary blend in cigarettes. During the late 19th and early 20th centuries, bright leaf farming became a primary activity of rural North Carolina where the crop was feasible. The Coastal Plain environment is most suited for bright leaf crops. Along the border counties on the Piedmont and through some areas of the northern

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includes a full explanation of how these regions have been defined in this study.

[17] See Tables 5.1, 5.2, and 5.3.

[18] Hobbs, North Carolina, Table 39, p. 302. Hobbs' figures are compiled from Facts about North Carolina, N.C. Department of Conservation & Development, (Raleigh, 1956). These totals do not match the sales totals in Table 5.4 that are based on Census of Agriculture figures as reported in the 1956 County & City Data Book. Nonetheless, that tobacco was the leading income producer for farming is certain.

Piedmont, a type of bright leaf crop is also growable. In the Mountains, on the other hand, bright leaf is nearly impossible to grow, and as Table 5.5 shows, no bright leaf was harvested in the Mountain region in 1954.

TABLE 5.1

FACTORIES AND PRODUCTION WORKERS IN NORTH CAROLINA BY REGION : 1954

	FACTORIES		PRODUCTION WORKERS	
REGION	TOTAL	AVERAGE PER COUNTY	TOTAL	AVERAGE PER COUNTY
Mountain	580	30	27,357	1,439
Piedmont	4,236	111	290,068	7,633
Coastal Pln.	1,829	42	61,398	1,427

Source: US Department of Commerce, Bureau of the Census, Census of Manufactures, 1954.

TABLE 5.2

TOTAL MANUFACTURING PAYROLL FOR NORTH CAROLINA BY REGION : 1954

REGION	TOTAL	AVERAGE PAYROLL PER COUNTY
Mountain	$100,471,000	$5,582,000
Piedmont	873,041,000	22,975,000
Coastal Plain	170,459,000	4,059,000

Source: US Department of Commerce, Bureau of the Census, Census of Manufactures, 1954.

TABLE 5.3

TOTAL MAUNFACTURING WAGES FOR NORTH CAROLINA BY REGION: 1954

REGION	TOTAL	AVERAGE WAGES PER WORKER
Mountain	$75,128,000	$2,746
Piedmont	699,718,000	2,412
Coastal Plain	134,905,000	2,197

Source: US Department of Commerce, Bureau of the Census, Census of Manufactures, 1954.

TABLE 5.4

TOTAL CROP AND LIVESTOCK SALES FOR 1954 BY REGION

REGION	TOTAL SALES	AVERAGE SALES PER COUNTY
Mountain	35,737,000	1.8 million
Piedmont	230,281,000	6.0 million
Coastal Plain	466,912,000	10.8 million

Source: County and City Data Book, 1956.

TABLE 5.5

THE REGIONAL PRODUCTION OF TOBACCO, 1954.

REGION	LBS (000) OF FLUE-CURED	PERCENT OF STATE TOTAL	LBS (000) OF BURLEY	PERCENT OF STATE TOTAL
Mountain	0	% 0	20,144	% 99
Piedmont	219,700	28	223	1
Coastal Pln.	563,562	72	0	0

Source: Census of Agriculture, 1954.

The Coastal Plain's lagging position in manufacturing was complemented by the dominant position in agriculture midway through the 1950s. The heavy dependence on bright leaf tobacco in the cigarette industry produced a tobacco culture throughout most rural regions in the State. The Coastal Plain counties emerged as the most economically dependent on the crop, however. Further, lacking a considerable industrial base, the region depended heavily on farming in general.

During Hodges' administration, concerns were voiced about lagging regions, and in particular the eastern region. However, the executive branch of North Carolina from 1954 to 1960 lacked an explicit regional policy. For instance, recruitment trips were structured to deliver the North Carolina story from a statewide perspective. Hodges and Saunders' policy prevented the advertising of towns and counties by volunteer and staff recruiters on these trips. In Statehouse, Hodges declared: "[They] were to sell the state as a whole and under no conditions were they to discuss their communities when they talked with prospects on the [New York] trip. The same rule applied in later industry hunts."[19] The successful recruitment of firms to North Carolina was the primary goal, and explicit objectives for regional diversity in this effort were never formulated.

The Triangle Park on the other hand was a geographically specific project. The assumption that the Park would attract additional, non-research, facilities was never phrased in regional terms. Further, the

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[19] Hodges, Statehouse, p. 57.

enabling legislation for the BDC does not specify preference for any particular region. It merely authorizes Development Corporations "...for the purpose of promoting, developing and advancing the prosperity and economic welfare of the State."[20] The policy of management was the "... state-wide long term financial assistance for the expansion of business and industry..." to "...promote... the economic welfare of the State."[21]

During Hodges' tenure 'regional policy' depended on local development organizations, though they were forbidden during the major industry 'hunts' to sell their communities. Informally, the 'policy' was known as operation bootstrap, and the Governor's Small Industries Pprogram served as the agitator for local action in development efforts. In all, the State's involvement with industrial expansion consisted of the BDC, the Triangle, and the recruitment trips with no complementary policy of a regional perpsective save the short lived GSIP.

The pattern of North Carolina's industrial development efforts continued with the Sanford administration (1961-1965) with one exception: The reliance on an expanded industrial base to remove poverty from North Carolina gave way to Sanford's experimental North Carolina Fund. This project, created by Sanford and his assistant, John Ehle, was funded by the Ford Foundation, the Z. Smith Reynolds Foundation, and

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20 Session Laws-1955, Ch. 1146, p. 1117.

21 "The Business Development Corporation Continues to Grow", News Release for the Tarheel Banker, November 22nd, 1957, Governors' Papers, North Carolina State Archives.

the Mary Reynolds Babcock Foundation.[22] It was intended as an "all out assault on poverty."[23]

In contrast to the hopes of the Hodges' administration, the Fund did not view the attraction of industry, by itself, as the solution to the lagging regions' problems. Realizing that a heavy migration of people from eastern North Carolina and the Mountains was ongoing, the Fund assumed that "[those] employed and underemployed in our agricultural areas in the Mountains and the Coastal Plain must be more effectively matched with job opportunities in the Piedmont."[24]

Eleven experimental programs were set up across the State including several within the Piedmont. They were intended to operate until 1968, and historically serve as the first attempt by North Carolina in the 20th century to pursue an explicit economic program with regional intentions. Long before 1968, though, an 'exogenous' boost from the Federal government came by way of President Johnson's 'War on Poverty'.

The Fund gave way to the Appalachian Regional Commission and the Coastal Plain Regional Commission of the Economic Development Administration. Federal funds were delivered to the Mountains and the Coastal Plain for the construction of water and sewer facilities, as well as general welfare programs.

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22 The North Carolina Fund, Annual Report, 1966,: Three years of Change: Narrative History of the North Carolina Fund. The North Carolina Collection, The University of North Carolina at Chapel Hill.

23 The North Carolina Fund, Annual Report to the Ford Foundation, 1963-1964, 9/21/64, p. 2. The North Carolina Collection, The University of North Carolina at Chapel Hill.

24 Ibid, p. 2-3.

During the administration of Governor Robert Scott (1969-1973), and in the view of the Federal agencies, North Carolina created a new policy of a regional perspective. In the sixties, the Piedmont Crescent continued to expand in population and industry while the Mountains and Coastal Plains experienced continued out-migration. Governor Scott intended to use State money to offset the unbalanced growth, and this was to be accomplished by the new Statewide Development Policy. Raleigh would serve as central command directing funds to the lagging regions in the State. In particular, these funds were to go to the "... outer reaches of Appalachia and the Coastal Plains... placing higher priority on developing these areas than the Piedmont Crescent."[25] Not only were State funds targeted, but the program also intended to influence federal dollars for an "effective" guidance of economic development.[26]

During Governor James Holshouser's administration (1973-1977), the Statewide Development Policy subsided. The policy had failed to significantly direct funds, and presumably Holshouser did not believe the plan to be feasible. The idea was resurrected in 1978 as the Balanced Growth Policy of Governor James Hunt, (1977-1985).

Governor Hunt and Arnold Zogry, a former official of the Appalachian Regional Commission, believed the main cause of the Statewide Development Policy's failure was the lack of coordination

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[25] Brad Stuart, Making North Carolina Prosper: A Critique of Balanced Growth and Regional Planning. Raleigh: North Carolina Center for Public Policy Research, 1979, p.23.
[26] Ibid, p. 26.

between State objectives, Federal objectives and expenditures.[27] Past growth in the State, according to Hunt & Zogry, had been "... random and uncertain... resulting from independent decisions of government agencies."[28] The same tactic of influencing federal policies was pursued, though one observer notes that the policy was an immediate failure.[29]

The BDC operated in an environment of varying approaches towards lagging regions. From Hodges to Hunt, though, regional diversity remained a Statehouse concern. Did the BDC cooperate with Statehouse initiatives?

METHOD OF REVIEW

As before, the review in this chapter is based on 235 of 252 loans made by the BDC between 1956 and 1981.[30] The data are reported in two periods. The first includes the initial years of operation to 1960, and is intended to determine if Hodges' concern for "the counties east of Raleigh"[31] was reflected by BDC management. The remaining period of regional distribution, from 1960 to 1981, shows whether the BDC

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27 Arnold Zogry had developed the 1972 Statewide Development Policy by contract to the Division of State Planning. Brad Stuart asserts that Governor Hunt's Balanced Growth Policy "... is the philosophical product of this one man, [Arnold Zogry]," (Stuart, A Critique, p. 23.)

28 Department of Administration, Division of Policy Development, State of North Carolina, A Balanced Growth Policy for North Carolina: An Agenda for Discussion. Raleigh, October, 1977, p. II-8.

29 W. Lee Johnston, "Balanced Growth Policy in North Carolina: A Case Study in Realities," State Government, 56:3:112-119.

30 Appendix B.

31 Patton, Messages, Addresses, p. 108.

encouraged or discouraged a regional balance of development during the 1960s and demonstrates BDC activity during the balanced growth policy era of Governors Scott and Hunt.

Maps are included in Appendix C to demonstrate the regional definitions used in this analysis. There are two definitions.

The first region will be referred to as the 'geographer's definition'. It is based on the presentation of North Carolina regions by Clay, Orr, and Stuart.[32] The Coastal Plain group includes all counties in the Coastal Plain and Tidewater regions as defined by Clay, et al. Two counties possessing Sandhill characteristics are included in this region. In sum, the 'geographer's' Coastal Plain consist of those counties east of Raleigh. The Mountain region includes all counties entirely west of the Blue Ridge line plus the counties of Polk and McDowell that actually straddle the line. The remaining counties have been assigned to the Piedmont region.

The other definition of regions used in this analysis is that of the State Planning office. This definition was born during the Scott administration and mimicks the boundaries of the Appalachian and Coastal Plains Regional Commissions in North Carolina.

The 'geographers' definition consists of 19 Mountain counties, 38 Piedmont counties, and 43 Coastal Plain counties. The State's

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[32] James W. Clay, Douglas M. Orr, Jr., and Alfred W. Stuart, North Carolina Atlas: Portrait of a Changing Southern State. Chapel Hill: The University of North Carolina Press, 1975, Figure C, p. 6 & Figure I, p. 319.

definition -- or the 'planner's' definition -- consists of 29 Mountain counties, 26 Piedmont counties, and 45 Coastal Plain counties.

By using both definitions in this analysis, a clear picture of the regional disposition of loans will be made. The planner's account, for instance, designates four counties west of the Coastal Plain fall line (including Wake) as Coastal Plain counties, and several counties well east of the Blue Ridge (including Forsyth) as Mountain counties. Other than Wake (Raleigh) and Forsyth (Winston-Salem), these counties are mostly rural. Therefore, any disposition of loans that favor the Piedmont, as defined by the State, would actually reflect support for the urban-Piedmont.

In contrast, the geographer's definition of the Piedmont will indicate if lagging regions, other than rural counties on the Piedmont, actually received favorable treatment in any particular period.

A REGIONAL COMPARISON OF LOANS

As the Executive Vice-President of the BDC, H. Powell Jenkins felt it necessary to clear up Cone's complaint to Governor Hodges -- regarding BDC loans to textile firms -- by informing the Governor that the BDC had made an effort to encourage the agricultural sector of the economy.[33] Jenkins supported the Governor's wishes to assist the State's agricultural sector. Since the Coastal Plain was most dependent

33 Caesar Cone, as you may recall, was a BDC stockholder whose wealth was based on an extensive textile empire. He had informed Governor Hodges and Jenkins that he did not intend to subsidize competitiors of his own firms.

on agriculture, and Governor Hodges saw a particular need for industry in the east, it seems possible that Jenkins pursued a policy favoring the Coastal Plain.

This was not the case, however, during the first two years of operation. From opening day to September 19th of 1958, the BDC had made 30 loans totaling 2,231,085 dollars. By either regional definition, the initial years favored the Piedmont.

TABLE 5.6

The Geographic Distribution of Loans to 1958

	Geographer's Defin'n.			Planner's Defin'n.		
Item	MTN	PIED.	CTL PL.	MTN	PIED.	CTL PL.
Percent By Number	7 %	53 %	40 %	17 %	47 %	37 %
Percent By Dollars	2 %	72 %	26 %	14 %	62 %	24 %

Source: Appendix B, Item A.2.

Not only did the BDC provide more loans and dollars to the Piedmont, but the dollar amount of individual loans favored the Piedmont. The Coastal Plain, by both definitions, received only one loan of a six digit amount. This was a $150,000 loan made to Vel-Cord Southern[34] that provoked Caesar Cone to respond angrily. The Mountain

[34] Specific loan information is recorded in Appendix B.

region, strictly defined, received no loans of a six digit amount, but as defined by planners received one loan of $157,520. This loan was made to the Farmers Poultry Development Corporation of Dobson, North Carolina. Seated east of the Blue Ridge line, this loan probably benefited Piedmont farmers.

In contrast, the Piedmont region, using either definition, received seven six digit loans. This included the largest loan of $300,000 made to National Welders Supply of Charlotte. The Piedmont received a minimum of 1.3 million out of 2.2 million dollars.[35]

In the following two years this trend reversed. Of 35 new loan recipients that appeared in the 1960 ROE, over half were located on the Coastal Plain. The individual amounts for loans favored the east as well. The largest loan between September of 1958 and October of 1960 was made to the Clinton Development Corporation in the amount of $375,000. In all, the Coastal Plain received 6 six digit loans, and received a minimum $1.8 of $3.6 million.

The Mountain region, as defined by planners, received $807,420 during the period. Of this, a $290,000 loan made to the Asheville Hosiery Company did little but reinforce the industrial dominance of the Mountain 'capitol' of North Carolina. Using the restricted definition of the Mountain region, only two additional loans were made in the region. One was made to Beacon Hill of Henderson County, another industrial base of the Mountains, and the other to The Clinton

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[35] When 'minimum' is used in this sense, it is meant to reflect the minimum amount disbursed as determined by the competing definitions.

Corporation of Barnardsville which is located in the same county as Asheville.

TABLE 5.7

THE GEOGRAPHIC DISTRIBUTION OF LOANS BETWEEN 1958 & 1960

	Geographer's Defin'n.			Planner's Defin'n.		
Item	MTN	PIED.	CTL PL.	MTN	PIED.	CTL PL.
Percent By Number	9 %	37 %	54 %	20 %	29 %	51 %
Percent By Dollars	12 %	36 %	52 %	22 %	27 %	50 %

Source: Appendix B, Item B.2.

Whether or not BDC management decided to favor the Coastal Plain, the region gained the most from the BDC from 1958 to 1960. The region's loan approval rate was far better than the Mountain or Peidmont region's for the 1958 to 1960 loan period. In Table 5.8, I have collected total applications, approvals, and declines by region as reported for the two periods using the 'geographer's definition'. In the third column of this table, the approval ratio by dollar amount indicates that the Coastal Plain may have received benefitial treatment by the BDC from 1958 to 1960. The number of applications is roughly equal between the Piedmont and the Coastal Plain in both periods. The Coastal Plain's

TABLE 5.8

LOAN DECLINE SCHEDULE BY REGION
USING GEOGRAPHER'S DEFINITION
4/1/56 TO 10/15/60

4/1/56 TO 9/19/58

MOUNTAIN	NUMBER OF LOANS	DOLLAR AMOUNT
Total	9	337,500
Approved	2	50,500
Declined	7	287,000
Approval ratio	.22	.149

PIEDMONT	NUMBER OF LOANS	DOLLAR AMOUNT
Total	54	4,032,585
Approved	16	1,601,585
Declined	38	2,431,000
Approval ratio	.29	.397

COASTAL PLAIN	NUMBER OF LOANS	DOLLAR AMOUNT
Total	49	2,915,250
Approved	12	579,000
Declined	37	2,2336,250
Approval ratio	.24	.198

9/19/58 to 10/15/60

MOUNTAIN	NUMBER OF LOANS	DOLLAR AMOUNT
Total	8	729,000
Approved	3	445,000
Declined	5	284,000
Approval ratio	.37	.610

PIEDMONT	NUMBER OF LOANS	DOLLAR AMOUNT
Total	30	2,411,450
Approved	13	1,311,450
Declined	17	1,100,000
Approval ratio	.43	.543

COASTAL PLAIN	NUMBER OF LOANS	DOLLAR AMOUNT
Total	28	2,507,000
Approved	19	1,875,000
Declined	9	632,000
Approval ratio	.67	.747

Source: (1) Appendix B, Items A.2 & B.2.
(2) North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1958, 1960, North Carolina State Library.

approval ratio, however, increased from 19 to 74 percent between periods. This does not confirm that Jenkins and the loan committee pursued this outcome. First, with such a small population the significance of the difference in approval ratios between 56-58 and 58-60 is indeterminant. Second, the BDC was a private corporation, taxable, and expected to make a profit for its shareholders. The reverse in trend may have been a matter of Coastal Plain applicants exhibiting greater potential for success during the second range.

On the other hand, it is unlikely that management -- particularly during the youth of this organization -- operated with no objectives beyond selecting the least risky applicants. That the BDC discouraged textile loans and encouraged agricultural loans during its early years confirms that various objectives were pursued, and this in itself would have favored the Coastal Plain. Testifying before the Senate hearings that produced the Small Business Investment Act of 1958, H. Powell Jenkins indicated that the BDC gave favor to the lagging regions. He explained to the committee that "in the unemployment areas, of course, we use similar standards for lending, but at the same time, naturally we try to speed up our processing and do anything we reasonably can to be of the utmost assistance."[36] It is likely that Jenkins steered loans toward the east from 58-60 as a favor to Governor Hodges.

Between 1960 and 1962, the distribution of loans favored the Piedmont once again. In fact, the distribution of BDC credit favored

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[36] "Credit Needs of Small Business," Statement of H. Powell Jenkins, p. 123.

the Piedmont throughout the 1960s. By geographer's definition, the Piedmont received 72 percent of dollars loaned by the BDC to 1962, and around 60 percent of dollars between 1962 and 1969. By planner's definition, the Piedmont dominates the 1960s distribution as well indicating that a good deal of BDC credit went to the urban core of the Piedmont during that decade.

FIGURE 5.1

PERCENTAGE DISTRIBUTION OF LOANS
USING THE GEOGRAPHER'S DEFINITION OF REGIONS

PERCENT	60-62	62-64	64-69	69-73	73-77
80					
70	P				
60		P	P		C
50				P	
40				C	P
30			C		
20	C	M - C			
10	M		M	M (.04)	M (.01)

Source: Appendix B.

FIGURE 5.2

PERCENTAGE DISTRIBUTION OF LOANS USING THE PLANNER'S DEFINITION OF REGIONS

PERCENT	60-62	62-64	64-69	69-73	73-77
80					
70					
60	P				C
50		P	P	C	
40			C	P	
30		M			
20	M-C	C			P
10			M	M (.04)	M (.12)

Source: Appendix B.

Apparently BDC financing in the 1960s is not a case of favoritism towards the Piedmont but a reflection of external events. During that decade the Piedmont continued to dominate industrial location in general as the State's industrial base expanded. The industrial labor force, for example, expanded by 153,806 between 1954 and 1967. Of this, the Coastal Plain gained 32,360 (21%), the Mountains gained 16,979 (11%), and the Piedmont gained 104,467 (68%).[37]

In addition, the per capita lending of the BDC (measured in dollars) actually favored the Mountain region for the 1960s. However, the Piedmont did receive $4.67 per resident between 1960 and 1969

[37] U.S. Department of Commerce, Bureau of the Census, Census of Manufactures, 1954, 1967. Washington D.C.: US GPO.

compared to a disbursal of $3.32 per resident for the Coastal Plain. This measure also indicates that Jenkins may have favored Coastal Plain applicants in the 1950s.

TABLE 5.9

PER CAPITA DISBURSAL BY REGION
1956-1960, 1960-1969

PERIOD	MOUNTAIN	PIEDMONT	COASTAL PLAIN
1956-1960	$1.15	$1.17	$1.51
1960-1969	$5.18	$4.67	$3.32

Source: Appendix B
N.C. State Government Statistical Abstract, 5.e., 1984.

As figures 5.1 and 5.2 show, the Coastal Plain fared better in the 1970s than in the 1960s. However, the overall activity of the BDC had declined and so the majority of BDC activity benefited the industrial Piedmont. Nevertheless, it is apparent that the BDC consciously reflected the balanced growth initiatives begun by North Carolina around 1970. Beginning with the Scott administration (1969-1973), the Statehouse pursued explicit policies designed to stimulate growth in the lagging regions and limit excessive growth on the Piedmont. In March of 1969, Governor Scott announced that the State Planning Task Force -- created during Sanford's term (1961-1965) and strengthened during Moore's (1965-1969) -- would be reorganized as the Division of State Planning and Development.[38] Several years later a

[38] "Legislative Message on Establishment of Department of Local Affairs", 3/27/69. Memory F. Mitchell, ed. Addresses and Public Papers of Robert Walter Scott: Governor of North Carolina, 1969--1973.

number of local meetings were held to determine the best planning program for the State.[39] This eventually lead to the Statewide Development Policy (SDP) designed to steer public funds to the lagging regions, and written under the auspice of the new Planning Division. SDP was forgotten during Holshouser's term.

Governor James B. Hunt, Jr. (1977-1981) intended to strengthen State planning during his first term. Following the development of his Balanced Growth Policy, Hunt lobbied the legislature to put 'teeth' behind the program. In 1979, "An Act to Establish the North Carolina Balanced Growth Policy" was passed.[40] Using the same approach as SDP the Balanced Growth Policy apparently failed to influence even State funds.

In the meantime, the BDC began its long decline that would eventually lead to liquidation during Governor Hunt's second term. From 1969 to 1981, however, the BDC still distributed at least 45 loans totaling 20.5 million (1982) dollars.[41] Since the enabling legislation posited the BDC as a quasi-public institution, and industrial development concerns at the Statehouse turned explicitly to the lagging regions, it would seem that the BDC should have pursued a policy favoring the Coastal Plain and Mountain regions.

Raleigh: Division of Archives and History, Department of Cultural Resources, 1974, p. 40-46.

39 "Statewide Series of Governor's Regional Conferences", 7/24/72. Addresses, p. 459-462.

40 N.C. Session Laws, 1979, Chapter 412.

41 Table 4.9.

During the Scott administration, it appears that the BDC did in fact favor the Coastal Plain. Distributing 17 loans totaling 4.0 million nominal dollars, the amount obtained by the Coastal Plain equals at least 45 percent. Using the planner's definition, born of the Scott reorganization, the Coastal Plain received over half of BDC loans during the period.[42] The decline in applicants reported by the BDC in 1973[43] may have more to do with the favorable share received by the Coastal Plain than a sympathetic stance for Scott's initiative. In any event, the regional disbursal favored at least one-half of Statehouse policy.

From 1973 to 1977, the distribution of loans continued to favor the Coastal Plain region. Eighteen loans were made during the mid-70s totaling $5.9 million. Coastal Plain firms received at least $3.3 million. By planner's definition, the region received $3.7 million or 63 percent during the period. As noted, the large share of the Coastal Plain does not necessarily indicate a rationalized position, but does show that the BDC, as far as the Coastal Plain is concerned, operated in sync with the SDP.

From 1977 to 1981, the regional trend reversed. Ten loans were split between the Coastal Plain and the Piedmont, though the latter region received a much larger share in dollars. By planner's definition, Piedmont based firms received $2.0 of $3.4 million by way of five loans: By geographer's definition, Piedmont firms received $2.1 of

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42 Appendix B, Item F.2.

43 North Carolina State Banking Commission, Report on Examination, Business Development Corporation of North Carolina, 3/31/1973. North Carolina State Library.

$3.4 million by way of six loans. In the view of Hunt's Balanced Growth Policy, the BDC favored the industrially dominant Piedmont.

A NOTE ON LOCAL DEVELOPMENT COMPANIES

The BDC almost immediately began to extend credit to local development companies (LDCs) for the purpose of industrial development. As will be established in the following chapter, LDC loans were often used to assist the location of non-North Carolina based branch industrial facilities. In this case, LDCs from lagging regions appear to have been more aggressive in their use of BDC financing. In fact, between 1960 and 1962, loans to LDCs in lagging regions accounted for 83 percent of all loans made to LDCs as measured in dollars and by geographer's definition. From 1962 to 1964, and by the same measure, loans to LDCs located on the Coastal Plain or in the Mountains accounted for 81 percent of the total.

As shown in figure 5.3, most of this amount benefited those counties east of Raleigh. Further, in the decade of 1964-1973, the Coastal Plain's dominance of BDC credit for LDCs is nearly absolute. From 1964-1969 the region received 73 percent of the total, and from 1969-1973 it received 82 percent of the total. BDC credit to LDCs, which became a primary activity of the Corporation, was used primarily by communities in lagging regions, and in particular by communities on the Coastal Plain.

FIGURE 5.3

**PERCENTAGE DISTRIBUTION OF LOANS TO LDCs
USING THE GEOGRAPHER'S DEFINITION OF REGIONS**

PERCENT	60-62	62-64	64-69	69-73	73-77
80				C	C (100%)
70			C		
60					
50	C				
40		C			
30	P	P-M	P		
20	M			P	
10			M (0%)	M (0%)	

Source: Appendix B, Items C.4, D.4, ..., G.4.

REGIONAL SUMMARY

Though BDC funds were small compared to the massive injection of development dollars by the Federal government in 1965, a regional target might have been a sensible goal of the quasi-public BDC. The regional disbursal was in line with Governor Scott's initiative, even if the dollar amount of BDC lending was declining during that period. Yet unlike the 1950s when BDC management had the ear of the governor, the 1970s marked a distance between the Statehouse and the Corporation. Governor Scott, for instance, declared at a dedication that "[the] Business Development Corporation of North Carolina was the result of a

Richardson grant."[44] Not only does this demonstrate a lack of knowledge regarding the history of the BDC, but it also indicates that little communication between the Statehouse and the BDC existed at the time. Also, no evidence of communication between Governor Hunt and BDC management has been found. Further, Governor Hunt did not intervene in the closure of the BDC. Apparently the plan of Governor Hunt -- as well as Governor Scott -- to direct state and federal monies to economically depressed areas did not require cooperation of the BDC. The BDC did manage to distribute 20.5 million (1982) dollars during its last years, and -- from 1969 to 1977 -- favored Coastal Plain applicants. Consciously or not, the BDC reflected Statehouse policy for that period. If designed to gain favor, it was not enough to avoid its liquidation five years later.

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[44] Governor Robert W. Scott, "Dedication of Smith Richardson Building" Greensboro, June 9th, 1971. Memory F. Mitchell, editor, Addresses and Public Papers of Robert Walter Scott: Governor of North Carolina, 1969-1973. Raleigh: Department of Cultural Resources, Division of Archives and History, 1974, p. 378.

CHAPTER SIX

THE BUSINESS DEVELOPMENT CORPORATIONOF NORTH CAROLINA
Disbursal of Loans by Industry, 1956 to 1981

STATEHOUSE CONCERNS FOR FARMERS AND DIVERSIFIED INDUSTRY

A review of loans by industry is presented in this chapter. Two aspects of BDC financing stand out. One is the importance of the lack of revenue bonding in the State until 1977. The other is the solid base of low wage industry present in North Carolina at the BDC's founding. Given the State's industrial legacy and Hodges' push for food processing, a question asked in this chapter is whether or not BDC activity was internally consistent with Hodges' general program, and to reveal the Corporation's behavior in light of external factors including the changing industrial composition of the State.

On October 11th, 1955, Governor Hodges attended a luncheon held by the Seaboard Air Line Railroad Company in Charlotte at which he announced his industrial concerns. GSIP and the subscription campaign for the BDC were under way, but William Saunders had yet to replace Ben Douglas at Conservation and Development, and no move to establish the Research Triangle Park (RTP) had been made or suggested at that point. In the administration's view, RTP would bring high-wage employment, but the Governor had always indicated a concern for low wages in the State. In Charlotte, he reiterated his concerns:

> [in] a nation where 12.5 percent of all labor is employed on the farm, North Carolina has 24.9 percent

> so employed. ... we must find a way to increase the work opportunities of our scattered people and this problem becomes more important as we continue to release agricultural workers through mechanization.[1]

The Governor also announced that "[this] state today is the largest industrial producer in the Southeast. Figures indicating a relatively low average income should not blind us to the fact that we have made great progress in industrialization."[2] Given the audience, the Governor did not have to mention that in addition to the farm contribution to lower wages the industrial composition of the State contributed as well. Founded on the largest textile labor force in the nation, furniture, lumber, and cigarettes, augmented North Carolina's industrial strength, and each provided lower than average industrial wages at the time.

Earlier in the year, the Governor was even more explicit. Speaking to the Citizens Association of Raleigh, Hodges remarked:

> We must not only have industry of a diversified nature in North Carolina, but we must improve our agricultral methods through further mechanization and diversity. As more acreage is diverted from tobacco, cotton, etc., work must be found for farm laborers released and much can be done by processing the products of our fields and forests and our waters. We do too little of merchandising now of things we produce. We don't process and package and advertise. We raise corn and ship it away. We raise beef cattle and send it away. We should feed our corn to our cattle, do our own fattening and selling. We need to increase our very low per capita income and we can.[3]

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[1] "Remarks... Seaboard Air Line", Addresses, Vol. I, p. 242.
[2] Ibid, p. 241.
[3] "Address Before the North Carolina Citizens Association", March, 23, 1955. Addresses, Vol. I, p. 108-109.

The goals for North Carolina then, according to Hodges, were the diversification of industry in general, and an increase in food processing facilities to stimulate and augment a diversification in the agricultural sector's output.

Over the period of 1947 to 1987, the State of North Carolina did enjoy a diversification of industry. Industrial employment in electrical machinery, for instance, increased by 59,900 while textile employment fell by 4,950.[4] Further, textiles accounted for 55 percent of the industrial force in 1947 but only 24 percent in 1987: In the meantime, total industrial employment in the State increased by 460,920.[5]

On the other hand, apparel employment gained 61,856 over the period, and food processing 32,984.[6] Neither of these are known for high wages, of course, and while the former seems a weak substitute for textiles, the latter was specifically targeted by Governor Hodges to assist the farm population.

THE BDC AS A REVENUE BONDING SUBSTITUTE

Revenue Bonding -- a widely used financial tool of the post WW II era -- was not legalized in North Carolina until 1977. By this time, however, every Southern state made use of this tool. North Carolina was a late comer. While the legality of industrial revenue bonds had long

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[4] US Department of Commerce, Bureau of the Census, Census of Manufactures, 1947,1987. Washington D.C.: US Government Printing Office.

[5] Ibid.

[6] Ibid.

been debated, the US Congress did not act on the issue until 1968. The resulting legislation restricted the tax exempt status of revenue bonds to issues less than or equal to $1 million.[7] According to James Cobb this induced a decline in industrial bond use. In the first half of 1968, for instance, $639.8 million of industrial bonds had been issued whereas during the same period in 1969 no more than $8 million were issued.[8]

While restricting the tax exempt status of these tools, Congress created no restrictions on revenue bonds used to construct or purchase pollution control equipment.[9] By 1978, 49 states allowed the use of revenue bonds for pollution control, including North Carolina.[10]

In 1977, during James Hunt's first term as Governor, North Carolina enabled local communities to issue revenue bonds for the purpose of pollution control as well as to construct industrial buildings and purchase land.[11] By 1983, North Carolina communities had made 430 issues totaling 1.4 billion dollars.[12]

The BDC began its decline before 1977. The bond legislation may have hastened its death, but the BDC was already dying at the time. On the other hand, North Carolina government provided no means for industrial financing previous to 1977 other than the BDC, which meant that the BDC behaved as a revenue bonding substitute from 1956 to 1977.

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[7] This was the same year that the North Carolina Supreme Court found revenue bonding unconstitutional.
[8] Cobb, Selling of the South, p. 45.
[9] Ibid, p. 247.
[10] Ibid.
[11] Site Selection Handbook, September, 1983, 28:3:548.
[12] Ibid, p. 550.

While the BDC may not have provided financing equal to that which would have been provided through bond issues, the BDC was the only agency -- public or quasi-public -- authorized to provide financing for industrial expansion between 1956 and 1977.

The evidence indicates that the BDC served as a substitute in two ways. First, loans were extended directly to industrialists based in other States for the purpose of constructing branch facilities in North Carolina. Many Southern industrial bond issues were put to the same use. Second, the BDC began to extend credit to local development companies for the purpose of industrial expansion. Unable to issue revenue bonds, local communities relied on local development groups to pursue industrial expansion, and in turn, these groups could find State authorized financing only at the BDC.

METHOD OF REVIEW

As before, outstanding loan assets in subsequent Examinations have been reviewed to determine new loan accounts. These accounts have been divided into eight categories. These are agriculture & food processing (AG), chemical manufacturers (CH), electrical, machinery, & fabricated metal producers (EMF), furniture & wood products producers (FW), textile & apparel firms (TA), 'other', 'unsure', and development companies.

Classification is based on the recipient's title. 'Carolina Mills', for instance, would be placed in TA, while 'Tarheel Milling' would be placed in AG. Firms that can be identified by industry, such as Howard Construction or Rudbeek Realty, but are not within the first five categories have been placed in the 'other' classification. The last category for manufacturing firms, 'unsure', consists of those recipients whose activity can not be determined by firm name or otherwise.

Some firms have been identified by information contained in the industrial directories used earlier in this study. Unfortunately, not all firms can be identified in this manner. The result is 8.4 percent of 41.0 million dollars in the unsure category.

All credit extended to development companies through the 235 loans surveyed have been identified. Some information was available on 'secondary' firms. The Glenoit Mills deal mentioned earlier in this study is one such loan. Unfortunately, most loans to LDC's do not include secondary firm information, but there is no doubt that each LDC loan was used to construct industrial buildings to be leased or sold.

A comparison of loans -- in dollar amounts -- between categories is made for the respective Examinations. Particular intervals and loans are discussed in the first section of analysis. This is followed by a comparison by category for the life of the BDC.

A COMPARISON OF LOANS BY INDUSTRY

Early activity at the BDC indicates that the Corporation behaved as an extension of the Hodges administration and particularly its desire to diversify the State's agricultural sector. For instance, food processing & agriculture received 27 percent of all dollars extended to

9/19/58, or $619,085. This was the largest percentage of any category used in this study.

In the first months of operation, the BDC arranged a loan of $157,520 for the Farmers Poultry Development Corporation in Dobson.[13] Carolina Poultry Farms, created by the above arrangement, joined Colonial Poultry Company of Dobson and Breeden Poultry & Eggs as new agricultural/food concerns assisted by Hodges' BDC.

Besides assisting poultry producers, the BDC extended credit to Ahoskie Meat & Provision, Circle F Provision, and Clayton Fulcher Seafood, as well as to Johnston County Frozen Foods, Martindale Foods, and the Maegeo Dehydrating Company.

In the same period, the BDC extended $360,000 on four accounts to textile and apparel firms. The first was the Vel-Cord loan. By the first examination, the BDC had extended more credit to this sector including a $40,000 loan to Allendale Mills, and two loans to local development companies that were used to construct facilities for Brookside Industries in Reidsville and Supak Manufacturing Company in Elizabeth City. In sum, TA loans account for 16 percent of total dollars borrowed to 9/11/58 versus 27 percent for the AG sector.

During the next period (Sept. '58 - Oct. '60), the BDC continued to extend a siginificant number of loans to the agricultural and food processing sector. As a share of total dollar amount, AG loans declined to 22 percent, but in nominal dollars the share increased to $824,920.

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[13] Unless otherwise noted, figures and information for this section are derived from Appendix B, Items A.1, B.1, C.1,..., H.1.

Clayton Fulcher and Ahoskie received additional committments of $10,000 and $2,500 respectively, and Breeden received another loan of $117,420. The remaining loans went to new accounts.

Smith-Whitley Grain Co., for instance, received the largest loan in this sector of $170,000, while Seabrook Blanching Corporation found a committment of $140,000 at the BDC.

(Seabrook's location of a major peanut processing facility in North Carolina was the direct result of recruitment efforts on behalf of Conservation & Development and of BDC financing. In effect, the BDC had served as a substitute for revenue bonding. Most bond substitution came through loans to local development corporations, but not all as the Seabrook case demonstrates. In this same period, for instance, the BDC committed $60,000 to Seth Construction Co. of Lincolnton. Seth proceeded to construct a facility for the Sherman Textile Company. Presumably, Seth leased the facility to Sherman, but undoubtedly, Sherman occupied the completed plant.)

While AG's share dropped, the number and total amount going to electrical,machinery,& fabricated metals, increased. In the first two years, for example, this sector accounted for only 3.9 percent of BDC loans in total dollar amount: From 1958 to 1960, EMF accounted for 8.7 percent, or $319,030.[14] In three loans, the BDC extended $150,000 to Consolidated Brass in Charlotte, $129,030 to Crown Aluminum Industries in Roxboro, and $40,000 to the Machine & Welding Co. of Dunn.

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[14] Appendix B, Item I.

(Crown had been founded by the BDC loan. As an unusual case of securing outside industrial investment in the State, the BDC assumed title to the property in 1967 (due to foreclosure) and rented the facility in February, 1968 to Crown which had become a subsidiary of the Whitaker Corporation of Los Angeles-Pittsburgh.[15] This was done to "recover some $570,000 which [the BDC] had tied up in the plant."[16])

Bond substitution was unquestionably used in the textile and apparel industries, but what is just as important here is the share of BDC loans given to textiles and apparel beginning with the 1958 to 1960 period. Of 35 loans made between the 1958 and 1960 Examinations, 11 went to textile and apparel firms. Further, the TA sector accounts for 42.6 percent of total dollars loaned by the BDC: This is by far the largest percentage of any category for the period.[17]

The largest loan, mentioned earlier in this study, went to Tarboro Textiles to construct the facility for Glenoit Mills. Close behind this $300,000 loan was a committment of $290,000 to Asheville Hosiery. In total, 8 six digit loans were made in the TA sector.

(I do not know if Ceasar Cone ever sold his stock in the BDC, but it is certain that his brother remained on the board of directors.[18]

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15 Department of Natural and Economic Resources, Division of Commerce and Industry, Directory of North Carolina Manufacturing firms, 1972-73 Edition. Raleigh: NC NER, 1973.

16 The Business Development Corporation of North Carolina, 13th Annual Report, 12/31/68, p. 2. North Carolina State Library

17 Appendix B, Item I.

18 Benjamin Cone is listed as a Board Member for each Examination used in this study.

Apparently, the initial aversion to textile loans subsided as the BDC matured.)

During the next two years of operation (Oct. '60 - Aug. '62) the BDC committed 1.4 million dollars to textile and apparel firms or 25 percent of total dollars loaned. From August 31, 1962 to September 11, 1964 the BDC committed 1.9 million dollars -- or 33 percent of total dollars loaned -- to textile and apparel firms.

In the meantime, loans to the AG sector continued, but at a lower rate. Accounting for 11 percent of loans made from 1960 to 1962, AG received only $638,750.[19] In the final years of Governor Sanford's administration (1962-64), AG received only $95,500 by way of two loans for 1 percent of total disbursements.[20]

Governor Sanford, in December of 1964, claimed that the BDC had done its part in stimulating food processing in North Carolina.[21] He referred to a cooperative program between Conservation & Development, the Department of Agriculture, the North Carolina Rural Rehabilitation Corporation, and the BDC that had resulted in an average of one new or expanded food processing facility a week since 1961.[22]

That is at least 156 facilities, yet the BDC had participated in only five loans from 1960 to 1964 concerning the AG sector.[23]

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19 Appendix B Item I.

20 Ibid.

21 "Dedication of Site for Food Science Building North Carolina State of the University of North Carolina at Raleigh", Raleigh, December 11th, 1964. Memory F. Mitchell, ed. Messages, Addresses, and Public Papers of Terry Sanford: Governor of North Carolina, 1961-1965. Raleigh: Council of State, State of North Carolina, 1966.

22 Ibid.

23 It is possible that some loans to LDC's benefited the AG sector.

Apparently the BDC's objective of stimulating the State's agricultural sector had subsided in the face of a stronger program started by the Sanford administration.

Though continuing to support food processors, the share committed to this industry never returned to its early dominant status. As Table 6.1 shows, AG received only 12.7 percent of BDC dollars from 1956 to 1964. By comparison, the TA sector received 30.6 percent of dollars during the first nine years of lending.

In spite of an early aversion to textiles and courtship of food processors, as the BDC grew in size it began to promote the former more than the latter. Textile firms became primary recipients of BDC credit while food processors became subsidiary. From 1962 to 1964, for instance, the dollar value of loans to AG was only: one-third of EMF's share; one-quarter of FW's share; one-sixth of CH's share; and a pittance compared to textile firm loans.[24]

TABLE 6.1

DISTRIBUTION OF LOANS BY RECIPIENT, 1956 TO 1964

CATEGORY	DOLLAR AMOUNT	PERCENTAGE OF ALL
Total	$17,119,078	-
AG	2,178,255	.127
CH	1,535,000	.089
EMF	1,090,480	.063
FW	1,272,000	.074
TA	5,242,500	.306
OTHER	636,833	.037
UNSURE	2,413,500	.140
DEVELOPMENT COMPANIES	3,778,510	.220

Source: Appendix B, Item I.

The percentages sum to greater than 100 because development company loans are counted by industrial sector where possible.

[24] Appendix B, Item I.

Textile manufacturers appear to be the leading recipient of loans channeled to local development corporations as well. In the first nine years, 28 loans were made to local developement companies. Not all of these, as recorded, indicate the company that benefited in the end, but where this is reported, textiles emerge as the leading recipient.

During the first four years, for example, 10 local development companies received BDC financing by way of 12 loans. Of the 10 accounts reported, 4 indicate secondary companies that eventually leased or purchased the facilities constructed by BDC financing.

Albemarle Industries, for instance, received two committments totaling $86,000 to construct facilities for Supak Manufacturing, a textile firm. Reidsville Industrial Development Corporation received two committments as well totaling $215,000 to construct facilities for Brookside Industries, another textile company founded by BDC financing.

The Glenoit deal was also made in this period, as well as a $70,500 committment to Goldsboro Industries, Inc. for the benfit of Lori Manufacturing. Lori was a textile firm as well, and a subsidiary of Sherayne Manufacturing Company, Inc. of New York. Based on these four accounts, a minimum of $671,500 were borrowed by development corporations to construct plants for textile manufacturers. Though loan reports on other development companies for this period do not include secondary firms, the evidence shows that at least 61.8 percent of these arrangements (in dollars) were used for the textile industry.

During the next four years, loans made to development companies increased dramatically. From 1960 to 1962 these committments equaled

$867,000 dollars, and during the next two years they equaled $1,825,010 or 31 percent of total dollars loaned in that period.[25]

In the earlier period only two secondary firms are identified. The Jerold Corporation (TA), a subsidiary of US Industries, Inc. of New York, benefited from a $80,000 loan made to Smithfield Industries Inc., and Shallcross Manufacturing (EMF), a subsidiary of Cutler-Hammer, Inc. of Milwaukee, benefited from a $150,000 loan made to Selma-Smithfield Industrial Development Corporation. In addition, another $87,000 was loaned to Seth Construction to complete the arrangement for Sherman Textile.

For the period 1962 to 1964, only one secondary company is identified. This firm, Champion Dishwashing, had received BDC support by way of a $268,000 loan to the Winston-Salem, Forsyth Development Corporation. (Champion later assumed the debt).

As Hodges asserted in Statehouse, the BDC was intended to handle small firm concerns in the State. Recruitment and the Triangle were intended to attract large industrialists.[26] From 1956 to 1964, however, development company loans accounted for 22 percent of total dollars. Ranking second behind textiles, LDC loans emerged as a primary activity of the BDC even though this was not the intention at its founding. In 1964, and with Jenkins still in command, the BDC reported that "local development corporations, primarily concerned with attracting new industry by the construction and financing of manufacturing facilities,

25 Appendix B, Item I.
26 Hodges, Statehouse, p. 42-43.

continue to benefit from the help and cooperation of the Corporation."[27] By default, it seems, the BDC became a bonding program substitute.

Based on the 1969 Examination, at least 56 new loans were made between 1964 and 1969. During this period the BDC loaned 10.4 million dollars.

Once again the textile and apparel industries dominated the distribution. In 13 loans, this sector assumed 3.2 million dollars or 31 percent of the total.[28] With one exception, each loan was of six digit amount. Shelby Seamless Hosiery received a $66,000 loan while the Cleveland Mills Company received a loan for $500,000, as did Holt Hosiery Mills of Burlington. Between these extremes were eight loans ranging from $147,000 to $208,250, one loan to Clayson Knitting for $390,000 and one loan to the Durham Hosiery Mill for $450,000.

Shelby's loan was the second for the company: It had been established in 1960 by way of a BDC loan of $250,000. The Cleveland Mills loan is notable not only for its largeness, but also for the firm's legacy: This company had been founded in 1873 during the birth of the new south.[29] (The Durham Hosiery Mill was established during that era as well).

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[27] State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 9/11/64. North Carolina State Library.

[28] Appendix B, Item I.

[29] It is also notable that the $500,000 loan was in addition to an earlier loan of $250,000.

The BDC did assist new firms. It played a role in the establishment of no less than eight new companies during this period, including two in the textile industry.[30]

Other than McGowen Glass Fibers & NC Spinning Mills ($325,000) and The Premier Woven Label ($184,000), the BDC assisted the birth of; Alliance Carolina Tool & Mold (1964/$112,500); Bandag Incorporated (CH/1969/$500,000); Homes by Fisher (1969/$150,000); Lundy Electronics & Systems (1968/$485,004); P.M. Segal & Worth Chemical (1968/$400,000); and P. Wall Manufacturing Co. (EMF/1966/$75,000).[31]

In comparison to the above loans and the large textile loans, the agricultural sector continued to slide down the BDC ladder of objectives. In two loans, Hickory Farms received a commitment of $165,000: Another commitment was made to Bayboro Dehydrating in the amount of $30,000, and one additional loan was made to Selma Soybean for $45,000. In all, $240,000 or 2 percent of the total from 1964 to 1969 was committed to the AG sector. As Table 6.2 shows, this amount was the smallest of any category used in this analysis. (Only one loan was extended to the FW sector in the amount of $360,000 to Kohler & Campbell, but this was enough to surpass AG's total).[32]

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[30] Appendix B, Item D.2.

[31] Ibid.

[32] Kohler & Campbell received 3 committments totaling $992,719 from 1960 to 1975. Nonetheless, this firm is not listed in the 1988 directory.

TABLE 6.2

DISTRIBUTION OF LOANS BY RECIPIENT, 1964 TO 1969

CATEGORY	DOLLAR AMOUNT	PERCENTAGE OF ALL
TOTAL	$10,436,997	-
AG	240,000	.022
CH	1,063,820	.102
EMF	1,548,254	.148
FW	360,000	.034
TA	3,274,000	.313
OTHER	943,500	.090
UNSURE	632,000	.060
DEV. COMPANIES	2,375,423	.227

Source: Appendix B, Item I.

The BDC also began to service the non-traditional industries of North Carolina moreso than before. No less than 25 percent of BDC loans were made to chemical companies, electrical & machinery manufacturers, as well as fabricated metal producers. In addition, a $16,000 loan to Robbin Laboratories and a $150,000 loan to Homes By Fisher[33] demonstrates additional diversity in the Corporation's activities.[34]

The remaining loans categorized as 'other' for this period include four loans to construction companies ($377,500), and one loan to Allan Realty in the amount of $400,000. Presumably the loan to Allan Realty was used to develop an industrial park. The construction loans, based on past loans to Seth Construction, may have been used to build facilities for new industry. Since secondary company information is not reported, however, it is possible that these loans were used to purchase construction equipment.

33 Homes by Fischer is a mobile home manufacturer.
34 These loans have been accounted for under 'other'.

Information is absent for secondary companies of development corporation loans in the 1969 Examination as well. The past record, however, and the percentage of loans used for plant construction and equipment purchases strongly indicates that these loans continued to serve as bonding substitutes. The 1968 Annual Report, for instance, asserts that 72 percent of 26.6 million dollars of loans (cumulative) had been used for plant construction and 17 percent for machinery & equipment. The remaining share had been used for working capital or to repay existing debt.[35] Further, in a summary of outstanding loans for 1969 the Banking Commission distributed development corporation loans to the respective industries directly benefiting from the financial committments: All LDC loans were used for industrial facilities.

The 1969 Examination also reports the distribution of outstanding loans by industry for 1966 and 1968. Since the examinations for those years were not reviewed for this study, I have compiled the data as presented in that report in Table 6.3. The evidence demonstrates beyond doubt that textile firms and development corporations had become the favored recipient of BDC support.

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[35] Business Development Corporation of North Carolina, 13th Annual Report, 1968. North Carolina State Library.

TABLE 6.3

DIVERSIFICATION OF LOANS OUTSTANDING, 1966 & 1968

INDUSTRY	6-30, 1966 BALANCE	PERCENT	4-30, 1968 BALANCE	PERCENT
Agriculture	$ 192,200	1.9	$ 63,600	.7
Chemicals	922,800	9.2	1,118,600	12.0
Food proc'g.	624,200	6.2	623,500	7.0
Furniture	365,000	3.6	140,800	1.5
Dev. Comp's.	1,752,400	17.5	2,618,500	28.6
Metal Fab'n.	1,037,000	10.4	457,000	5.0
Textiles	4,218,800	42.1	2,755,000	30.0
Miscell's	912,000	9.1	1,397,800	15.2
TOTALS	10,024,400	100	9,174,800	100

Source: North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 11/30/69. North Carolina State Library.

The falling percentage in textiles -- as presented above -- is misleading: in the Examiner's next summary, for 11/30/69, textiles account for 54.1 percent of the total, and this rebound was made by the distribution of development corporation debt to respective industries. Consider that outstanding debt of textile concerns increased to 5.7 million dollars between 4/30/68 and 11/30/69, or by 3.0 million dollars.[36] Some of this can be attributed to new loans, but surely a good deal of the 2.6 million attributed to development companies in 1968 and discounted to zero in 1969 had been redistributed to the textile industry. In short, most LDC loans benefited the textile industry.

The first fourteen years of operation -- the most vigorous years -- had seen the BDC change from a small enterprise promoter, allergic to textiles, to a development corporation promoter and significant

[36] State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 11/30/69. North Carolina State Library.

financier of the State's dominant industry. Further, the AG sector had become insignificant to BDC operations.

In the next four years no less than 17 new loans were made, though the total was probably no larger than 20. In this period loan activity in the textile industry subsided considerably. With 3 loans totaling $736,000, textiles accounted for only 18 percent of the total.

TABLE 6.4

DISTRIBUTION OF LOANS BY RECIPIENT, 1969-1973

CATEGORY	DOLLAR AMOUNT	PERCENTAGE OF ALL
Total	$ 4,066,547	-
AG	0	0
CH	368,092	.090
EMF	0	0
FW	610,000	.150
TA	736,000	.180
OTHER	1,497,800	.368
UNSURE	0	0
DEV. COMPANIES	854,655	.21

Source: Appendix B, Item I.

The biggest change in the composition of loans occurred in the 'other' category. A variety of miscellaneous loans produced a total of 1.4 million or 36 percent of total. An additional loan to Homes by Fisher accounted for $256,500, but two loans to real estate companies totaled $585,000 -- over one half of the category.[37] Apparently the BDC had joined the wave of industrial park construction[38] at the time.

[37] Appendix B, Items F.1 & I.

[38] Linda Liston, "Proliferating Industrial Parks Spark Plant Location Revolution," Industrial Development, Mar.-April, 1070, p. 7-11.

The 1973 Examination continued a series summarizing the distribution of outstanding debt by industry. The Examinors had discontinued the talley for development companies and separated apparel from textile firms in their summary. Nevertheless, textiles & apparel accounted for 38 percent of $9,014,100 of outstanding debt in 1973[39]: This share had been 52 percent in 1971 and 54 percent in 1969[40] indicating a falling disbursal rate for the sector relative to other categories.

From 1973 to 1977, loans by the BDC to textile & apparel firms rebounded. Artee Industries -- a textile firm founded by BDC financing in 1970 -- was given another loan of $36,000: Precision Cutting & Winding of Kinston received a loan for $900,000.[41] In all, 6 of 18 new loans were made in the TA sector.

TABLE 6.5

DISTRIBUTION OF LOANS BY RECIPIENT, 1973 TO 1977

CATEGORY	DOLLAR AMOUNT	PERCENT OF TOTAL
TOTAL	$ 5,978,180	-
AG	0	0
CH	59,850	.010
EMF	135,000	.022
FW	1,029,794	.172
TA	2,237,236	.374
OTHER	759,500	.127
UNSURE	433,800	.072
DEV. COMPANIES	1,323,000	.22

Source: Appendix B, Item I.

39 State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 3/31/73. North Carolina State Library.

40 Ibid.

41 According to Mickey Dry (a former Board member) the Precision deal received national attention for its use of all possible resources including the SBA, BDC, Farmers Home, and so forth.

Development corporations continued to receive a large share of BDC loans. As with the previous four years, however, the large percentage attributed to this sector was shaped by a handful loans. In fact, the distribution consisted of one loan to Dunn Promoters for $350,000, one to Lillington Industry Promotion for $730,000, and another to the Tarboro-Edgecome Development Corporation for $243,000.

Tarboro Textiles and the BDC had secured the business of Glenoit Mills during Hodges administration. The BDC also made an additional loan of $402,000 circa 1963. Tarboro Textiles, as it turns out, was subsidiary to The Tarboro-Edgecome Development Corporation.[42] Tarboro-Edgecome had learned the way of the BDC well. Between 1964 and 1977, this local development corporation received three loans of $232,500, $413,000, and $243,000.

Other LDC's became familiar with the BDC office as well. Dunn Promoters, for example, assumed a debt of $250,000 in the mid 1960s[43] and a debt of $350,000 in the mid 1970s.[44] Enfield Promoters assumed two loans in the mid-1960s of $115,000 and $101,250. This debt was accompanied by a loan of $127,500 to Eskridge & Long Construction of Enfield in an apparent joint project.[45] Lillington Industry Promotion received another loan between 1977 and 1979 for $240,000. (This was the last loan of the BDC to a local development group).[46]

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42 "Textile Plant Will Locate In Edgecombe", The News and Observer, Raleigh, October 3, 1959, p. 3.
43 Appendix B, Item E.2.
44 Appendix B, Item G.2.
45 Appendix B, Item E.2.
46 Appendix B, Item H.1.

While BDC loans to local developers declined in absolute terms between 1973 and 1981, loans to real estate companies increased. In the 1973 to 1977 period Lawrence Realty received a loan of $319,500 and Rudbeek Realty received a loan of $440,000. By two loans, Rudbeek received an additional $550,000 between 1977 and 1981. In all, real estate loans totaled 1.3 million dollars between 1973 and 1981 while local development loans totaled 1.5 million.

In the last four years of operation (1977-1981), loans to textile and apparel firms declined once again. No new accounts were opened, and only one loan -- to Artee Industries for $285,000 -- had been made in this sector. In comparison, one million dollars was loaned to furniture and wood product firms by way of two loans for $500,000.

In addition to the Lillington committment, the BDC extended $300,000 of credit to Pac-Fab -- a subsidiary of ESSEF Industries, Inc. of Mentor OH -- as another substitute for revenue bond financing. By this time, however, North Carolina had legalized revenue bond financing, so the Lillington and Pac-Fab agreements were merely alternatives to bonding.

The State had also legalized bond financing for pollution control in part to facilitate the construction of contemporary water and sewer systems in local communities. In light of this, a BDC loan of $750,000 to the Lee County Industrial and Pollution Control Financing Authority is difficult to explain. It must be presumed that the Authority preferred the BDC alternative to bonding. In any case, of the 235 loans surveyed, this was the only arrangement of its kind.

LDCs and BDC FINANCING

Whether the Authority preferred BDC financing, or perhaps was unable to float bonds legally, there is no doubt that the new revenue bonding program shortened the life of the BDC. While the Corporation made four loans to local development companies totaling 1.5 million dollars from 1973 to 1981, 430 revenue bond issues had been made between 1977 and 1983 totaling 1.4 billion dollars. This not only surpasses BDC loans to local developers, but in fact makes the entire life of the Corporation seem quite insignificant monetarily: The BDC committed less than 50 million dollars in 26 years of operation.[47]

Further, the BDC was a limited substitute for bonding. In 1963, the IRS ruled that nonprofit development corporations could issue tax-exempt bonds for industrial construction.[48] North Carolina development companies could not take advantge of this because of State prohibitions. Their alternative to raising funds internally or borrowing from the commercial sector or from the SBA was to borrow from the BDC. The BDC, however, was designed to earn profits. Therefore, while the BDC did provide immediate funds to LDCs, it did not provide savings by way of lower interest rates. The BDC itself borrowed above prime, and charged rates sufficient enough to cover operating expenses and potential defaults, and to provide earned surplus. Thus any financial inducement

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[47] Business Development Corporation of North Carolina, Annual Report, 1979. North Carolina State Library.
State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1/31/81. North Carolina State Library.

[48] Cobb, Selling of the South, p. 52.

coming from this style of financing would come only if the local development corporation provided funds to repay the BDC loan without requiring all or any of their credit to be repaid by the industrial occupant, or if the nonprofit development company retained title to the property -- in a nontaxble status -- thus allowing the industrial leasee to bypass a property tax burden.

The Glenoit Mills arrangement of 1959 sheds some light on how the BDC and LDCs interacted. In that case, Tarboro Textiles, Inc. borrowed $100,000 from two local banks and one S&L, and $300,000 from the BDC to construct the facility.[49] The remaining $300,000 required for construction were provided through equity capital by Botany Mills, Inc. of New York.[50] It was reported that "Tarboro and Edgecombe County people are raising funds to meet the loan,"[51] meaning that at least part of the loan was not going to be repaid through rental of the facility to Glenoit.

As noted in Chapter 5, Jenkins testified at Senate Hearings in the summer of 1957 that were held to determine if the SBA should be given permanent status. During his testimony, Jenkins revealed the relationship between the BDC, local development companies, and industrial recruitment:

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49 State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 10/15/60. North Carolina State Library.

50 "Textile Plant Will Locate In Edgecombe", The News and Observer, Raleigh, October 3, 1959, p. 3.

51 Ibid.

SENATOR SPARKMAN: Have your loans been primarily or perhaps altogether small-business loans?
MR. JENKINS: I believe all of them have been to small-business concerns so far, although there is no restriction on the size of a business enterprise that may borrow from the corporation.
SENATOR SPARKMAN: You do not go into a program of putting up buildings in a particular area on the chance of getting some industry to come there, do you?
MR. JENKINS: No, sir.
SENATOR SPARKMAN: In other words, your loans are made to industry itself?
MR. JENKINS: We have made several loans to local industrial corporations set up for community benefit. They raised a part of the funds, perhaps in the neighborhood of 50 percent of the cost of land and new building to be leased to a manufacturing concern and we lend the balance needed for the land and building.
SENATOR SPARKMAN: But at the time they did it they had a definite industry in mind?
MR. JENKINS: Yes, sir. A lease is executed before construction starts.
SENATOR SPARKMAN: And not setting up a plant and inviting industry to come in?
MR. JENKINS: No, sir. We absolutely discourage any program like that. We want it on a sound basis.[52]

The BDC was not directly involved in the subsidization of industrial location. Though it provided immediate funds to secure prospects, it fully expected its loans to be repaid in full with interest of a nontoken character. Subsidies came only through local groups.[53]

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52 "Credit Needs of Small Business," Statement of H. Powell Jenkins, p. 118-119.

53 Since this was the nature of BDC operations, there were cases where the Corporation assumed title to facilities where the industrial recipient defaulted on BDC credit. In 1968, for example, the BDC owned facilties in Concord, Mount Olive, and Roxboro.

Business Development Corporation of North Carolina, 13th Annual Report. North Carolina State Library.

INDUSTRY SUMMARY

Perhaps scholarly neglect of SDCC's is justified given the slight status of the BDC compared to six years of revenue bonding in North Carolina. Nonetheless, the BDC was an important factor of Hodges' industrial program and continued to contribute to North Carolina's industrial expansion of the 1960s.

However, as Table 6.6 shows, the traditional textile industry (and newly rising apparel industry) received the bulk of BDC credit.

TABLE 6.6

DISTRIBUTION OF LOANS BY RECIPIENT, 1956-1981

CATEGORY	DOLLAR AMOUNT	PERCENT OF TOTAL
TOTAL	41,045,802	-
AG	2,548,255	6.2
CH	3,026,762	7.3
EMF	3,073,734	7.4
FW	4,271,794	10.4
TA	11,774,736	28.6
OTHER	5,414,633	13.1
UNSURE	3,479,300	8.4
DEV. COMPANIES	8,521,088	20.7

Source: Appendix B, Item I.

By placing the 235 loans reviewed into respective recipient categories it becomes clear that North Carolina's traditional industries -- textiles (& apparel) along with furniture & wood products producers -- dominated BDC loans over the life of the Corporation. Further, the evidence suggests that a considerable portion of loans made to LDC's were to the benefit of the textile industry as well.

In comparison, those industries where relatively higher wages might be expected (including chemicals and particularly electrical, machinery, and fabricated metals) received 14.7 percent of 41 million dollars. Even if every dollar categorized as 'unsure' is attributed to CH & EMF this share reaches only 23.1 percent, but there is no reason to suspect that each dollar went to these sectors.

The 'other' category includes several recipients that might be expected to provide a higher than average industrial wage for North Carolina during the period considered, but a considerable portion of this category includes loans to construction companies (probably to build industrial facilities) and real estate firms (probably to develop industrial parks). Either group may or may not have assisted employment at higher than average wages.

Why did the BDC favor textile and furniture companies? Obviously the applicant pool for the BDC would reflect the industrial base of the State. Entreprenuers (or groups thereof) seeking money from the BDC would certainly create companies upon previous experience. Given the State's tradition in textiles and furniture, it is likely that the majority of applicants came from these sectors. Further, the trained labor force in these industries would stimulate additional expansion in the same whether entrepreneurs were seeking BDC credit or not, or whether applicants were Carolinians or firms from other states.

The rules and objective of the BDC is another suspect. The BDC only accepted applicants that failed to secure credit from private sources, and it targeted the manufacturing sector. It is likely that a majority of BDC loans would engage the declining industry within that sector since commercial banks would view applicants from a non-growth industry as more risky, on average. Shift/share analysis of the employee count for each two-digit sector of manufacturing (1954-1972) shows the textile industry to have been the sector of least growth.[54] In fact, textiles experienced an outward shift of 103,600 employees between 1954 and 1972.[55] Though picking up employees, textiles was a non-growth industry compared to other sectors and thus would likely produce more rejected applicants from the commercial banking sector.

Another primary activity of the BDC involved credit extensions to LDC's in the State. Ranking second as the primary recipient, LDC's received approximately 22 cents for every dollar of BDC credit. Though the Governor's Small Industries Plan intended to facilitate a permanent network of local leaders dedicated to the State's development, there is no indication that the BDC was founded to augment industrial recruitment. Initially it was intended to assist would-be North Carolinian entrepreneurs. William Saunders -- director of Conservation & Development -- continued to pursue the development of grassroot organizations once GSIP,Inc. had been dissolved. He also served as a laison between the State and the BDC. Given the situation, the relationship between the BDC and LDC's is a non-surprising outcome.

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[54] This technique involves determining the percentage increase of manufacturing over the period (70.4 percent in this case), then multiplying that by the number of employees for each sector (texiles, furniture, chemicals, etc.) in the base year to derive an "expected increase." These figures would be attained if manufacturing growth, by employment, were evenly dispersed. By comparing the "expected increase" to the actual increase, it can be determined which industries were growth industries (absolute numbers above expected) and which industries declined (absolute numbers below expected).

[55] An outward shift has occured in an industry if the absolute increase is less than the expected increase.

Loans to LDC's -- in two year intervals -- peaked in the 1962-1964 period at 1.8 million nominal dollars.[56] For that period LDC loans equaled 31 percent -- in dollars -- of the total.[57] Declining thereafter, with a slight rebound between 1969 and 1973, loans to LDC's fell to 240,000 nominal dollars between 1977 and 1981 for a share of only 6.9 percent.[58]

Why? One obvious reason is the 1977 authorization of revenue bonding that displaced a primary function of the BDC. This provided an alternative financial resource to stimulate industrial expansion for quasi-public and public groups across the State. There is, however, another reason for the declining share of BDC credit extended to LDCs. This was the extension of credit by the SBA to local development corporations beginning in the late 1950s, and is part of the following discussion on the BDC's demise.

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56 Appendix B, Table I.
57 Ibid.
58 Ibid.

CHAPTER SEVEN

DEMISE OF THE BUSINESS DEVELOPMENT CORPORATION

INTRODUCTION

The last Annual Report of the BDC in 1984 records 14 loans outstanding equal to $2,793,767.53.[1] These loans were likely assumed by private financial companies by April of 1985 since the Business Development Corporation was dissolved thereafter.[2]

Three years previously, the Board of Directors had decided to place the Corporation in liquidation.[3] A Managing Agency Account had been established in the Trust Division of First Citizens Bank & Trust Company of Raleigh in April of 1982.[4] Willard A. Simms of First Citizens served as the liquidating agent, and proceeded to liquidate the assets and liabilities of the BDC.[5] A demand for BDC services no longer existed by the early 1980s. Between January 31, 1979 and January 31, 1981 the BDC received six applications. Two loans were made during the period.[6]

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[1] Business Development Corporation of North Carolina, Annual Report, 12/31/84. North Carolina State Library.

[2] Letter to Clyde Smith, Deputy Secretary of State, from Lacy H. Thornburg, Attorney General, 4/29/85. North Carolina State Library.

[3] "Certified Copy of Resolutions of Board of Directors of The Business Development Corporation of North Carolina," 4/9/82. North Carolina State Library.

[4] Letter to Williard A. Simms of First Citizens Bank & Trust Company, from Gary M. Underhill, President of the BDC,NC, 4/1/82. North Carolina State Library.

[5] Ibid.

[6] North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1/31/81, North Carolina State Library.

The decline of the BDC was not abrupt. As noted in Chapter Four, activity at the Corporation began a steady descent beginning in the late 1960s. Notes Receiveable (in 1982 dollars) increased by only 2 percent between September, 1964 and December, 1967. From January, 1968 to November, 1969 Notes Receivable fell by 6 percent. Loan assets continued to decline through the 1970s.

TABLE 7.1

NOTES RECEIVABLE AT THE BDC FROM 1958 TO 1981:
PERCENTAGE CHANGE
(Expressed in 1982 Dollars)

TERMINAL DATE	PERCENTAGE CHANGE
9/19/58	-
10/15/60	% 132
8/31/62	68
9/11/64	16
12/31/67	2
11/30/69	-6
9/30/71	-10
3/31/73	-25
3/28/75	5
3/31/77	-28
1/31/79	-31
1/31/81	-31

Source: Table 4.7

The slight rebound between 1973 and 1975 was anticipated by BDC management. In the 1973 Report of Examination they stated that "... loan demand has [historically] increased during so-called 'credit crunches'. If the 'credit crunch' forecast for this year materializes, demand may again improve."[7]

[7] North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 3/31/73, North Carolina State Library.

BDC management contributed the decline in demand to several factors. As asserted in 1973, management felt that "... increased competition from the Federal Small Business Administration and other local business development corporations and from banks and other financial institutions... [had contributed to a decline in] ...the demand for loans."[8] Mickey Dry, a former Board member, believes the closure of the BDC was a "... function of banks being more aggressive." Dry acknowledges the role of the SBA -- through loan guarantees -- in the BDC's decline, but argues that North Carolina's banking sector became more willing to assume notes with riskier clients. This, he asserts, was the more important factor.[9]

Both views suggest that the BDC became obsolete in face of a changing financial structure. High-risk ventures were more likely to be financed in the private sector -- beginning in the 1970s -- according to one view. Therefore the BDC was no longer needed. As Dry puts it, the BDC "... served its purpose. It stimulated the private banking industry in North Carolina."[10] The SBA had become a strong competitor of the BDC by the early 1970s according to the other view. This, according to BDC management, inhibited the demand for BDC services.

Dry's opinion is consistent with Capus Waynick's report of 1955. Dry implies that private banks in North Carolina maintained a conservative attitude up until the late 1960s. Waynick's report

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[8] Ibid.

[9] Dry's comments were made in a personal conversation in January, 1994.

[10] Ibid.

suggested that the State's banking sector inhibited start-up ventures by way of conservative policies.[11] Assuming that Dry is correct, it can be said that a change in banking practices contributed to the BDC's demise, but SBA guarantees -- as Dry acknowledges -- undoubtedly influenced the turn to aggressive banking in the State. The SBA, though, contributed to the decline of the BDC by way of direct loans as well.

When the BDC was established the SBA was in its infancy. Both matured during the 1960s. In the 1970s, the SBA maintained a powerful position in North Carolina's financial sector while the BDC declined. In 1977, for example, the SBA loaned $5.3 million in the State and guaranteed an additional $15.8 million.[12] In comparison, Notes Receivable for the BDC amounted to $9.2 million on 3/31/77.[13] While the BDC's status weakened the SBA's strengthened.

In addition to loans made directly to manufacturers, retailers, wholesalers, etc., the SBA made loans to North Carolina-based LDCs as well. BDC interaction with LDCs was a large part of BDC operations as noted earlier. Apart from the SBA's role by way of direct business loans and guarantees, it seems likely that SBA loans to LDCs contributed to the BDC's decline. It is this facet of the SBA, and its role in the BDC's decline, that will be considered first.

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[11] Hodges, Statehouse, p. 37.

[12] Department of Commerce, Community Services Administration, Geographic Distribution of Federal Funds in North Carolina, 1977. Washington D.C.: The Administration, 1977.

[13] North Carolina State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 3/31/77. North Carolina State Library.

LOCAL DEVELOPMENT COMPANIES, THE BDC, AND THE SBA

Though a predecessor to the BDC, it was 1958 before the Small Business Administration came to compete with the Business Development Corporation of North Carolina in any significant way. In that year, the SBA was guaranteed a more certain future and was given the task of assisting small businesses by lending funds to investment or development companies that would use the loans to provide equity capital for small businesses. In 1950, before the Republican-Democratic compromise that created the SBA, a Small Business Investment Act had been proposed by Senator Sparkman of Alabama.[14] The Korean War and political climate prevented its passage, but Senator Sparkman resumed his fight in 1958. On August 21, 1958 the Small Business Investment Act (SBIA) was signed into law by President Eisenhower.[15]

In a departure from his previous proposal, Senator Sparkman had devised a plan that would license Small Business Investment Corporations (SBICs) that could borrow money from the United States Government to be used as equity investments in small businesses at home. These companies would be chartered under federal or state authority.[16] Existing state development companies and state chartered investment companies could convert to SBIC status if done by June 30, 1961.[17] Whether converted or not, however, state and local development companies could still borrow

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14 Charles M. Noone & Stanley M. Rubel, SBICs: pioneers in organized venture capital. Chicago: Capital Publishing Company, 1970, p. 26.

15 Ibid, p.30.

16 Carl M. Flora, "The Small Business Investment Act of 1958," Banking, October, 1958, p. 38-39.

17 Ibid.

from the SBA as long as the amount was no larger than the company's debt at the date of the loan.[18]

(To the end of 1959 only 58 SBICs had been licensed. The slow start was attributed to restrictive legislation.[19] Amendments in 1960 encouraged the formation of 117 SBICs in that year.[20] Under the guidance of the Kennedy administration the SBIC program was strengthened, and by March of 1962 there were 533 SBICs in operation).[21]

The provision in SBIA permitting the SBA to lend to local development companies challenged BDC management and BDC territory.[22] A review of SBA loans to local development companies in North Carolina from 1958 to 1966 shows beyond doubt that resources available to North Carolina LDCs from the SBA surpassed those of the BDC.[23]

Around 20 percent of BDC loans, in dollars, went to local development companies over the life of the Corporation. Before the SBA made a LDC loan in the State, the BDC had committed $408,500 to development companies, or 18.3 percent of total loans made to September of 1958. Between 1958 and 1962, LDC loans by the Corporation hovered around 17 percent of total dollars, but in absolute terms these loans increased to $677,500 for the 1958-1960 period and $867,000 for the

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[18] Ibid.
[19] Kelley, SBICs, p. 5.
[20] Ibid.
[21] Ibid, p. 6.
[22] This provision simply made the act of lending to LDCs by the SBA officially legal. It was pointed out in the summer of 1957 that the SBA already loaned funds to LDCs.

"Credit Needs of Small Business," Statement of Wendell B. Barnes, Administrator, Small Business Administration, p. 320.

[23] The BDC itself borrowed $2.5 million from the SBA in the 1960s.

1960-1962 period.[24] LDC financing became a regular venue for the BDC. In 1963, though, the SBA began to challenge the BDC's position.

Tables 7.1 and 7.2 are presented here for a comparison of BDC and SBA loans to local development companies in the State for the 1960s. The data used for SBA loans is restricted to the period of 1958-1966, while the data presented for BDC loans covers the period of 1956-1969. These ranges are not consistent but the trend is obvious.[25]

TABLE 7.2

LOANS TO LOCAL DEVELOPMENT COMPANIES IN NORTH CAROLINA BY THE BUSINESS DEVELOPMENT CORPORATION, 1956-1969

TERMINAL DATE	NUMBER OF LOANS MADE BETWEEN INTERVALS	AMOUNT OF LOANS MADE BETWEEN INTERVALS	CUMULATIVE AMOUNT
9/11/58	7	$ 408,500	$ 358,500
10/15/60	5	677,500	1,036,000
8/31/62	8	867,000	1,903,000
9/11/64	8	1,825,010	3,728,010
11/30/69	17	2,411,423	6,139,433
TOTAL	45	-	6,139,433

Source: Appendix B, Items A.4, B.4, C.4, D.4, & E.4.

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24 Appendix B, Item I.

25 The SBA reports are based on fiscal years while the Reports of Examinations on the BDC were made randomly but at two year intervals. The material used for SBA loans to North Carolina LDCs is limited to 1966. By that date, however, the volume of loans extended by the SBA indicates the much greater significance of the SBA, than the BDC, to North Carolina local development companies.

TABLE 7.3

LOANS TO LOCAL DEVELOPMENT COMPANIES IN NORTH CAROLINA
BY THE SMALL BUSINESS ADMINISTRATION, 1958-1966

TERMINAL DATE	NUMBER OF LOANS MADE BETWEEN INTERVAL	AMOUNT OF LOANS MADE BETWEEN INTERVAL	CUMULATIVE AMOUNT
6/30/59	1	$ 247,500	$247,500
6/30/60	3	297,000	544,500
6/30/61	3	517,500	1,062,000
6/30/62	3	601,540	1,663,540
6/30/63	12	2,235,070	3,898,610
6/30/64	13	2,377,510	6,276,120
6/30/65	24	3,608,630	9,884,750
6/30/66	16	2,782,25	12,667,000
TOTAL	75	-	12,667,000

Source: Appendix D.

The BDC more than doubled the dollar amount of LDC loans between 1962-1964 compared to the previous examination period. Further, during the last five years of the 1960s, the cumulative amount nearly doubled. The SBA, however, had loaned twice as many dollars to North Carolina LDCs by mid-1966 as the BDC had by November of 1969.

The SBA program surpassed the cumulative level of credit extended by the BDC between 1962 and 1964. Further, between the 1962 and 1964 examinations the BDC extended $1.8 million to LDC's while the SBA -- in fiscal 1963 & 1964 -- had extended $4.6 million. (Notably, LDC loans for the period were 31 percent of total dollars extended by the BDC).[26]

Though the percentage of BDC dollars loaned to LDCs remained fairly high until 1977, the absolute amount never returned to the level experienced from 1962 to 1964. In that period, LDC loans from the BDC averaged $912,000 per year. For 1964 to 1969 the average is $482,000.

[26] Appendix B, Item I.

From 1969 to 1977 the average is $329,000. From 1977 to 1981 one loan of $240,000 was made to an LDC by the BDC.[27]

Direct competition -- and possible cooperation -- existed between the SBA and BDC in the 1960s. In August of 1962, for instance, the SBA made a $172,000 committment to Goldsboro Industries, Inc. for the benefit of Supak Manufacturing.[28] In the mid 1950s, the BDC had made two loans to Albemarle Industries (Elizabeth City) to benefit Supak as well.[29] Apparently Supak had moved from Elizabeth City to Goldsboro or opened a branch facility in the latter city. In any case, the financing for this event came by way of the SBA and not the BDC. In July of 1962, as another example, the SBA committed $348,000 to Granville Industrial Developers to the benefit of JFD Manufacturers.[30] A few years later, the BDC committed $137,000 to the JFD company in a direct loan.[31]

The McGowen Glass Fibers Corp. & NC Spinning Mills is another example of a mutual recipient of BDC and SBA financing. The establishment date for McGowen, according to the 1973 and 1988 NC Industrial Directories, is given as 1964. In April of that year, the SBA committed $165,600 to the benefit of McGowen Glass.[32] In June, it extended in additional amount of $184,400. Both loans were made through Lincoln Industries, Inc. of Lincolnton. According to the 1969 Examination, the BDC had made two direct committments to McGowen between

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27 Appendix B, Item I, Item H.l.
28 Appendix D.
29 Appendix B, Item A.l.
30 Appendix D.
31 Appendix B, Item E.l.
32 Appendix D.

9/11/64 and 11/30/69. Given the amount of debt outstanding, it appears that the loans were made in 1965 or 1966.[33] Further, the total amount extended by the BDC equaled $325,000 suggesting that the SBA may have stepped in -- with $350,000 -- to initiate the construction until the BDC was in a position to loan the amount required by McGowen to establish its facility.

The latter proposition is possible, but certainly not conclusive evidence that cooperation between the BDC and SBA existed. Yet all three examples could be used as evidence of cooperation, and given the nature of these institutions it seems reasonable to assume that communication and some cooperation existed between the two.[34]

Nevertheless, there is no doubt that the SBA was in direct rivalry with the BDC over North Carolina LDCs. Whether SBA's management held an adversarial view of the BDC or not, does not matter. Whether SBA's management pursued cooperation with the BDC or not, does not matter. The SBA and BDC 'competed' for LDC applicants. As BDC management had pointed out in the 1973 Report of Examination, the Small Business Administration and other local development companies -- a proportion of

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[33] State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 11/30/69. North Carolina State Library.

[34] In the "Credit Needs" hearings that produced the Small Business Investment Act of 1958 it was pointed out that cooperation between the SBA and SDCCs was present as early as the mid-1950s.

"Credit Needs of Small Business," Statement of H. Powell Jenkins, p. 120 and Statement of Wendell B. Barnes, p. 320.

which received SBA loans frequently -- had contributed to a declining demand for loans from the BDC.[35]

The SBA not only provided more resources to LDC's in the 1960s, but also had more resources to stimulate one area or town. In 1965, for instance the SBA had made 14 loans to Lincolnton development corporations.[36] This flurry assisted the establishment or maintenance of manufacturing firms, a motel corporation, a funeral home, a warehouse, a professional building, and a retail store.[37] (The disposition not only shows greater financial power but also greater flexibility in distribution since the BDC made committments for manufacturing or industrial pursuits exclusively).[38]

It is evident that the Small Business Investment Act of 1958 -- and particularly its provision allowing the SBA to loan to local development companies -- was partially responsible for the BDC's decline. Whether aggressive banking proved the BDC unnecessary or not, SBA loans to LDCs surely proved it less necessary in one aspect of its operations.

A NOTE ON BDC INTEREST RATES

The BDC disadvantage in comparison with the SBA was due in part to their working rules. During the 1960s, the SBA made direct loans at a

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[35] State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 3/31/73. North Carolina STate Library.

[36] Appendix D.

[37] Appendix D.

[38] This was true with the exception of some loans to grain storage elevators and other food processing activities removed one step from the manufacturing process itself.

rate of interest of 5.5 percent,[39] while the BDC borrowed money at rates at least one-quarter of one percent above prime.[40] Interest charged by the BDC is not available[41], but evidently the BDC had to offer potential recipients a rate of interest higher than the recipient could secure with the SBA in the 1960s. Consider that the average national prime rate, published in the Statiscal Abstract of the United States, was: 4.82 in 1960; 4.54 in 1965; and 7.91 in 1970. (The prime rate charged to the BDC may have been higher or lower but was probably not extremely divergent from the national average). By adding one-quarter of one percent to the quoted prime rates -- the rate guaranteed by the BDC to private members -- it is apparent that the rate differential between borrowed funds of the BDC and the 5.5 percent charged by the SBA was not enough to sustain the profits of the BDC reported in Chapter Four of this study. Recall that the BDC had positive net income at least until 1972 and paid dividends in 1960. 1964, 1967, 1968, and 1969.[42] The BDC likely charged rates above the SBA's 5.5 percent throughout the 1960s.

In Table 7.3, column four shows the rate differential the BDC would have charged if it borrowed at the national average and loaned at the SBA's 5.5 percent in 1960, 1965, and 1970. It is unlikely that the

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[39] Parris, The Small Business Administration, p. 105-106. The SBA started in 1953 with a direct loan interest rate of 6 percent. In 1958 this was changed to 5.5 percent where it remained at least throughout the 1960s.

[40] North Carolina, 1955 Session Laws, Ch. 1146, Sec. 6.5, p. 1122.

[41] Jenkins did state that as of June 1957 the BDC charged a rate of 6 percent interest.

"Credit Needs of Small Business," Statement of H. Powell Jenkins, p. 118.

[42] See "Jobs Created" Chapter Four.

profits and dividends of the BDC could have been met with these hypothetical differentials. (The fourth column, "likely minimum rate charged by the BDC" is an arbitrary proxy derived by adding 1.0 percentage point to the reported prime rates).

TABLE 7.4

HYPOTHETICAL INTEREST RATES OF THE BDC COMPARED TO THE SBA INTEREST RATE ON DIRECT LOANS

YEAR	PRIME RATE (1)	MINIMUM RATE CHARGED TO THE BDC (2)	SBA RATE OF INTEREST MINUS (2)	LIKELY MINIMUM RATE CHARGED BY THE BDC
1960	4.82	5.07	0.43	6.07
1965	4.54	4.79	0.71	5.79
1970	7.91	8.16	-2.66	9.16

Source: US Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1978.
North Carolina, 1955 Session Laws, Ch. 1146.
Parris, The Small Business Administration, p. 105-106.

If the BDC intended to compete with the SBA's 5.5 percent rate in 1960 and 1965, then it would have had a interest rate differential of only 0.4 or 0.7 percent between funds borrowed and funds loaned. Clearly this is not enough to sustain profits, an indirect objective of the business-like institution. Since the BDC had positive net income at least to 1972 and paid dividends in 1960, 1964, 1967, 1968, and 1969, it is obvious that either: (a) the actual prime rate charged to the BDC was substantially lower than the nationally published prime rate for 1960, and 1965, -- which is unlikely -- or; (b) the BDC charged rates substantially higher than the SBA's. In 1970, the rate of interest charged to the BDC was well above 5.5 percent eliminating its ability to loan at that rate. Again, the BDC had positive net income in 1970, 1971, and 1972, and paid dividends in 1971, 1972, and 1973. Even though the BDC remained profitable the demand for its services peaked in the mid-1960s.[43]

In 1974 the average monthly Prime Rate was 10.81 percent. The BDC subsequently experienced a net loss for 1975, attributing the loss to high rates paid to members.[44] A new arrangement was made that stipulated a range of 7.5 to 10 percent for interest rates charged to the BDC by private members. In 1979 and 1980 the Prime Rate reached 12.67 and 12.66 inhibiting the willingness of members to loan to the BDC even though they were obligated to. In 1981, the year before the BDC was placed in liquidation, the Prime Rate was 18.87 percent.[45]

Undoubtedly the high interest rates affected a decline in BDC membership. (With Prime Rates above 12 percent it was a clear loss to loan money to a development bank at 10 percent). By charter, any member of the BDC could withdraw with five years advance notice. This window was established to allow the BDC to pay off any outstanding debt to the former member. No additional loans were to be made by a member that had given notice.[46] Funds available to the BDC through private membership fell from $19 million in 1973 to $14 million in 1977 and then to $10 million in 1981, (in 1982 dollars).[47] In the meantime, the total assets

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[43] See Table 4.7.

[44] State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 3/31/77. North Carolina State Library.

[45] US Department of Commerce, Bureau of the Census, Statistical Abstract of the United States, 1978, 1982-83. Washington: Government Printing Office.

[46] North Carolina, 1955 Session Laws, Ch. 1146, Sec 7.a, p. 1122.

[47] See Chapter 4, Table 4.10.

of federally insured commercial banks in North Carolina increased from $7.6 billion in 1969 to $17.3 billion in 1977 and then to $26.2 billion in 1981. The declining availability of funds was not due to a shrinking banking sector. Members were withdrawing from the BDC in the 1970s.

The demand for BDC services actually began to decline before members began to withdraw. As with the authorization of revenue bonding in 1977, the competitive disadvantage of the BDC that caused major problems from 1974 forward, merely hastened the demise. In the 1960s, the disadvantage was apparent given the presence of the SBA and its 5.5 percent rate of interest. This not only challenged the BDC's relationship with local development companies but also challenged it with any potential applicant. Direct loans of the SBA, then, account for a good deal of the the falling demand for BDC services, but so too does the SBA's Loan Guaranty Plan (est. 1963).

THE QUESTION OF AGGRESSIVE BANKING

In 1944 the American Bankers Association had established the Small Business Credit Commission to "alert banks to the importance of furnishing adequate credit to small business in the post war period."[48] Even so, the SBA was formed in 1953. The banking industry still argued on the eve of the Small Business Investment Act of 1958 that "adequate credit was available to small business through banks and other private lenders," but agreed that equity capital was still a problem for small

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[48] Carl M. Flora, "The Small Business Investment Act of 1958", Banking, October, 1958, p. 38.

businesses.[49] The ABA supported the 1958 legislation, and in a stance that would change the character of small business lending in the 1960s, declared that SBIA should be operated with as little of the "taxpayer's money" as possible.[50]

Subsequent to this mutually agreed upon legislation of 1958, the SBA began a fundamental change in its standard practices. From 1953 to 1963 the SBA used deferred participation agreements infrequently. (These agreements permitted the bank to direct the SBA to assume some portion of a loan in the future as needed). Direct loans and immediate participation loans were used more frequently.[51] In 1963, the Loan Guarantee Plan was established[52] and soon became a favored tactic of the SBA. In 1967, for instance, the SBA guaranteed $147 million of loans. In 1968, the SBA guaranteed $314 million of loans, and in 1974 the SBA guaranteed $1.8 billion of loans. Guarantees do not require "taxpayer's money" at the contract date, and require it only if a default occurs.

Hypothetically, a bank in North Carolina would gain more by assuming a risky client -- guaranteed by the SBA -- than directing a portion of the client's demand to the BDC and engaging a "participation loan." The BDC, however, has been credited by a former board member as

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49 Ibid.

50 Ibid.

51 Elisabeth Holmes Rhyne, Small Business, Banks, and the SBA Loan Guarantees: Subsidizing the Weak or Bridging a Credit Gap? New York, etc.: Quorum Books, 1988. p. 17.

Parris, The Small Business Administration, p. 102-103, Table XIII.

52 Parris, The Small Business Administration, p. 101.

stimulating the private sector to join the frontier of risky finance. The pattern of participation loans at the BDC supports this assertion.

In 1958, participation loans stood at $161,980. In September of 1962 participation loans equaled $1,275,277, and by the end of the decade equaled $2,706,087.[53] There is little doubt that the institutional structure of the BDC encouraged North Carolina's private sector to assume more risk. The move towards riskier loans was augmented by the SBA guarantee program however. While participation loans equaled $2,385,535 and $1,331,225 in 1977 and 1981,[54] SBA guarantees in the State equaled $15.8 million in 1975 alone.[55]

How was the SBA able to stimulate aggressive banking? By way of the guarantee program and by way of subsidy. Unlike the BDC, the SBA was given a revolving fund, maintained by the Treasury, that was intended to be replenished from interest gains. During the 1960s, when the BDC enjoyed its strongest activity, the SBA consistently operated at a loss. In 1964, the SBA's net loss was $29.7 million; in 1965 the net loss was $39.6 million; and in 1966 the net loss was $54.4 million. (The BDC had positive net income throughout the 1960s).[56] Further, the SBA was unable to maintain its revolving fund at the Treasury. From

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[53] State Banking Commission, Report of Examination, Business Development Corporation of North Carolina, 1958, 1962, 1969. North Carolina State Library.

[54] State Banking Commission, Report of Examination, Business Development Corporation of North Carolina. 1977, 1981. North Carolina State Library.

[55] Department of Commerce, Community Services Administration, Geographic Distribution of Federal Funds in North Carolina, 1977. Washington D.C.: The Administration, 1977.

[56] See "Jobs Created", Chapter 4.

1954 to 1966 an additional $1.2 billion were appropriated for the SBA by budget, and another $590 million through supplemental appropriations were made.[57] From 1954 forward, the SBA never pretended to protect its revolving fund from depletion and Congress never shied from more and more appropriations.

More aggressive banking in North Carolina indeed contributed to the declining loan demand at the BDC. This was due not so much to BDC stimulation but to a more encouraging federal structure including the services of the SBA. In fact, the SBA avoided direct loans, preferring to secure a guaranty for risky applicants in the private sector,[58] persuading the private sector to engage more risky applicants than otherwise, and thus decreasing the demand for SDCC services including the BDC.

RISKY FINANCE IN NORTH CAROLINA

A hearing before a House Subcommittee, investigating development needs in eastern North Carolina, was held during the 102nd United States Congress in October of 1991.[59] That it was even held suggests that pockets of under-development in North Carolina remain.

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[57] Parris, The Small Business Administration, p. 119, Tables XV and XVI.

[58] Ibid, p. 104.

[59] House Committee on Small Business, Subcommittee on Procurement, Tourism, and Rural Development, "Rural Development in eastern North Carolina: Hearing before the Subcommitte on Small Business," United States House of Representatives, One Hundred and Second Congress, first session, Beulaville, NC, Oct. 28, 1991.

The question of this hearing was how to stimulate development in eastern North Carolina. A common theme can be found in much of the testimony. This was the suggestion that capital is short for 'would be' small business operators in the area. Many corrective suggestions were made including reform of SBA operations in the State. For instance, Thomas Bennett of the Wachovia Bank of North Carolina suggested that the Committee reconsider a jobs requirement of the SBA 504 program. As it stood, a new operator had to create "...one job for every $30,000 of a debenture-funded loan."[60] Bennett pointed out that "[in] rural areas,... it is more difficult for the small business owner to create as many jobs as compared to a small business owner in a more metropolitan area. In addition, there should be some consideration given to the entire question of job preservation rather than job creation."[61]

These particular suggestions are indicative of the (probably unintended) favoritism of the SBA program -- by way of the rules -- given to the industrial-urban Piedmont versus the agricultural-rural eastern section of North Carolina.

Before the Congressional hearing, North Carolina's assembly amended the General Statute that contains the rules and regulations for Business Development Corporations in the State. Two new development finance corporations were authorized.[62] Capital Resource Corporations were to

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60 Ibid, p. 32.

61 Ibid.

62 State of North Carolina, Department of Justice, General Statutes of North Carolina: Chapter 53A, Business Development Corporations and North Carolina Capital Resource Corporations. Raleigh: The Mitchie Company, 1990.

provide "... mezzanine finance to North Carolina investment businesses that otherwise lack access to the financing necessary to undergo expansion or restructuring to remain competitive and ... that have the potential to create high-quality jobs and to diversify and stabilize the State's economic base."[63] In short, these firms would operate as junior SBA's supporting North Carolina business investment firms, but extend equity financing, rather than loans.[64] North Carolina Enterprise Corporations were authorized to help rural areas. As the Assembly found, North Carolina had a "...serious shortage of mezzanine finance capital and credit available for investment in rural areas in the State."[65] In anticipation of the 1991 Congressional hearing, the Assembly found that "private enterprise and existing federal and State governmental programs have not adequately alleviated the severe shortage of mezzanine finance capital and credit... for... rural areas in the State."[66]

I interviewed a representative of one Enterprise Corporation who prefers to remain anonymous. Two Enterprise Corporations were incorporated by his account: no Capital Resource Corporations were formed. This is important since the enabling legislation included a sunset clause that has since past. According to Chapter 53A, if no Capital Resource Corporations were formed by July 1, 1990, then the Article would become void.[67] That the deadline did pass is interesting

63 Ibid, 53A-21, p. 16.
64 The Investment Division of the SBA loans funds to SBICs.
65 Ibid, 53A-36, p. 21.
66 Ibid, 53A-36, p. 21.
67 Ibid, 53A-34, p. 20.

in itself since tax credits were authorized for owners of, or investors in, Capital Resource Corporations:[68] Enterprise Corporations were commissioned to operate without such incentive.[69]

Today, credit & equity investment development corporations authorized under 53A include two Enterprise Corporations and no Business Development Corporations. (Presumably, Business Development Corporations can still be organized since the sunset clause for this form of organization did not go in effect due to the original BDC). One of the two existing Corporations is located in Raleigh. This Enterprise Corporation administers The North Carolina Enterprise Fund that has a capital base of 20 million dollars.[70] The other Enterprise Corporation -- according to the anonymous source -- is "smaller".

The subsequent legacy of small business finance in North Carolina's underdeveloped regions shows that the BDC's life -- and contribution to North Carolina's economic development -- might have been extended if its objectives had been turned to those areas. Unintended bias of SBA operations did provide an arena for the BDC to operate in, but the BDC missed an opportunity, and its decline went on even amidst the balanced growth policy era of the 1970s and early 1980s.

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[68] Ibid, 53A-32, p. 20.
[69] Ibid, 53A-41, p. 23.
[70] <u>The North Carolina Enterprise Fund, L.P.</u> Brochure, 1994.

CONCLUSION

The Small Business Administration displaced the South's first SDCC through direct competition and apparently loan guarantees. The SBA engaged the credit fringe with a more favorable interest regime than the BDC, while loan guarantees had an inverse effect on the demand for BDC services. However, a regional target might have prolonged the BDC's public usefulness since a window remained open due to the unintended oversight of private and public financial agencies.

In terms of its regional disbursal of loans over the period, the BDC was generally neutral. Though a policy addressing underdeveloped regions may have 'saved' the BDC, it appears that a change in operating rules would have been required. That is, funds available from private members dropped from $23 million in 1964 to $10 million in 1981.[71] One year later, after several years of poor performance in both public and private objectives, the BDC was placed in liquidation. A declining loan pool and support from the private sector, shadowed by a detrimental interest rate regime, indicates that the BDC was less accomodating to the private sector than the SBA. If the BDC was to continue, a fundamental change in its organization was in order: as organized the BDC had become obsolete.

[71] Table 4.10.

CHAPTER EIGHT

CONCLUSION

In 1954, when Luther Hodges became Governor of North Carolina, the South was engaged in an intense rivalry over where the nation's expanding industrial base would be located. Industrial bond programs were spreading across the region, there was increased use of tax concessions for new industrial facilities by both state and local governments, advertising campaigns emphasized the business-friendly condition of the sponsoring state, and the itinerant southern governor crusading for new industry through the industrial core of America became a common figure. In the midst of this rivalry, Hodges, a retired business executive, soon became a symbol of the southern crusade, selling his state to industrialists at an unmatched pace. Hodges' business career in a leading textile firm provided the State a leader seemingly tailored to engage the southern competition for new industry.

Hodges became well known for recruitment trips into the northern states and for his innovative Research Triangle Plan. With less applause, he attempted to stimulate small business in North Carolina by borrowing a financial innovation from New England and the Mid-Atlantic. As in the nation, it was believed that aspiring entrepreneurs in North Carolina had difficulty acquiring necessary credit to purchase capital equipment for their planned ventures. Though the term 'credit gap' was not used, it was suggested that the frustration of these entrepreneurs be relieved by a state authorized development bank. The result was the quasi-public Business Development Corporation of North Carolina. Enabling legislation came in 1955, and the BDC began operations in the Spring of 1956. It was one of seven Statewide Development Credit Corporations operating at the time.

At the national level, the Federal Reserve Board had entered an ongoing debate over the existence or non-existence of a credit gap for businesses in America. The SBA had succeeded the Reconstruction Finance Corporation in 1953. Indeed its creation was a compromise measure that allowed the RFC closure. The private financial sector, represented by the American Banking Association, had argued in 1953 that commercial banks were doing their job for the business community and that the Small Business Administration was unnecessary. In light of this assertion, the SBA began with temporary status. Four years later the Federal Reserve partially confirmed the ABA position by attesting that short-term credit for small businesses was adequately met by the private financial sector. However, the Federal Reserve Board also reported that long term credit or equity for small manufacturing firms was scarce. In 1958 the Small Business Investment Act (SBIA) was passed, and the SBA became a permanent agency.

The BDC was two years old when SBIA was passed. The first of its kind in the South, the BDC became an example for states across the nation. It had accomplished its status as a leading SDCC by the leadership of H. Powell Jenkins. By the close of the decade it had made approximately $5 million of loans to small businesses, large businesses, and local development companies in North Carolina. By 1961, it had assisted the creation or maintenance of 26,588 jobs in the state. By 1969 the BDC would have $10.6 million of loan assets or twice the amount of 1960.

As originally anticipated, the BDC assisted smaller concerns lead by native North Carolinians. It also began as a promoter of agricultural diversity in the State. Though the overall objectives remained the same, the BDC's tactical approach changed during its early years. Loans to larger concerns became more frequent. Loans in the textile industry, that certainly fared well without BDC assistance, became a primary function of the BDC during the 1960s. Finally, loans to LDCs, often used to assist the relocation of industry to the State, became a standard of the BDC as well.

While the tactics of the BDC changed so did its pattern of growth. Operations at the Corporation peaked around 1967. Over the next 14 years, the BDC would struggle and die. The decline and demise of the BDC can be attributed to competition with the SBA.

Both institutions were established at roughly the same time and both meant to pick up where private lending left off. As the BDC and SBA grew, the commercial banking sector in North Carolina -- and across the nation -- gradually engaged more and more unusually risky business clients through term lending. While the SBA and the BDC made direct loans for those who could not secure credit in the private sector, the SBA was authorized to guarantee risky loans made by the private financial sector, and this encouraged greater liberality by bankers.

The growth of SBA-guaranteed lending undercut BDC activity in two ways. First, North Carolina banks were less likely to 'share' risky clients with the BDC by way of the participation loan arrangement, and second -- and more importantly -- the BDC found fewer applicants in general. The guarantee program had reduced the 'credit gap' for smaller firms and reduced the demand for BDC services. Between the alternatives, it was the SBA's institutional structure that proved more accommodating to the private sector.

That group of applicants that could not secure credit in the private sector -- even with the guarantee program in place -- had a choice of BDC or SBA direct loan financing. Here too the SBA proved superior. First the SBA was able to release more resources in the State, and second the SBA was more flexible in its lending practices. That is, the BDC was restricted to industrial applicants, whereas the SBA was not. Third, the SBA had a special program designed for LDCs that further injured the BDC applicant pool. Finally, the BDC began at a disadvantage given its operating rules. Generally speaking, it could not compete with the SBA's rate of interest. In sum, the federal institution displaced the BDC from the provisioning of business credit.[1]

[1] That a window remained open for the BDC, in terms of regionally directed lending, does not suggest that the BDC could have continued as organized. The reorganization alluded to in Chapter Seven would certainly have involved the removal of any profit motive. At the state level it seems that a public institution, not concerned with profits and not dependent on private reserves, is required to effectively engage risky areas that remain void of private support. Economically depressed neighborhoods across the nation comes to mind as a target area. Though various programs exist at present addressing these areas, there is surely room for state level public banks to participate. Such banks could be modeled on the original SBA legislation, with an exclusive

There were still 32 Statewide Development Credit Corporations operating in 1983. Had they become obsolete? If not, did their operating rules differ from the BDC? The credit corporations of Alaska, Maryland, Nebraska, New York, North Dakota, and Vermont were all permitted to issue revenue bonds, at least as of 1983. Further, SDCCs were allowed to become licensed SBICs, and this may have preserved some credit corporations. Perhaps the BDC's life would have been prolonged if it had joined that program. Even so it is unlikely that it would have been as significant to business financing in North Carolina as it had been from 1956 to 1961 given the presence of the SBA, the proliferation of LDCs, and the legalization of revenue bonding by North Carolina in 1977.

The original SDCCs, including the South's first, were created to close an apparent credit gap for small operators. Between 1949 and 1957, fourteen state level institutions were authorized for that purpose. The credit gap issue was not confined to state capitols. During this same period the SBA had been created, and it gained permanent status in 1958 based on a perceived gap in long term credit and/or equity for small manufacturing businesses.

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activity of direct loans at interest rates sufficient enough to cover operation costs and to maintain the taxpayer funded equity base. From the BDC example, costs could be reduced by relying on a small staff clearly focused on the task at hand, and competently assessing the default risks so that the institution would not be placed in political jeopardy. Though displaced by the SBA, the BDC did have a very low default rate.

It did not take long for the South's first SDCC and the SBA to change their tactical approaches. However, when the SBA turned to a more aggressive use of loan guarantees, as opposed to direct lending, its main objective continued. That is, it was still in business to alleviate any credit gap, real or imagined, for small operators. Once the BDC gained its footing its original objective of assisting small scale North Carolinian businesses was succeeded by a broader objective of stimulating the State's economic development in total. The South's first SDCC was swept up by the general development efforts of North Carolina and became, essentially, another tool of industrial recruitment.

That being the case, it must be asked: 'Did the BDC really assist North Carolina's development?' Studies of regional science suggest that BDC operations did not. A summary of the consensual conclusions of the regional science discipline is that...

> ... neither the literature reviews nor the empirical studies included in this volume support the notion that state and local government can effectively alter the geographic distribution of industry through their various financial inducements. (...) There appears to be near-unanimous agreement... that industrial location decisions are dominated by the following factors: markets, labor quality, and transportation accessibility.[2]

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2 John R. Moore, C. Warren Neel, Henry W. Herzog Jr. and Alan M. Schlottmann, "The Efficacy of Public Policy" in Industry Location and Public Policy, Herzog and Schlottmann, eds. Knoxville: The University of Tennessee Press, 1991, p. 257-271.

However, in the intense rivalry for the nation's expanding industrial base during the period, Southern states had no choice but to participate in subsidization and salesmanship.[3] Otherwise, they would be overlooked as potential locations for new or branch facilities. The BDC's role in this game was as an industrial revenue bonding substitute. It did not provide savings that a bond program could, but as the only State-authorized agency providing industrial finance, it allowed local development companies to assist development by assuming all or part of BDC credit involved in a successful recruitment.

The BDC was born of a state's initiative to assist small scale entrepreneurs. It was created while a national debate continued over the existence or non-existence of a credit gap in the private banking sector. Unlike the SBA, the BDC was organized as a risk-pooling agency for the private sector. Unlike the SBA, the BDC was quasi-public. Though it became another industrial development tool of another Southern state, its working rules effectively limited its life. In the end, the SBA structure proved more accommodating to the private sector. During the 1970s, the South's first SDCC was merely a shadow of what it had been. With the authorization of industrial revenue bonding and the escalation of the prime rate thereafter, the Business Development Corporation was dismissed. The SDCC was no longer a viable development tool for North Carolina.

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[3] Cobb, Selling of the South, p. 209-228.

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APPENDICES

APPENDIX A

STATEWIDE DEVELOPMENT CREDIT CORPORATIONS

There has been very little discussion of SDCCs in the past. The most explicit statements made are contained in Joe S. Floyd Jr. and Luther H. Hodges Jr.'s Financing Industrial Growth: Private and Public Sources of Long Term Capital for Industry, and in H. Austin Peck's Sources and Availability of Funds to Small Manufacturing Firms in Maine.

Descriptive in nature, Financing Industrial Growth is primarily an inventory of finance programs in place at the federal, state, and local level in 1962. In approximately two pages of text, the authors present a brief history of North Carolina's Business Development Corporation. Floyd and Hodges use the BDC as a representative state development bank since it "... served as a model for the establishment of many state development banks."[1] Though no broad statements are made on state development banks, the authors conlcude that the "... BDC probably is too small."[2]

Also published in 1962, Peck's Sources and Availability of Funds is similar to the above publication's overall objective except that it details the subject for one state. That being the case, Peck's work is a bit more thorough than Floyd and Hodges'. In approximately six pages of text Peck discusses the Development Credit Corporation of Maine, the first SDCC formed. As in the above conclusion, Peck finds that the DCCM is too small.[3] Also, Peck points out that critics at the time

[1] Floyd and Hodges, Financing Industrial Growth, p. 29.
[2] Ibid. , p. 31.
[3] Peck, Sources and Availability of Funds, p. 65.

maintained that the DCCM failed to service its 'development' function. In 1959, the DCCM was authorized to buy common and preferred stocks of corporations to cover its ommission of the 'development' function.[4] Finally, the author suggests that the reason the DCCM had failed to serve its development function was because of its conservative policies or its unwillingness to engage "... risks that businessmen feel a development agency should take."[5]

Peck also mentions that SDCCs were discussed in the Federal Reserve Board's investigation of small business finance that eventually led to the Small Business Investment Act of 1958. Included in the Federal Reserve's report, Financing Small Business, is an article by Paul S. Anderson titled "State Development Credit Corporations".[6] Presumably this article is an inventory of existing SDCCs at the time with commentary on their organization and activity to that date. This information is included in Statewide Industrial Development Credit Corporations and State Development Authorities published by the Office of Area Development, U.S. Department of Commerce, in 1958. The Office states that SDCCs had loaned approximately $31.3 million on 407 accounts by the spring of 1958. At the time, fourteen states had authorized the organization of an SDCC and seven had actually begun operations.

The remaining secondary sources on SDCCs discovered in this research are minimal in number and discussion. In fact, two texts written on the evolution of state development programs in the twentieth

[4] Ibid. , p. 66-67.
[5] Ibid. , p. 67.
[6] Ibid. , p. 67.

century omit discussion of the SDCC. The first, State Economic Development, discusses bonding programs and industrial development authorities but does not even mention, much less discuss, the SDCC.[7] This is a significant indicator of the status of the SDCC by 1967, since State Economic Development is an otherwise comprehensive study of the evolution and evaluation of state development efforts. In Historical and Functional Aspects of State Industrial Development Organizations, the SDCC is mentioned but hardly discussed.[8] In fact the discussion consists of three sentences, and ends with a footnote directing the reader to see State Economic Development which, as noted, does not include a discussion on the subject. Again, Historical and Functional Aspects is fairly comprehensive and the omission of SDCCs in its coverage indicates the minimal status, or at least respect, of the SDCC by 1975. Finally, other than surveys conducted by Conway Data and published in the Site Selection Handbook, no additional secondary sources were found for this study.

To conclude, a list of SDCCs by state, based on Conway Data reports and on the Office of Area Development's 1958 publication, is listed below.

[7] Alfred W. Swinyard, Henrik O. Helmers, and James N. Vedder, State Economic Development: Status and Appraisal. Michigan Business Reports No. 51. Bureau of Business Research, Graduate School of Business Administration, The Univeristy of Michigan. Ann Arbor: The University of Michigan, 1967.

See particularly pages 104-105.

[8] William R. Thomas, Historical and Functional Aspects of State Industrial Development Organizations. Occasional Studies No. 9. Division of Research, Bureau of Business and Economic Research, College of Business Administration, The Univeristy of South Carolina. COlumbia: The University of South Carolina, 1975, p. 50.

Appendix A - 1

States with Authorized Statewide Development Credit Corporations to 1958

STATE	YEAR AUTHORIZED
Connecticut	1953
Hawaii	1957
Kansas	1955
Maine	1949
Massachusetts	1953
Michigan	1956
Minnesota	1957
New Hampshire	1951
New York	1955
North Carolina	1955
Rhode Island	1953
South Dakota	1957
Vermont	1953
Wisconsin	1955

Source: U.S. Department of Commerce, Office of Area Development, Statewide Industrial Development Credit Corporations and State Development Authorities. Washington: U.S. Government Printing Office, 1958, Table A.

Appendix A - 2

States With Statewide Development Credit Corporations in Operation 1968

STATE	Revenue Bond Financing Permitted by State or Local Authority?
Alaska	yes
Arizona	yes
Arkansas	yes
Colorado	yes
Connecticut	** NO **
Delaware	yes
Florida	** NO **
Hawaii	unsure
Idaho	** NO **
Illinois	yes
Indiana	yes
Iowa	yes
Kansas	yes
Kentucky	yes
Maine	yes
Maryland	yes
Massachusetts	yes
Minnesota	yes
Mississippi	yes
Nebraska	yes
New Hampshire	yes
New Jersey	** NO **
New York	yes
North Carolina	** NO **
North Dakota	yes
Ohio	yes
Oregon	yes
Pennsylvania	yes
Rhode Island	yes
South Dakota	yes
Tennessee	yes
Utah	yes
Vermont	yes
Virginia	yes
Washington	yes
Wyoming	yes

Source: Linda Liston, "The Fifty Legislative Climates Come Under Fire", Industrial Development, November-December, 1968, p. 17.

Positive responses in column two indicates that industrial revenue bonding was permitted in the state. It does not indicate that the SDCC in those states were permitted to issue bonds.

Appendix A - 3

States With Statewide Development Credit Corporations in Operation in 1981

STATE	Revenue Bond Financing Permitted State or Local Authority?
Alabama	yes
Alaska	yes
Arkansas	yes
Connecticut	yes
Florida	yes
Georgia	yes
Idaho	** NO **
Illinois	yes
Iowa	yes
Kansas	yes
Kentucky	yes
Maryland	yes
Massachusetts	yes
Minnesota	yes
Mississippi	yes
Missouri	yes
Montana	yes
Nebraska	yes
New Hampshire	yes
New York	yes
North Carolina	yes
North Dakota	yes
Ohio	yes
Oklahoma	yes
Oregon	yes
Pennsylvania	yes
Rhode Island	yes
South Carolina	yes
Vermont	yes
Washington	yes
West Virginia	yes
Wyoming	yes

Source: Site Selection Handbook: Geo-Economic Index. September 1981, Vol. 26, No. 3, 386.

APPENDIX B

NOTES TO APPENDIX B

This Appendix is based on Reports on Examination of the Business Development Corporation made by the State Banking Commission for 1958, 1960, 1962, 1964, 1969, 1973, 1977, and 1981. Reports that were not reviewed for this research include 1966, 1968, 1971, 1975, and 1979.

Each examination used contains specific information on loans outstanding including recipient name and location, and the original amount of the debt. Of 252 loans claimed by the BDC in the 1979 Annual Report, 235 have been identified. This is equivalent to 91 percent of total dollars disbursed as presented in the 1979 Annual Report.

The 1981 examination was made on 1/31/81. It is reported in this examination that only two loans had been made since 1/31/79. Therefore, the maximum number of loans made to 1/31/81 is 254. The BDC went into liquidation in the Spring of 1982 and there is no indication that any additional loans were made between 1/31/81 and 4/30/82.

In any case, the information used for this research is based on approximately 90 percent of total dollars disbursed over the life of the Corporation. It is expected that most loans excluded from this study were made in the mid 1960s.

It appears that a review of the 1966 and 1968 examinations would remove the oversight, but this is not true. From 1956 to 1964, for example, the BDC made 139 loans as reported in the 1964 examination.

After review of the 1958, 1960, 1962, and 1964 examinations, however, only 132 -- 95 percent -- of these loans could be identified. Obviously some loans were made and repaid between examinations.

The 235 loans identified have been categorized and totaled for various factors in support of this study. The following is a description, with abbreviation codes, of items contained in Appendix B.

1. Items A.1, B.1, ..., H.1.

   A. These list all new loans identified for the relevant examination period.

   B. Each account is assigned to either the Mountain, Piedmont, or Coastal Plain region under column 'G-L P-L'. G-L represents the regional location of the recipient using the geographers' definition of regions as discussed in Appendix C. P-L represents the regional location of the recipient using the planners' definition of regions as discussed in Appendix C.

   C. Each manufacturing recipient as been cross referenced to the 1973 and 1988 Industrial Directories of North Carolina. In column '73-D 88-D', Y indicates a listing for the relevant directory, and an N indicates a non-listing. For non-manufacturing accounts, an X has been recorded.

   D. Each account has been assigned to an activity group. In column 'Industry', AG indicates a food processing or other agricultural concern. CH indicates a chemical manufacturer. EMF indicates a electrical component manufacturer or a machinery producer, or a fabricated metals producer. FW indicates a furniture or wood products producer. TA indicates a textile or apparel manufacturer. 'Other' indicates all other manufacturing concerns, real estate companies, or construction companies. 'Unsure' indicates accounts that are presumably manufacturing firms but can not be identified by either recipient name nor a review of the directories. 'Dev. Co.' indicates a recipient that is either a development company/corporation, or an industrial investment group.

2. Items A.2, B.2, ..., H.2

   A. These present information for manufacturing firms regarding the longevity of these recipients as indicated by a review of the 1973 and 1988 Industrial Directories.

   B. Under column 'Year Established Emp. Range', information has been entered according to the 1973 and 1988 directories.

   C. Bold year established dates indicate firms that the BDC assisted in establishing.

   D. The employment range codes are as follows;
      A = 1 - 4
      B = 5 - 9
      C = 10 - 19
      D = 20 - 49
      E = 50 - 99
      F = 100 - 249
      G = 250 - 499
      H = 500 - 999

3. Items A.3, B.3, ..., H.3

   A. These present the regional disbursion of loans using both definitions explained in Appendix B.

   B. The figures in parenthesis at the head of the columns record the number of loans made per region for the relevant periods.

4. Items A.4, B.4, ..., H.4

   A. These present loans made to Development groups for the relevant periods.

   B. The regional categorization follow the previous technique.

5. Items B.5, C.5, ..., H.5

   A. These present new loans made for the relevant period to firms that had previously borrowed from the Business Development Corporation.

6. Item I

   A. This compiles the distribution of loans by recipient (AG, CH, etc.) for the relevant periods.

APPENDIX B

ITEMS A.1 - A.4

LOANS MADE BETWEEN

4/1/56 - 9/19/58

App. B
Item A.1

Loans Made
4/1/56 to 9/19/58

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Ahoskie Meat & Provision Ahoskie	25,000	c	c	N		AG
Albemarle Industries, Inc. Elizabeth City	70,000	c	c			dev. co.
Supak Manufacturing Co.				Y	N	TA
Albemarle Industries, Inc. Elizabeth City	16,000	c	c	x	x	dev. co.
Allvac Metals Monroe	75,000	p	p	N		EMF
Breeden Poultry & Eggs Morganton	75,000	p	m	Y	Y	AG
Chadbourn Development Co. Chadbourn	60,000	c	c	x	x	dev. co.
Circle F Provision Lexington	70,000	p	p	N		AG
Clayton Fulcher Seafood Atlantic	50,000	c	c	y	y	AG
Maegeo Dehydrating Co. Lexington	126,565	p	p	N		AG
Commercial Carving Co. Lexington	100,000	p	p	Y	Y	FW
David & Ruth Cooper Greensboro	100,000	p	p	n		unsure
Crest Furniture Company Asheville	30,000	m	m	N		FW
Crown Investment Co. Durham	52,500	p	p	x	x	dev. co.

App. B
Item A.1

Loans Made
4/1/56 to 9/19/58

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Dail & Ashley Machine Shop Edenton	13,000	c	c	N	`	EMF
Farmers Poultry Dev. Co. Dobson Carolina Poultry Farms	157,520	p	m	n	n	AG
Structural Wood Preserving Greensboro	25,000	p	p	Y	Y	FW
Johnston County Frozen Foods Smithfield	25,000	c	c	N	`	AG
Liquids, Inc. Greensboro	25,000	p	p	Y	N	CH
Martindale Foods, Inc. Williamston	40,000	c	c	N	`	AG
P.D. Midgett, Jr. Englehard	20,000	c	c	n	`	unsure
Mid-State Tile Co. Lexington	150,000	p	p	Y	Y	other
Lawrence P. Moser Mineral Springs	30,000	p	p	n	`	unsure
National Welders Supply Charlotte	300,000	p	p	Y	Y	CH
Priebe & Sons, Inc. Concord - Chicago	175,000	p	p	N	`	unsure
Reidsville Industrial Development Corporation Brookside Industries	100,000	p	p	Y	N	dev. co. TA
Robbins Development Corp. Robbins Colonial Poultry Co.	50,000	c	p	N	N	dev. co. AG

App. B
Item A.1

Loans Made
4/1/56 to 9/19/58

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Southern Vermiculate Co. Franklin	20,500	m	m	N	`	other
Vel-Cord Southern Corp. Lumberton	150,000	c	c	Y	N	TA
Allendale Mills Mount Airy	40,000	p	m	N	`	TA
Elizabethtown Dev. Corp. Elizabethtown	60,000	c	c	x	x	dev. co.

Loans Made 4/1/56-9/19/58
30
TOTAL OF LOANS DISBURSED 2,218,085

Notes to Item A.1

1. Chadbourn Development Company. This loan of $60,000 originated on 11/15/56. The money was used to lease a building to Chadbourn Manufacturing Company. This garment manufacturer became insolvent before the first examination. As collateral, the BDC held a first lien on the factory. The management felt that repayment of the loan was unlikely. (Report of Examination, 9/19/58, p. 6.)

2. Circle F Provision. This loan of $70,000 originated on 12/10/25. It went into arrears on 5/10/58. As collateral, the BDC held a first lien on the meat packing plant operated by Circle F Provision. Though the management had made efforts to keep Circle F in business, their believe was that repayment was unlikely. (Report of Examination, 9/19/58, p. 6.)

3. Loan amounts for the Allendale Mills account and the Elizabethtown Development Corporation are based on "Loans Approved Through July 11, 1957," Governor's Papers, Luther H. Hodges, North Carolina State Archives.

App. B
Item A.2

Loans Made
4/1/56 to 9/19/58

FIRM LONGEVITY

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Ahoskie Meat & Provision				25,000
Supak Mnf.	70,000		1955	70,000
Allvac Metals				75,000
Breeden Poultry & Eggs	75,000	75,000	1949 '88, emp. G	75,000
Circle F Provision				70,000
Clayton Fulcher Seafood	50,000	50,000	1924 73 & '88 emp. D	50,000
Maegeo Dehydrating				126,565
Commercial Carving Company	100,000	100,000	1947 88, emp. F	100,000
Crest Furniture Co				30,000
Dail&Ashley Machine Shop				13,000
Structural Woods Preserving	25,000	25,000	1958 73, emp. B 88, emp. C	25,000
Johnston County Frozen Food				25,000

App. B
Item A.2

Loans Made
4/1/56 to 9/19/58

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Liquids, Inc	25,000		1954	25,000
Martindale Foods				40,000
Mid-State Tile, Co.	150,000	150,000	1957 / 88, emp. G	150,000
National Welders Supply	300,000	300,000	1941 / 88, emp. G	300,000
Priebe & Sons, Inc				175,000
Brookside Industries	100,000		1957 / 73, emp. G	100,000
Colonial Poultry Co				50,000
Southern Vermiculate				20,500
Vel-Cord Southern	150,000			150,000
Allendale Mills				40,000
TOTALS	1,045,000	700,000		1,735,065

	accounts	listed	PERCENT
73-D	22	10	45%
88-D	22	6	27%
	amount	listed	PERCENT
73-D	1,735,065	1,045,000	60%
88-D	1,735,065	700,000	40%

App. B
Item A.3

Loans Made
4/1/56 to 9/19/58

Geographic Distribution of loans made
between 4/1/56 & 9/19/58

G-M {2}	G-P {16}	G-C {12}	P-M {5}	P-P {14}	P-C {11}
30,000	300,000	150,000	157,520	300,000	150,000
20,500	175,000	70,000	75,000	175,000	70,000
	157,520	60,000	40,000	150,000	60,000
	150,000	60,000	30,000	126,565	60,000
	126,565	50,000	20,500	100,000	50,000
	100,000	50,000		100,000	40,000
	100,000	40,000		100,000	25,000
	100,000	25,000		75,000	25,000
	75,000	25,000		70,000	20,000
	75,000	20,000		52,500	16,000
	70,000	16,000		50,000	13,000
	52,500	13,000		30,000	
	40,000			25,000	
	30,000			25,000	
	25,000				
	25,000				
50,500	1,601,585	579,000	323,020	1,379,065	529,000
% # OF LOANS					
7%	53%	40%	17%	47%	37%
% - $ AMOUNT					
2%	72%	26%	14%	62%	24%
Mountain	Piedmont	Coastal	Mountain	Piedmont	Coastal

App. B
Item A.4

Loans Made
4/1/56 to 9/19/58

New Loans. Development Corporations	AMOUNT	G-L	P-L
Albemarle Industries	70,000	c	c
Albemarle Industries	16,000	c	c
Chadbourn Dev. Co.	60,000	c	c
Crown Invest. Co.	52,500	p	p
Reidsville Industrial Dev. Corp.	100,000	p	p
Robbins Dev. Corp.	50,000	c	p
Elizabethtown Dev. Corp.	60,000	c	c
TOTAL	408,500		

Percent of ALL 18%

Addendum

G-M	0%	P-M	0%
G-P	37%	P-P	50%
G-C	63%	P-C	50%

APPENDIX B

ITEMS B.1 - B.5

LOANS MADE BETWEEN

9/19/58 - 10/15/60

App. B
Item B.1

Loans Made
9/19/58 to 10/15/60

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Ahoskie Meat & Provision Ahoskie	2,500	c	c	n		AG
Asheville Hosiery Co. Asheville	290,000	m	m	n		TA
Beacon Hill of NC, Inc. Fletcher	40,000	m	m	n		unsure
Breeden Poultry & Eggs Morganton	117,420	p	m	y	y	AG
David Spencer Bradley Hobgood	75,000	c	c	y	y	AG milling
Clarandue Manufacturing Co Lenoir	117,000	p	m	n		unsure
Clinton Development Corp. C.M. Hall Lamp Co.	375,000	c	c	n		FW
Clayton Fulcher Seafood Atlantic	10,000	c	c	y	y	AG
Consolidated Brass Co. Charlotte	150,000	p	p	y	n	EMF
Crown Aluminum Industries Roxboro	129,030	p	p	y	y	EMF
Danoca Industries, Inc. Dallas	35,000	p	p	n		unsure
Goldsboro Industries, Inc. Lori Manf. Corp.	70,500	c	c	y	n	dev. co. TA
Graham Hosiery Mills Graham	125,000	p	p	y	n	TA
Grifton Investment Co. Evans Manf. Co.	112,000	c	c	n		dev. co. unsure

App. B
Item B.1

Loans Made
9/19/58 to 10/15/60

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Gurley Milling Co. Princeton	80,000	c	c	y	n	AG
A.H. Harris & Co. Grantsboro	50,000	c	c	n		unsure
Leath Hosiery Mills Graham	160,000	p	p	y	n	TA
Machine & Welding Co. Dunn	40,000	c	c	y	y	EMF
Melville Textile Print Works, Statesville	100,000	p	p	y	y	TA
Perfect Packed Products Henderson	75,000	p	c	y	n	AG
Dallas Pigott Southport	15,000	c	c	n		unsure
Reidsville Ind. Dev. Corp. Brookside Industries, Inc	115,000	p	p	y	n	dev. co. TA
The Salem Company, Inc. Winston-Salem	110,000	p	m	y	n	TA
The Salem Company, Inc. Winston-Salem	18,000	p	m	y	n	TA
Sandhills Betterment Corp Aberdeen {Watson-Williams}	80,000	c	p	n		dev. co. unsure
Seabrook Blanching Corp. Edenton	140,000	c	c	y	y	AG
Selma Soybean Corp. Selma	70,000	c	c	n		AG
Seth Construction Co., Inc Lincolnton Sherman Textile Company	60,000	p	p	y	y	other TA

App. B
Item B.1

Loans Made
9/19/58 to 10/15/60

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Smith-Whitley Grain Co. Goldsboro	170,000	c	c	n		AG
Southern Laces, Inc. & Mobile Textiles, Inc. Wilmington	200,000	c	c	n		TA
Tarboro Textiles, Inc. Tarboro Glenoit Mills	300,000	c	c	y	y	TA
Vance Milling Co. Vanceboro	35,000	c	c	n		AG
The Clinton Corporation Barnardsville	115,000	m	m	~		unsure
White Poultry Co. Rockingham	40,000	c	p	y	y	AG
Willis Seafood Co. Davis	10,000	c	c	y	n	AG

Loans Made 9/20/58-10/15/60
35
Total of Loans Disbursed 3,631,450

Notes to Item B.1

1. David Spencer Bradley. This loan of $75,000 was used for Bradley Milling Company of Hobgood. This feed mill later changed its firm name to Bradley Farm, Incorporated. (1973 & 1988 Industrial Directories).

2. Crown Aluminum Industries. Through foreclosure, the BDC assumed titled to this Roxboro plant in 1967. In February of 1968, the BDC contracted a lease for the facility. Crown is listed as a subsidiary of the Whitaker Corporation of L.A.-Pittsburg for 1973. Eventually, Crown's name was changed to Alumark, a subsidiary of Worldmark of Miami, Florida. (Annual Report, 1968. 1973 & 1988 Industrial Directories.)

3. Goldsboro Industries, Inc. & Lori Manufacturing. Lori Manufacturing was estblished in 1960 by way of this $70,500 loan to Godlsboro Industries. The 1973 Industrial Directory lists Sherayne Manufacturing Co., Inc., of New York as the parent firm.

4. Gurley Milling Co. Gurley Milling eventually changed its name to Gurley, Incorporated.

5. Seth Construction Co. & Sherman Textile Company. Sherman eventually moved to Dallas in Gaston county. (1973 & 1988 Industrial Directories.)

6. Tarboro Textiles, Inc. & Glenoit Mills. The parent firm of Glenoit is listed as Botany Industries of New York. Eventually the parent firm changed its name to the Glenoit Internationl Corporation. (1973 & 1988 Industrial Directories).

App. B
Item B.2

Loans Made
9/19/58 to 10/15/60

FIRM LONGEVITY

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Asheville Hosiery Co.				290,000
Beacon Hill				40,000
Bradley Milling Co.	75,000	75,000	1959 88, emp. A	75,000
Clarandue Mnf. Co.				117,000
C.M. Hall Lamp Co.				375,000
Consolidated Brass Co.	150,000		1955 88, emp. F	150,000
Crown Aluminum Industries	129,030	129,030	1959 73, emp. G 88, emp. F	129,030
Danoca Industries Incorp.				35,000
Lori Mnf. Company	70,500		1960 73, emp. F	70,500
Graham Hosiery Mills	125,000		nai	125,000
Evans Mnf. Company				112,000
Gurley Milling Co.	80,000		1937 73, emp. C	80,000

App. B
Item B.2

Loans Made
9/19/58 to 10/15/60

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. / EMP. RANGE	AMOUNT FOR ALL
Leath Hosiery Mills	160,000		1946 / 73, emp.G	160,000
Machine & Welding Co.	40,000	40,000	1934 / 73-D : 88-C	40,000
Melville Textile Print Works	100,000	100,000	1959 / 73, emp. F 88, emp. E	100,000
Perfect Packed Products	75,000		nai	75,000
The Salem Co {2 loans}	118,000		1947	118,000
Watson-Williams Mnf. Co.				80,000
Seabrook Blanching Co.	140,000	140,000	1960 / 88, emp F	140,000
Selma Soybean Cor.				70,000
Sherman Textile Co.	60,000	60,000	1963 ?	60,000
Smith-Whitley Grain Co.				170,000
Southern Laces & Mobill Textles, Inc				200,000

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Item B.2

Loans Made
9/19/58 to 10/15/60

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Tarboro Textiles // Glenoit Mills	300,000	300,000	1960 73, emp. H 88, emp G	300,000
Vance Milling Co.				35,000
White Poultry Co	40,000	40,000	1947 73-F : 88-G	40,000
Willis Seafood Co	10,000		73, emp D	10,000
TOTALS	1,672,530	844,030		3,196,530

	accounts	listed	percent
73-D	27	16	59%
88-D	27	8	30%
	amount	listed	percent
73-D	3,196,530	1,672,530	52%
88-D	3,196,530	844,030	26%

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Item B.3

Loans Made
9/19/58 to 10/15/60

Geographic Distribution of loans made
between 9/19/58 & 10/15/60

	G-M {3}	G-P {13}	G-C {19}	P-M {7}	P-P {10}	P-C {18}
	290,000	160,000	375,000	290,000	160,000	375,000
	115,000	150,000	300,000	117,420	150,000	300,000
	40,000	129,030	200,000	117,000	129,030	200,000
		125,000	170,000	115,000	125,000	170,000
		117,420	140,000	110,000	115,000	140,000
		117,000	112,000	40,000	100,000	112,000
		115,000	80,000	18,000	80,000	80,000
		110,000	80,000		60,000	75,000
		100,000	75,000		40,000	75,000
		75,000	70,500		35,000	70,500
		60,000	70,000			70,000
		35,000	50,000			50,000
		18,000	40,000			40,000
			40,000			35,000
			35,000			15,000
			15,000			10,000
			10,000			10,000
			10,000			2,500
			2,500			
	445,000	1,311,450	1,875,000	807,420	994,030	1,830,000
% # OF LOANS	9%	37%	54%	20%	29%	51%
% - $ AMOUNT	12%	36%	52%	22%	27%	50%
	Mountain	Piedmont	Coastal	Mountain	Piedmont	Coastal

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Item B.4

Loans Made
9/19/58 to 10/15/60

New Loans. Development Corporations	AMOUNT	G-L	P-L
Goldsboro Industries	70,500	c	c
Grifton Invest. Co.	112,000	c	c
Reidsville Industrial Dev. Crop.	115,000	p	p
Sandhills Betterment Corp.	80,000	c	p
Tarboro Textiles	300,000	c	c
TOTAL	677,500		

Percent of All 18.60%

Addendum			
G-M	0%	P-M	0%
G-P	17%	P-P	29%
G-C	83%	P-C	71%

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Item B.5

Loans Made
9/19/58 to 10/15/60

New Loans Old Accounts	AMOUNT if in 73-D	AMOUNT if in 88-D	AMOUNT FOR ALL
Ahoskie Meat			2,500
Breeden Poultry	117,420	117,420	117,420
Clayton Fulcher	10,000	10,000	10,000
TOTALS	127,420	127,420	129,920

APPENDIX B

ITEMS C.1 - C.5

LOANS MADE BETWEEN

10/15/60 - 8/31/62

App. B
Item C.1

Loans Made
10/15/60 to 8/31/62

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Albemarle Industries Elizabeth City	152,000	c	c	x		dev. co.
Austin Knitting Mills, Inc Albemarle	150,000	p	p	n		TA
Belle Chemical Company & Gaston Chemicals, Inc Lowell	350,000	p	p	n		CH
Binning's, Inc Lexington	73,600	p	p	y	y	EMF
Bray's Mill Mount Airy	45,000	p	m	n		unsure
Burlington Belt Corp. Elon College	30,000	p	p	y	y	TA
Cabarrus County Industrial Development Corporation	125,000	p	p	x		dev. co.
Cape Fear Feed Products Fayetteville	450,000	c	c	n		AG
Carolina Freezer Service Concord	250,000	p	p	n		unsure
Cleveland Mills Co. Lawndale	250,000	p	p	y	y	TA
Crown Aluminum Industries Roxboro	344,850	p	p	y	y	EMF
W.F. Fancourt Company Greensboro	240,000	p	p	y	y	CH
Graham Hosiery Mills, Inc Graham	90,000	p	p	y	n	TA
Granite Falls Development Corporation	105,000	p	m	x		dev. co.

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Item C.1

Loans Made
10/15/60 to 8/31/62

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Griffin Cold Storage Co. Fayetteville	63,750	c	c	n		AG
Gro-Rite Shoe Company Mount Gilead	80,000	p	p	n		other
A.H. Harris & Co. Grantsboro	55,000	c	c	n		unsure
Homac Corporation Burlington	200,000	p	p	n		unsure
Jackson County Industries Sylva	100,000	m	m	x		dev. co.
Jackson County Industries Sylva	100,000	m	m	x		dev. co.
Kohler & Campbell, Inc Granite Falls	218,000	p	p	y	n	FW
La-Chap, Inc. Welcome	80,000	p	p	n		unsure
Leath Hosiery Mills Graham	125,000	p	p	y	n	TA
Lindale Dairy Corporation High Point	125,000	p	p	n		AG
Machinery, Inc. Hickory	11,250	p	p	y	n	EMF
A.C. Marley Chair Company Stanley	35,000	p	p	y	n	FW
Mecklenburg Craftsmen, Inc Charlotte	75,000	p	p	n		unsure
Meyer Mills Lincolnton	225,000	p	p	n		TA

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Item C.1

Loans Made
10/15/60 to 8/31/62

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Page Church Furniture Co.	85,000	p		y		FW
Albemarle			p		n	
Pender County Industrial	55,000	c		x		dev. co.
Development Corp.			c			
Pleuger's Pump Mnf. Co.	40,000	p		y		EMF
Statesville			p		n	
Selma-Smithfield Industri.	150,000	c				dev. co.
Development Corp.			c	y		
Shallcross Mnf. Co., Inc.					y	EMF
Seth Construction Co., Inc	87,000	p				other
Lincolnton			p	y		
Sherman Textile Co.					y	TA
Shelby Seamless Hosiery	250,000	p		y		TA
Shelby			p		n	
Smithfield Industries, Inc	80,000	c				dev. co.
The Jerold Corporation			c	y		TA
					n	
Southern School Supply Co.	43,333	p		n		other
Raleigh			c			
Spurgeon Hosiery Corp.	150,000	p		n		TA
Lincolnton			p			
The Hammerlund Mnf. Co.	332,500	m		n		unsure
Mars Hill			m			

Loans Made 10/15/60 to 8/31/62
38

Total of Loans Disbursed 5,421,283

Notes to Item C.1

1. Binning's, Incorporated. Binning's eventually changed its name to Binning's Building Products, Incorporated. (1973 & 1988 Industrial Directories.)

2. Burlington Belt Corporation. Burlington Belt later changed its name to Burlington Handbags, Incorporated. (1973 & 1988 Industrial Directories).

3. Pleuger's Pump Manufacturing Company. This firm was apparently established by the BDC loan of $40,000 in 1962. Operating as an exporter, this firm changed its name to Pleuger's Submersible Pumps. (1973 Industrial Directory.)

4. Selma-Smithfield Industrial Development Corp. & Shallcros Manufacturing Co., Incorporated. Cutler-Hammer, Inc. of Milwaukee is listed as the parent company in the 1973 directory. This directory marks an establishment date of 1958, predating BDC relations with the company. In 1979, Hirsch & Associates of Northbrook, Illinois became the parent firm. (1973 & 1988 Industrial Directories.)

5. Smithfield Industries, Inc. & The Jerold Corporation. U.S. Industries, Inc. of New York is listed as the parent company in the 1973 directory. This directory also marks an establishment date of 1954, predating BDC relations with the company.

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Item C.2

Loans Made
10/15/60 to 8/31/62

FIRM LONGEVITY

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Austin Knitting Mills, Inc				150,000
Belle Chemical Co & Gaston Chemicals				350,000
Binning's Inc.	73,600	73,600	1958 88, emp. F	73,600
Bray's Mill				45,000
Burlington Belt, Corp.	30,000	30,000	1960 88, emp. F	30,000
Cape Fear Feed Products				450,000
Carolina Freezer Service				250,000
Cleveland Mills Corporation	250,000	250,000	1873 73, emp. G 88, emp. G	250,000
W.F. Fancourt Company	240,000	240,000	1961 73, emp. D 88, emp. C	240,000
Griffin Cold Storage Co				63,750

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Item C.2

Loans Made
10/15/60 to 8/31/62

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Gro-Rite Shoe Co.				80,000
Kohler & Campbell, Inc	218,000		1954 / 73, emp F	218,000
La-Chap Incorporated				80,000
Lindale Dairy Corp.				125,000
Machinery Incorporated	11,250		nai	11,250
A.C. Marley Chair Co.	35,000		nai	35,000
Mecklenburg Craftsmen Incorporated				75,000
Meyer Mills				225,000
Page Church Furniture Co.	85,000		1952 / 73, emp. F	85,000
Pleuger's Pump Mnf. Company	40,000		1962 / 73, emp. C	40,000
Shallcross Mnf. Company	150,000	150,000	1958 / 88,emp F	150,000
Shelby Seamless Hosiery	250,000		1960	250,000

App. B
Item C.2

Loans Made
10/15/60 to 8/31/62

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
The Jerold Corporation	80,000		1954 / 73, emp. G	80,000
Southern School Supply, Co.				43,333
Spurgeon Hosiery Corp				150,000
The Hammerlund Mnf. Co.				332,500
TOTALS	1,462,850	743,600		3,882,433

	accounts	listed	percent
73-D	26	12	46%
88-D	26	5	19%

	amount	listed	percent
73-D	3,882,433	1,462,850	38%
88-D	3,882,433	743,600	19%

App. B
Item C.3

Loans Made
10/15/60 to 8/31/62

Geographic Distribution of Loans Made between 10/15/60 & 8/31/62.

G-M {3}	G-P {28}	G-C {7}	P-M {6}	P-P {24}	P-C {8}
332,500	350,000	450,000	332,500	350,000	450,000
100,000	344,850	152,000	218,000	344,850	152,000
100,000	250,000	150,000	105,000	250,000	150,000
	250,000	80,000	100,000	250,000	80,000
	250,000	63,750	100,000	250,000	63,750
	240,000	55,000	45,000	240,000	55,000
	225,000	55,000		225,000	55,000
	218,000			200,000	43,333
	200,000			150,000	
	150,000			150,000	
	150,000			125,000	
	125,000			125,000	
	125,000			125,000	
	125,000			90,000	
	105,000			87,000	
	90,000			85,000	
	87,000			80,000	
	85,000			80,000	
	80,000			75,000	
	80,000			73,600	
	75,000			40,000	
	73,600			35,000	
	45,000			30,000	
	43,333			11,250	
	40,000				
	35,000				
	30,000				
	11,250				
532,500	3,883,033	1,005,750	900,500	3,471,700	1,049,083
% # OF LOANS					
8%	74%	18%	16%	63%	21%
% - $ AMOUNT					
10%	72%	19%	17%	64%	19%
Mountain	Piedmont	Coastal	Mountain	Piedmont	Coastal

App. B
Item C.4

Loans Made
10/15/60 to 8/31/62

New Loans. Development Corporations	AMOUNT	G-L	P-L
Albemarle Industries	152,000	c	c
Cabarrus County Industrial Dev. Corp.	125,000	p	p
Granite Falls Dev. Corp.	105,000	p	m
Jackson County Industries	100,000	m	m
Jackson County Industries	100,000	m	m
Pender County Ind. Dev. Corp.	55,000	c	c
Selma-Smithfield Dev. Corp.	150,000	c	c
Smithfield Industries	80,000	c	c
TOTAL	867,000		
Percent of All		16%	

Addendum

G-M	23%	P-M	35%
G-P	27%	P-P	14%
G-C	50%	P-C	50%

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Item C.5

Loans Made
10/15/60 to 8/31/62

New Loans Old Accounts	AMOUNT if in 73-D	AMOUNT if in 88-D	AMOUNT FOR ALL
Crown Aluminum Industries	344,850	344,850	344,850
Graham Hosiery Mills	90,000		90,000
Leath Hosiery Mills	125,000		125,000
Sherman Textile Co.	87,000	87,000	87,000
TOTALS	646,850	431,850	646,850

New Loans Old Accounts	Amount	Listed	% listed
73-D	646,850	646,850	100
88-D	646,850	431,850	67

APPENDIX B

ITEMS D.1 - D.5

LOANS MADE BETWEEN

8/31/62 - 9/11/64

App. B
Item D.1

Loans Made
8/31/62 to 9/11/64

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Bailey Business Dev. Bailey	40,000	c	c			dev. co.
Belle Chemical Company & Gaston Chemicals, Inc Lowell	185,000	p	p	n		CH
Binning's, Inc Lexington	30,000	p	p	y	y	EMF
Challenger Products, Inc. Roxboro	480,000	p	p	n		unsure
Clinton Development Corp. Clinton	333,750	c	c	x		dev. co.
Consolidated Brass Co. Matthews	168,750	p	p	y	n	EMF
Enterprise Feed Mill Mount Olive	67,500	c	c	n		AG
Danacoa Industries, Inc Dallas	70,000	p	p	n		unsure
Em-Bee Corporation Fletcher	69,000	m	m	n		unsure
Evan's Abattoir Mount Olive	28,000	c	c	n		AG
Jackson County Industries Sylva	347,760	m	m	x		dev. co.
Leisure Lads, Inc. Salisbury	200,000	p	p	y	n	TA
Liquids, Inc. Greensboro	60,000	p	p	y	n	CH
"M" Corporation Morganton	60,000	p	m	n		unsure

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Item D.1

Loans Made
8/31/62 to 9/11/64

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
National Welders Supply Co Charlotte	375,000	p	p	y	y	CH
Pender County Industrial Development Corporation	26,000	c	c	x		dev. co.
Pennsylvania Leaf Tobacco Williamston	100,000	c	c	n		other
Planet Manufacturing Corp. Roxboro	175,000	p	p	y	n	EMF
Pleasant Novelty Co. Robersonville	25,000	c	c	n		other
Pleasant Novelty Co. Robersonville	80,000	c	c	n		other
Sanford Finishing Co. Sanford	500,000	p	p	y	y	TA
Seth Construction Co. Lincolnton	108,000	p	p	x		other
Stanly County Development Corporation	261,000	p	p	x		dev. co.
Sulter Wood Products Lenoir	44,000	p	m	n		FW
Swain County Development Corporation	146,500	m	m	x		dev. co.
Tarboro Textiles, Inc Tarboro	402,000	c	c			dev. co.
Glenoit Mills, Inc				y	y	TA
Textured Yarn Co., Inc. Murphy	225,000	m	m	n		TA
United Mills Corporation Mount Gilhead	375,000	p	p	y	y	TA

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Loans Made
8/31/62 to 9/11/64

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Vel-Cord Southern Corp. Lumberton	225,000	c	c			TA
Carolina Wood Turning Cor. Hazelwood	360,000	m	m	y	n	FW
Winston-Salem, Forsyth Development Corporation Champion Dishwashing	268,000	p	m	x n		dev. co. other

Loan Made 8/31/62 to 9/11/64
31

Total of Loans Disbursed 5,835,260

Notes to Item D.1

1. Sanford Finishing Company. The BDC apparently assisted the establushment of this firm in 1963 with the $500,000 loan. It is not clear if an outside company was involved from the start since no parent firm is listed in the 1973 directory. There is, however, a listing for 1988. That company is Duro Industries, Inc. of Fall River, Massachusetts. (1973 & 1988 Industrial Directories.)

2. United Mills Corporation. BVD Co., Inc. of Montvale New Jersey is listed as the parent firm in the 1973 directory. Eventually, the McGregor Corporation of New York became the parent firm. The establishment date is given as 1940. (1973 & 1988 Industrial Directories).

3. Carolina Wood Turning Corporation. This account is actually listed as Waynewood Incorporated & Carolina Wood Turning Corporation.

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Item D.2

Loans Made
8/31/62 to 9/11/64

FIRM LONGEVITY

NAME	AMOUNT if in 73-D	AMOUNT IF in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Challenger Products				480,000
Enterprise Feed Mill				67,500
Em-Bee Corporation				69,000
Evan's Abattoir				28,000
Leisure Lads	200,000		1953 73, emp. G	200,000
Pennsylvania Leaf Tobacco				100,000
Planet Mnf. Corp.	175,000		1964	175,000
Pleasant Novelty Co. :2 loans				95,000
Sanford Finishing Co	500,000	500,000	1963 88, emp. F	500,000
Sulter Wood Prod's				44,000
Textured Yarn Co.				225,000
United Mills Corp.	375,000	375,000	1940 88, emp. H	375,000

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Item D.2

Loans Made
8/31/62 to 9/11/64

NAME	AMOUNT if in 73-D	AMOUNT IF in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Waynewood Inc & Carolina Wood Turning Corp.	360,000		1951 73, emp. D	360,000
Champion Dishwashing Corp.				268,000
Danacoa Industries				70,000
TOTALS	1,610,000	875,000		3,056,500

	accounts	listed	percent
73-D	14	5	36%
88-D	14	2	14%
	amount	listed	percent
73-D	3,056,500	1,610,000	53%
88-D	3,056,500	875,000	29%

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Item D.3

Loans Made
8/31/62 to 9/11/64

Geographic Distribution of Loans Made between 8/31/62 & 9/11/64.

G-M {5}	G-P {16}	G-C {10}	P-M {8}	P-P {13}	P-C {10}
360,000	500,000	402,000	360,000	500,000	402,000
347,760	480,000	333,750	347,760	480,000	333,750
225,000	375,000	225,000	268,000	375,000	225,000
146,500	375,000	100,000	225,000	375,000	100,000
69,000	268,000	80,000	146,500	261,000	80,000
	261,000	67,500	69,000	200,000	67,500
	200,000	40,000	60,000	185,000	40,000
	185,000	28,000	44,000	175,000	28,000
	175,000	26,000		168,750	26,000
	168,750	25,000		108,000	25,000
	108,000			70,000	
	70,000			60,000	
	60,000			30,000	
	60,000				
	44,000				
	30,000				
1,148,260	3,359,750	1,327,250	1,520,260	2,987,750	1,327,250
% # OF LOANS					
16%	52%	32%	26%	42%	32%
% - $ AMOUNT					
20%	58%	23%	26%	51%	23%
Mountain	Piedmont	Coastal	Mountain	Piedmont	Coastal

App. B
Item D.4

Loans Made
8/31/62 to 9/11/64

New Loans Development Corporations		AMOUNT	G-L	P-L
Bailey Business Dev. Corp.		40,000	c	c
Clinton Dev. Corp.		333,750	c	c
Jackson County Industries		347,760	m	m
Pender County Industrial Dev. Corp.		26,000	c	c
Stanly County Dev. Corp.		261,000	p	p
Swain County Dev. Corp.		146,500	m	m
Tarboro Textiles		402,000	c	c
Winston-Salem Forsyth Dev. Corp.		268,000	p	m
TOTAL		1,825,010		
Percent of	All		31%	

Addendum

G-M	27%	P-M	42%
G-P	29%	P-P	14%
G-C	44%	P-C	44%

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Item D.5

Loans Made
8/31/62 to 9/11/64

New Loans Old Accounts	Amount for 73 directory	Amount for 88 directory	AMOUNT FOR ALL
Belle Chemical			185,000
Binning's Inc.	30,000	30,000	30,000
Consolidated Brass	168,750		168,750
Liquids, Inc	60,000		60,000
National Welders Supply	375,000	375,000	375,000
Tarboro Textiles & Glenoit Mills	402,000	402,000	402,000
Vel-Cord Southern	225,000		225,000
TOTALS	1,260,750	807,000	1,445,750

New Loans Old Accounts	Amount	Listed	% listed
73-D	1,445,750	1,260,750	87%
88-D	1,445,750	807,000	56%

APPENDIX B

ITEMS E.1 - E.5

LOANS MADE BETWEEN

9/11/64 - 11/30/69

App. B
Item E.1

Loans Made
9/11/64 to 11/30/69

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Airtowne Mills and Hilde Industries. Gastonia	208,250	p	p	y	n	TA
Albemarle Industries Elizabeth City	160,000	c	c	x		dev. co.
Allan Realty Co. Washington	400,000	c	c	x		other
Alliance-Carolina Tool & Mold. Asheville	112,500	m	m	y	y	EMF
Avondale Chemical Co. Jamestown	53,820	p	p	n		CH
Bandag, Inc. Oxford	500,000	p	p	y	y	CH
Bayboro Dehydrating Co. Bayboro	30,000	c	c	y	y	AG
Betterwear Hosiery Mills Lowell	185,000	p	p	n		TA
Clayson Knitting Co. Star	390,000	p	p	y	y	TA
Clayton Development Corp. Clayton	126,000	c	c	x		dev. co.
Cleveland Mills Co. Lawndale	500,000	p	p	y	y	TA
Consolidated Brass Co. Matthews	243,750	p	p	y	n	EMF
Dunn Promoters, Inc. Dunn	250,000	c	c	x		dev. co.
Durham Hosiery Mill Franklinton	450,000	p	c	y	n	TA

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Item E.1

Loans Made
9/11/64 to 11/30/69

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Enfield Promoters, Inc. Enfield	101,250	c	c	x		dev. co.
Enfield Promoters Enfield	115,000	c	c	x		dev. co.
Eskridge & Long Construction. Enfield	127,500	c	c	x		other
Greene Manufacturing Co. Snow Hill	300,000	c	c	n		unsure
Hared, Inc. Kinston	116,000	c	c	n		unsure
Hickory Mountain Farms Siler City	125,000	p	p	x		AG
Hickory Mountain Farms Siler City	40,000	p	p	x		AG
Holt Hosiery Mills, Inc Burlington	500,000	p	p	y	y	TA
Homes by Fisher, Inc. Richfield	150,000	p	p	y	y	other
Howard Construction Co. Lincolnton	87,000	p	p	x		other
Howard Construction Co. Lincolnton	108,000	p	p	x		other
Howard Construction Co. Lincolnton	55,000	p	p	x		other
Industrial Dev. Corp. of Graham	271,440	p	p	x		dev. co.
JFD Electronics-Southern Oxford	137,000	p	p	y	n	EMF

App. B
Item E.1

Loans Made
9/11/64 to 11/30/69

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Kohler & Campbell, Inc Granite Falls	360,000	p	m	y	n	FW
Lundy Electronics & Sys's. Charlotte	485,004	p	p	y	y	EMF
McGowen Glass Fibers Corporation & NC Spinning Mills, Inc. Lincolnton	150,000	p	p	y	y	TA
McGowen Glass Fibers Corporation & NC Spinning Mills, Inc. Lincolnton	175,000	p	p	y	y	TA
Murphy Body Works Wilson	495,000	c	c	y	y	EMF
National Welders Supply Charlotte	50,000	p	p	y	y	CH
National Welders Supply Charlotte	60,000	p	p	y	y	CH
Newton Grove Dev. Corp. Newton Grove	54,000	p	p	x		dev. co.
Pender County Industrial Development Corporation Burgaw	125,000	c	c	x		dev. co.
Pink Hill Development Corporation Pink Hill	90,000	c	c	x		dev. co.
The Premier Woven Label Canton	184,000	m	m	y	y	TA
Princeton Dev. Corp. Princeton	107,223	c	c	x		dev. co.

App. B
Item E.1

Loans Made
9/11/64 to 11/30/69

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Richlands Industrial Corp. Richlands	36,000	c	c	n		unsure
Robbin Laboratories, Inc Chapel Hill	16,000	p	p	n		other
Rolesville Dev. Corp. Rolesville	48,000	p	c	x		dev. co.
Sandhills Betterment Corp Aberdeen	225,000	c	p	x		dev. co.
Sandhills Betterment Corp Aberdeen	189,000	c	p	x		dev. co.
P.M. Segal & Co. & Worth Chemical Corp. Greensboro	400,000	p	p	y	y	CH
Selma Soybean Corp. Selma	45,000	c	c	n		AG
Shelby Seamless Hosiery Shelby	66,000	p	p	y	n	TA
Southern Enterprise Corp Zebulon	180,000	p	c	n		unsure
Stanly County Dev. Corp. Albemarle	130,500	p	p	x		dev. co.
Stanly County Dev. Corp. Albemarle	150,510	p	p	x		dev. co.
Tarboro-Edgecome Dev. Cor. Tarboro	232,500	c	c	x		dev. co.
Textured Yarn Co., Inc. Murphy	150,000	m	m	n		TA
Textured Yarn Co., Inc. Murphy	147,000	m	m	n		TA

App. B
Item E.1

Loans Made
9/11/64 to 11/30/69

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
P. Wall Manufacturing Co	75,000	c		y		CH
Kinston			c		n	
Winchester Spinning Corp	168,750	m		y		TA
Asheville			m		n	

Loans Made 9/11/64 to 11/30/69
56

Total of Loans Disbursed 10,436,997

Notes to Item E.1

1. Alliance-Carolina Tool & Mold. Established in 1964, it appears that the BDC assisted by way of a $112,500 loan. Eventually, the company's name was changed to Alliance Tool & Die Corporation. The 1973 directory lists Rochester New York as the home address. By 1988, the company moved from Asheville to Arden, both of which are in Buncombe county. (1973 and 1988 Industrial Directories.)

2. Bandag, Incorporated. Established in 1969, it appears that the BDC assisted by way of a $500,000 loan. The home address for Bandag is listed as Muscatine, Indiana. (1973 and 1988 Industrial Directories.)

3. Homes by Fisher, Incorporated. Established in 1969, it appears that the BDC assisted by way of a $ 150,000 loan. Fisher received another loan between 1969 and 1973 of $256,500. The company was reorganized in 1983 and the name was changed to the Fisher Corporation. (1973 and 1988 Industrial Directories. Report on Examination, 3/31/73.)

4. JFD Electronics-Southern. This television antenna manufacturer was a subsidiary of Riker Maxson Corporation of New York. (1973 Industrial Directory.)

5. Lundy Electronics & Systems. Established in 1968, it appears that the BDC assisted by way of a $485,004 loan. Glen Head New York is listed as the home address in the 1973 directory.

6. McGowen Glass Fibers Corporation and NC Spinning Mills, Incorporated. Established in 1964 it seems that both the BDC and SBA assisted. The parent company is listed as Wyndmoor Industries, Incorporated of North Carolina in the 1988 directory. (1973 and 1988 Industrial Directories. Appendix D.)

7. Murphy Body Works. This firm changed its name to Murphy Manufacturing Co., Incorporated. (1973 Industrial Directory.)

8. The Premier Woven Label. Established in 1966, it appears that the BDC assisted by way of a $184,000 loan. The 1973 directory does not list a parent firm or an out of state address indicating the Premier was a 'domestic' venture. By 1988, however, ASL Industries, Inc. of Great Neck New Jersey had assumed management of the company. (1973 and 1988 Industrial Directories).

9. P.M. Segal & Co. & Worth Chemical Corporation. This firm appears as Worth Industries, Inc. of Colfax in Guilford county in the 1988 directory.

10. Winchester Spinning Corporation. Fieldcrest Mills, Inc. of Eden North Carolina is listed as the parent firm of Winchester in the 1973 directory.

App. B
Item E.2

Loans Made
9/11/64 to 11/30/69

FIRM LONGEVITY

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Airtowne Mills & Hilde Industries	208,250		1964	208,250
Alliance-Carolina Tool & Mold	112,500	112,500	1964 73, emp. E 88, emp. F	112,500
Avondale Chemical Co.				53,820
Bandag Incorporated	500,000	500,000	1969 73, F: 88, F	500,000
Bayboro Dehydrating Company	30,000	30,000	1946 88, emp. B	30,000
Betterwear Hosiery Mills				185,000
Clayson Knitting Company	390,000	390,000	1931 73, emp. F 88, emp. H	390,000
Durham Hosiery Mill	450,000		1898 73, emp. F	450,000
Greene Mnf. Co.				300,000

App. B
Item E.2

Loans Made
9/11/64 to 11/30/69

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Hared, Inc				116,000
Holt Hosiery Mills, Inc	500,000	500,000	1947 88,emp F	500,000
Homes by Fisher, Inc	150,000	150,000	1969 73, E: 88, F	150,000
JFD-Electronics Southern	137,000			137,000
Lundy Electronics & Systems	485,004	485,004	1968 73, emp. F 88, emp. G	485,004
McGowen Glass Fibers Corp. & NC spinning Mills (2 loans)	325,000	325,000	1964 88, emp. F	325,000
Murphy Body Works	495,000	495,000	1935 73, F: 88, F	495,000
The Premier Woven Label	184,000	184,000	1966 73, D: 88, E	184,000
P.M. Segal & Co. & Worth Chemical Corporation	400,000	400,000	1968 73, emp. A 88, emp. A	400,000
P. Wall Mnf. Co.	75,000		1966 73, emp. D	75,000

App. B
Item E.2

Loans Made
9/11/64 to 11/30/69

NAME	AMOUNT if in 73-D	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Winchester Spinning Corporation	168,750			168,750
TOTALS	4,610,504	3,571,504		5,265,324

	accounts	listed	percent
73-D	20	16	80%
88-D	20	11	55%
	amount	listed	percent
73-D	5,265,324	4,610,504	88%
88-D	5,265,324	3,571,504	68%

App. B
Item E.3

Loans Made
9/11/64 to 11/30/69

Geographic Distribution of Loans Made between 9/11/64 & 11/30/69

G-M {5}	G-P {31}	G-C {20}	P-M {6}	P-P {29}	P-C {21}
184,000	500,000	495,000	360,000	500,000	495,000
168,750	500,000	400,000	184,000	500,000	450,000
150,000	500,000	300,000	168,750	500,000	400,000
147,000	485,004	250,000	150,000	485,004	300,000
112,500	450,000	232,500	147,000	400,000	250,000
	400,000	225,000	112,500	390,000	232,500
	390,000	189,000		271,440	180,000
	360,000	160,000		243,750	160,000
	271,440	127,500		225,000	127,500
	243,750	126,000		208,250	126,000
	208,250	125,000		189,000	125,000
	185,000	116,000		185,000	116,000
	180,000	115,000		175,000	115,000
	175,000	107,223		150,510	107,223
	150,510	101,250		150,000	101,250
	150,000	90,000		150,000	90,000
	150,000	75,000		137,000	75,000
	137,000	45,000		130,500	48,000
	130,500	36,000		125,000	45,000
	125,000	30,000		108,000	36,000
	108,000			87,000	30,000
	87,000			66,000	
	66,000			60,000	
	60,000			55,000	
	55,000			54,000	
	54,000			53,820	
	53,820			50,000	
	50,000			40,000	
	48,000			16,000	
	40,000				
	16,000				
762,250	6,329,274	3,345,473	1,122,250	5,705,274	3,609,473
% # OF LOANS					
9%	55%	36%	11%	52%	38%
% - $ AMOUNT					
7%	61%	32%	11%	55%	35%
Mountain	Piedmont	Coastal	Mountain	Piedmont	Coastal

App. B
Item E.4

Loans Made
9/11/64 to 11/30/69

New Loans Development Corporations	AMOUNT	G-L	P-L
Albemarle Industries	160,000	c	c
Clayton Dev. Corp.	126,000	c	c
Dunn Promoters	250,000	c	c
Enfield Promoters	115,000	c	c
Enfield Promoters	101,250	c	c
Industrial Dev. Corp. of Graham	271,440	p	p
Newton Grove Dev. Corp.	54,000	p	p
Pender County Ind. Dev. Corp.	125,000	c	c
Pink Hill Dev. Corp.	90,000	c	c
Princeton Dev. Corp.	107,223	c	c
Richlands Industrial Corporation	36,000	c	c
Rolesville Dev. Corp.	48,000	p	c

App. B
Item E.4

Loans Made
9/11/64 to 11/30/69

New Loans Development Corporations	AMOUNT	G-L	P-L
Sandhills Betterment Corporation	189,000	c	p
Sandhills Betterment Corporation	225,000	c	p
Stanly County Dev. Corp.	130,500	p	p
Stanly County Dev. Corp.	150,510	p	p
Tarboro-Edgecome Dev. Corp.	232,500	c	c
TOTAL	2,411,423		

Percent of All 23%

Addendum			
G-M	0%	P-M	0%
G-P	27%	P-P	44%
G-C	73%	P-C	56%

App. B
Item E.5

Loans Made
9/11/64 to 11/30/69

New Loans Old Accounts	AMOUNT if in 73-D	AMOUNT if in 88-D	AMOUNT FOR ALL
Cleveland Mills Co.	500,000	500,000	500,000
Consolidated Brass Co.	243,750		243,750
Kohler & Campbell	360,000		360,000
National Welders Supply	50,000	50,000	50,000
National Welders Supply	60,000	60,000	60,000
Selma Soybean			45,000
Shelby Seamless Hosiery	66,000		66,000
Textured Yarn Co.			150,000
Textured Yarn Co.			147,000
TOTALS	1,279,750	610,000	1,621,750

New Loans Old Accounts	Amount	Listed	% Listed
73-D	1,621,750	1,279,750	79%
88-D	1,621,750	610,000	38%

APPENDIX B

ITEMS F.1 - F.5

LOANS MADE BETWEEN

11/30/69 - 3/31/73

App. B
Item F.1

Loans Made
11/30/69 to 3/31/73

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Artee Industries Shelby	500,000	p	p	y	y	TA
Cashiers Plastic Corp. Cashiers	162,000	m	m	y	y	CH
Theo. Davis Sons, Inc. Zebulon	149,400	p	c	y	y	other
Glenville Mnf. Co. Asheboro	120,000	p	p	y	n	TA
Granville Industrial Dev. Oxford	150,000	p	p	x		dev. co.
Heberlien, Inc. High Point	116,000	p	p	y	n	TA
Homes by Fisher, Inc. Richfield	256,500	p	p	y	y	other
J.W.Jones Lumber Co. Elizabeth City	150,000	c	c	y	y	FW
Kolpack Corporation Louisburg	106,900	p	c	y	n	other
Lawrence Realty Co. Tarboro	360,000	c	c	x		other
National Welders Supply Charlotte	206,092	p	p	y	y	CH
R&J Realty Co. Tarboro	225,000	c	c	x		other
Richlands Industrial Corp. Richlands	71,250	c	c	x		dev. co.
Richlands Industrial Corp. Richlands	220,405	c	c	x		dev. co.

App. B
Item F.1

Loans Made
11/30/69 to 3/31/73

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Royal Industries, Inc.	400,000	c		y		other
Enfield			c		y	
Shamrock Investment Co. &	460,000	p		y		FW
Pinnacle Furniture Co.			p		n	
Claremont						
Tarboro-Edgecombe Dev. Cor	413,000	c		x		dev. co.
Tarboro			c			

Loans Made 11/30/69 to 3/31/73
17

Total of Loans Disbursed 4,066,547

Notes to Item F.1

1. Artee Industries. Established in 1970, the BDC assisted by way of a $500,000 loan. The parent company of Artee Industries is listed as RTD Investment Company located in Shelby. The loan of $500,000 in the 1973 examination does not mention RTD. (1973 Industrial Directory. Report on Examination, 3/31/73.)

2. Cashiers Plastic Corporation. Established in 1969, the BDC assisted by way of a $162,000 loan. The 1973 directory does not list a parent firm or an out of state address indicating that Cashiers Plastic was a 'domestice' venture. By 1988, however, Consolidate Metco, Inc. of Portland Oregon had assumed management of the company. (1973 and 1988 Industrial Directories.)

3. Kolpack Corporation. Established in 1970, it appears that the BDC assisted by way of a $106,900 loan. By 1973 Kolpack had changed its name to Eckol Container Systems, Incorporated. (1973 Industrial Directory.)

4. Royal Industries, Incorporated. Established in 1970, the BDC assisted by way of a $400,000 loan. The 1973 directory lists Royal as the 'Safelite Division' with no mention of a parent company. The 1988 directory lists Safelite of Wichita Kansas as the parent, and also indicates Safelite as a subsidiary of Lear Spegler, Inc. of Santa Monica California. (1973 & 1988 Industrial Directories.)

4. Shamrock Investment Co. & Pinnacle Furniture Company. Established in 1970, the BDC assisted by way of a $460,000 loan. The parent company of Pinnacle was Summit Industries, Inc. of Claremont. (1973 Industrial Directory.)

App. B
Item F.2

Loans Made
11/30/69 to 3/31/73

FIRM LONGEVITY

NAME	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Artee Industries	500,000	1970 / emp. F	500,000
Cashiers Plastic Corp.	162,000	1969 / emp. F	162,000
Theo. Davis & Sons	149,400	1945 / emp. E	149,400
Glenville Mnf. Co.		1954 / 73, emp. F	120,000
Heberlein Incorporated		1965 / 73, emp. F	116,000
J.W.Jones Lumber Co.	150,000	1939 / emp. E	150,000
Kolpack Corporation		1970 / 73, emp. D	106,900
Royal Industries Incorporated	400,000	1970 / emp. F	400,000
Shamrock Invest. & Pinnacle Furniture		1970	460,000
TOTALS	1,361,400		2,164,300

	accounts	listed	percent
88-D	9	5	56%
	amount	listed	percent
88-D	2,164,300	1,361,400	63%

App. B
Item F.3

Loans Made
11/30/69 to 3/31/73

Geographic Distribution of Loans Made
between 11/30/69 & 3/31/73

G-M { 1}	G-P { 9}	G-C { 7}	P-M { 1}	P-P { 7}	P-C { 9}
162,000	500,000	413,000	162,000	500,000	413,000
	460,000	400,000		460,000	400,000
	256,500	360,000		256,500	360,000
	206,092	225,000		206,092	225,000
	150,000	220,405		150,000	220,405
	149,400	150,000		120,000	150,000
	120,000	71,250		116,000	149,400
	116,000				106,900
	106,900				71,250
162,000	2,064,892	1,839,655	162,000	1,808,592	2,095,955
% # OF LOANS					
6%	53%	41%	6%	41%	53%
% - $ AMOUNT					
4%	51%	45%	4%	44%	52%
Mountain	Piedmont	Coastal	Mountain	Piedmont	Coastal

App. B
Item F.4

Loans Made
11/30/69 to 3/31/73

New Loans Development Corporations	AMOUNT	G-L	P-L
Granville Industrial Dev. Corp.	150,000	p	p
Richlands Industrial Corporation (2 loans)	291,655	c	c
Shamrock Investment	460,000	p	p
Tarboro-Edgecome Dev. Corp.	413,000	c	c
TOTAL	1,314,655		

Percent of All 32%

Addendum			
G-M	0%	P-M	0%
G-P	46%	P-P	46%
G-C	54%	P-C	54%

App. B
Item F.5

Loans Made
11/30/69 to 3/31/73

New Loans Old Accounts	Amount for 88 Directory	AMOUNT FOR ALL
Homes by Fisher	256,500	256,500
National Welders Supply	206,092	206,092
TOTALS	462,592	462,592

APPENDIX B

ITEMS G.1 - G.5

LOANS MADE BETWEEN

3/31/73 - 3/31/77

App. B
Item G.1

Loans Made
3/31/73 to 3/31/77

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
American Silk Label Mnf. Canton	84,526	m	m		y	TA
Artee Industries Shelby	36,000	p	p		y	TA
Clarkton Mills, Inc. Clarkton	400,000	c	c		n	TA
Coleman-Deese Industries Butner	433,800	p	p			unsure
Countess York Ltd., Inc Kings Mountain	500,000	p	p		y	TA
Dunn Promoters Dunn	350,000	c	c			dev. co.
Precision Cutting & Wind'g Kinston	900,000	c	c		n	TA
Kohler & Campbell, Inc. Granite Falls	414,719	p	m		n	FW
Lawrence Realty Co. Tarboro	319,500	c	c	x		other
Lillington Industry Promotion, Inc.	730,000	c	c	x		dev. co.
A.W. Furniture Co. Hickory	337,500	p	p		n	FW
A.W. Furniture Co. Hickory	75,075	p	p		n	FW
Paragon Mills, Inc. Raleigh	316,710	p	c		y	TA
Rudbeek Realty Corp. Farmville	440,000	c	c	x		other

App. B
Item G.1

Loans Made
3/31/73 to 3/31/77

BORROWER	AMOUNT	G-L	P-L	73-D	88-D	INDUSTRY
Scoth Plastics, Inc. Raleigh	59,850	p	c		y	CH
Southern Pulp Production Patterson	202,500	p	m			FW
Tarboro-Edgecombe Dev. Cor Tarboro	243,000	c	c		x	dev. co.
Triem, Inc. Carrboro	135,000	p	p		y	EMF

Loans Made 3/31/73 to 3/31/77
18

Total of Loans Disbursed 5,978,180

Notes to Item G.1

1. American Silk Label. American Silk changed its name to ASL Industries, Incorporated. (1988 Industrial Directory.)

2. Countess York Limited, Incorporated. The 1988 directory lists Kinmount Industries, Incorporated of Kings Mountain as the parent firm of Countess York.

3. Paragon Mills, Incorporated. Apparently Paragon began as a 'domestic' venture. In 1983 Wuester Enterprises, LTD of New York assumed management of the company. (1988 Industrial Directory.)

App. B
Item G.2

Loans Made
3/31/73 to 3/31/77

FIRM LONGEVITY

NAME	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
American Silk Label Inc.	84,526	1966 emp. E	84,526
Clarkton Mills, Inc.			400,000
Coleman-Deese Industries			433,800
Countess York LTD,Inc	500,000	1972 emp. F	500,000
Precision Cutting & Winding			900,000
A.W. Furniture Co. (2 loans)			412,575
Paragon Mills, Inc.	316,710		316,710
Scotch Plastics	59,850	1966 emp. A	59,850
Triem, Inc. Incorporated	135,000	1961 emp. F	135,000
TOTALS	1,096,086		3,242,461

	accounts	listed	percent
88-D	9	5	56%
	amount	listed	percent
88-D	3,242,461	1,096,086	34%

App. B
Item G.3

Loans Made
3/31/73 to 3/31/77

Geographic Distribution of Loans Made
between 3/31/73 & 3/31/77

G-M {1}	G-P {10}	G-C {7}	P-M {3}	P-P {6}	P-C {9}
84,526	500,000	900,000	414,719	500,000	900,000
	433,800	730,000	202,500	433,800	730,000
	414,719	440,000	84,526	337,500	440,000
	337,500	400,000		135,000	400,000
	316,710	350,000		75,075	350,000
	202,500	319,500		36,000	319,500
	135,000	243,000			316,710
	75,075				243,000
	59,850				59,850
	36,000				
84,526	2,511,154	3,382,500	701,745	1,517,375	3,759,060
% # OF LOANS					
6%	56%	39%	17%	33%	50%
% - $ AMOUNT					
1%	42%	57%	12%	25%	63%
Mountain	Piedmont	Coastal	Mountain	Piedmont	Coastal

App. B
Item G.4

Loans Made
3/31/73 to 3/31/77

New Loans Dev. Corp's	AMOUNT	G-L	P-L
Dunn Promoters	350,000	c	c
Lillington Industry Promotion	730,000	c	c
Tarboro-Edgecome Dev. Corp.	243,000	c	c
TOTAL	1,323,000		
Percent of All		22%	

App. B
Item G.5

New Loans Old Accounts	Amount for 88 directory	AMOUNT FOR ALL
Artee Ind's	36,000	36,000
Kohler & Campbell		414,719

APPENDIX B

ITEMS H.1 - H.5

LOANS MADE BETWEEN

3/31/77 -1/31/81

App. B
Item H.1

Loans Made
3/31/77 to 1/31/81

BORROWER	AMOUNT	G-L	P-L	88-D	INDUSTRY
Artee Industries, Inc. Shelby	285,000	p	p	y	TA
Carolina Lumber Co. Elizabethtown	500,000	c	c	n	FW
E-Z Mix Animal Nutrition Wendell	130,000	p	c	y	AG
Lee County Industrial and Pollution Control Financing Authority Sanford	750,000	p	p	x	other
Lillington Industry Promotion, Inc	240,000	c	c	x	dev. co.
Master Woodcraft, Inc. Oxford	500,000	p	p	y	FW
Pac-Fab, Inc. Sanford	300,000	p	p	y	EMF
R.C. Porten Wadesboro	190,000	p	p	n	other
Rudbeek Realty Corporation Farmville	450,000	c	c		other
Rudbeek Realty Corporation Farmville	100,000	c	c		other

Loans Made 3/31/77 to 1/31/81
10

Total of Loans Disbursed 3,445,000

Notes to Item H.1

1. Lee County Industrial and Pollution Control Financing Authority. This loan of $750,000 is the only one of its kind identified in the 235 accounts reviewed in this study.

2. Master Woodcraft, Incorporated. Established in 1979, the BDC assisted by way of a $500,000 loan. The 1988 directory lists Brooklyn New York as the home address for this firm.

3. Pac-Fab, Incorporated. The 1988 directory lists ESSEF Industries, Inc. located in Mentor Ohio as the parent firm.

App. B
Item H.2

Loans Made
3/31/77 to 1/31/81

FIRM LONGEVITY

NAME	AMOUNT if in 88-D	YEAR ESTBL. EMP. RANGE	AMOUNT FOR ALL
Carolina Lumber Company			500,000
E-Z Mix Animal Nutrition	130,000	1974 emp. B	130,000
Master Woodcraft Incorporated	500,000	1979 emp. E	500,000
Pac-Fab Incorporated	300,000	1972 emp. F	300,000
R.C. Porten			190,000
TOTALS	930,000		1,620,000

	accounts	listed	percent
88-D	5	3	60%
	amount	listed	percent
88-D	1,620,000	930,000	57%

App. B
Item H.3

Loans Made
3/31/77 to 1/31/81

Geographic Distribution of Loans Made
between 3/31/77 & 1/31/81

G-M { 0}	G-P { 6}	G-C { 4}	P-M { 0}	P-P { 5}	P-C { 5}
	750,000	500,000		750,000	500,000
	500,000	450,000		500,000	450,000
	300,000	240,000		300,000	240,000
	285,000	100,000		285,000	130,000
	190,000			190,000	100,000
	130,000				
0	2,155,000	1,290,000	0	2,025,000	1,420,000
% # OF LOANS					
0%	60%	40%	0%	50%	50%
- $ AMOUNT					
0%	63%	37%	0%	59%	41%
Mountain	Piedmont	Coastal	Mountain	Piedmont	Coastal

App. B
Items H.4 & H.5

New Loans Old Accounts	amount
Artee Industries	285,000

New Loans Dev. Corp.	
Lillington Industry Promotion	240,000

APPENDIX B

ITEM I

App. B
Item I

Loans Made
by Industry

	TOTAL	%
1956 1958	2,231,085	*
1958 1960	3,361,450	
1960 1962	5,421,283	
1962 1964	5,835,260	
1964 1969	10,436,997	
1969 1973	4,066,547	
1973 1977	5,978,180	
1977 1981	3,445,000	
Ttl	41,045,802	*

	AG	%
1956 1958	619,085	27.7
1958 1960	824,920	22.7
1960 1962	638,750	11.7
1962 1964	95,500	1.6
1964 1969	240,000	2.2
1969 1973	0	0
1973 1977	0	0
1977 1981	130,000	3.7
Ttl	2,548,255	6.2

	CH	%
1956 1958	325,000	14.5
1958 1960	0	0
1960 1962	590,000	10.8
1962 1964	620,000	10.6
1964 1969	1,063,820	10.2
1969 1973	368,092	9
1973 1977	59,850	1
1977 1981	0	0
Ttl	3,026,762	7.3

	EMF	%
1956 1958	88,000	3.9
1958 1960	319,030	8.7
1960 1962	309,700	5.7
1962 1964	373,750	6.4
1964 1969	1,548,254	14.8
1969 1973	0	0
1973 1977	135,000	2.2
1977 1981	300,000	8.7
Ttl	3,073,734	7.4

App. B
Item I

Loans Made
by Industry

	FW	%
1956 1958	155,000	6.9
1958 1960	375,000	10.3
1960 1962	338,000	6.2
1962 1964	404,000	6.9
1964 1969	360,000	3.4
1969 1973	610,000	15
1973 1977	1,029,794	17.2
1977 1981	1,000,000	29
Ttl	4,271,794	10.4

	TA	%
1956 1958	360,000	16.1
1958 1960	1,548,500	42.6
1960 1962	1,407,000	25.9
1962 1964	1,927,000	33
1964 1969	3,274,000	31.3
1969 1973	736,000	18
1973 1977	2,237,236	37.4
1977 1981	285,000	8.2
Ttl	11,774,736	28.6

	other	%
1956 1958	170,500	7.6
1958 1960	0	0
1960 1962	240,333	4.4
1962 1964	313,000	5
1964 1969	943,500	9
1969 1973	1,497,800	36.8
1973 1977	759,500	12.7
1977 1981	1,490,000	43.2
Ttl	5,414,633	13.1

	unsure	%
1956 1958	325,000	14.5
1958 1960	372,000	10.2
1960 1962	1,037,500	19.1
1962 1964	679,000	11.6
1964 1969	632,000	6
1969 1973	0	0
1973 1977	433,800	7.2
1977 1981	0	0
Ttl	3,479,300	8.4

App. B
Item I

Loans Made
by Industry

	Dev. Co.	%
1956 1958	408,500	18.3
1958 1960	677,500	18.6
1960 1962	867,000	16
1962 1964	1,825,010	31
1964 1969	2,411,423	23
1969 1973	1,314,655	32.3
1973 1977	1,323,000	22
1977 1981	240,000	6.9
Ttl	9,067,088	22

APPENDIX C

REGIONAL DEFINITIONS

The industrial history of North Carolina is one of regional diversity. The Piedmont emerged as a leading textile, furniture, and tobacco manufacturing region by the twentieth century. There was some replication of the Piedmont's industrial lead deep in the Mountains and little in the eastern section of the State. By mid-century, the Piedmont had solidified its dominance, effectively forcing North Carolina leaders, and particularly the Governors, to address the problem of lagging incomes and employment in the Mountains and in the East compared to the Piedmont in general. Since regional concerns were present throughout the BDC's life a regional comparison of loans made was performed for this study. The immediate problem, of course, was determining which counties belonged to the Mountain region, the Piedmont region, and the eastern section of the State. In other words, where should the lines be drawn?

The Mountain region is a definitive physiographic region of the State as is the Piedmont region. In the east there are three physiographic regions including the Coastal Plain, the Tidewater, and the Sandhills regions. As it stands, some counties in the State have characteristics of two regions. For example, Burke and Caldwell consist of both Mountain and Piedmont physiography, while Moore and Richmond consist of both Sandhills and Piedmont physiography. Since this is the case, and since county-level data is used to compare regional differences in this study, it is impossible to utilize the exact physiographic definitions of North Carolina.

Two options, then, were open for this study. The first was to create regional definitions based on geographic definitions in place. The second was to follow the regional definitions employed by the State since the late 1960s. Following Federal definitions, state-level planners divided North Carolina into 29 Mountain counties, 26 Piedmont counties, and 45 Coastal Plain counties. (All Tidewater counties are included in the Coastal Plain, whereas counties with Sandhills physiography are counted as either Piedmont or Coastal Plain counties). Relying on the State definition was not satisfactory for the derivation of agricultural and industrial diversity present in North Carolina in the mid-1950s. For example, the planners placed Forsyth county, the location of Winston-Salem, in the Mountain region even though Forsyth is well east of Mountain physiography. Attributing the industrial strength of Forsyth in 1954 to the Mountain region would be terribly misleading, and would minimize the actual dominance of the Piedmont at the time. Therefore, alternative regional definitions were created for this study.

Based on the work of Clay, Orr, and Stuart, the 'geographer's' definition created for this study includes 19 Mountain counties, 38 Piedmont counties, and 43 Coastal Plain counties.[1] (Following the planner's example, the Tidewater counties are included in the Coastal Plain region and counties in the Sandhill district are assigned to either the Piedmont or Coastal Plain region). All data presented in

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[1] James W. Clay, Douglas M. Orr Jr., and Alfred W. Stuart, eds, North Carolina Atlas: Portrait of a Changing Southern State. Chapel Hill: The University of North Carolina Press, 1975, p. 319, Figure I, "N.C. County Types".

"Regional Concerns At The Statehouse" in Chapter Five of this study are based on these definitions.

In "A Regional Comparison of Loans" in Chapter Five, both the 'geographer's' and the 'planner's' definition of regions are used. As it turns out, there was little bias in the regional distribution of loans by the BDC over the course of its life. A priori, it was assumed that by employing both definitions a clear picture of BDC disbursements would be provided. For instance, since the 'planner's' assign only 26 counties to the Piedmont -- most of which being of an urban-industrial character -- then a majority BDC loans given to the Piedmont based on their definition would indicate that the BDC not only neglected the lagging east and west of the State, but actually favored the industrial core of North Carolina. The industrial core certainly needed BDC development services less so than the lagging regions. On the other hand, since the 'geographer's' definition assigns only those counties west of the Blue Ridge line to the Mountain region and only those counties east of Wake, then a BDC disbursement favorable to these regions would indicate that the BDC indeed favored the truly needy regions of the State. As noted, the BDC appears to have been fairly neutral in total.

Figure C.1 (following page) is a replication of Clay, Orr, and Stuart's presentation of regions on page 319 of <u>North Carolina Atlas</u>. Figure C.2 presents the 'geographer's' definition and Figure C.3 presents the 'planner's' definition. The counties included for each region and by each definition follow Figure C.3.

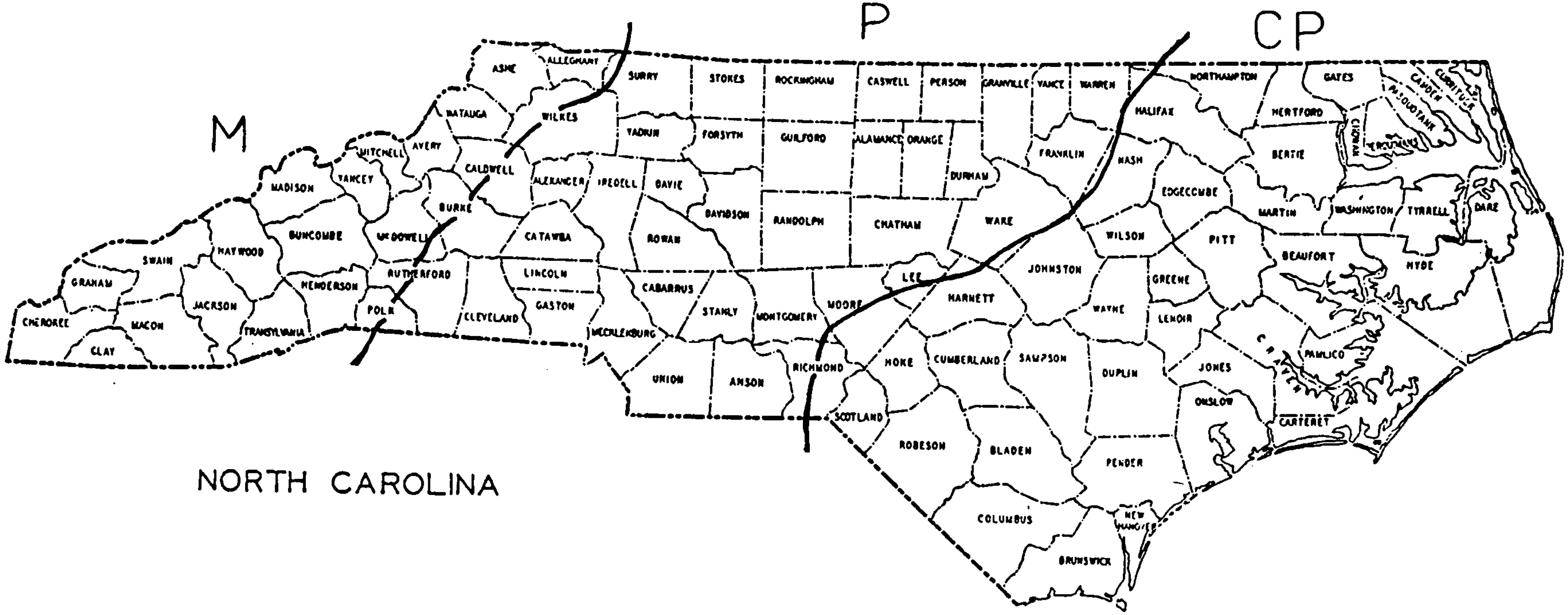

Figure C.1
Clay, Orr, and Stuart's Definition of NC Regions

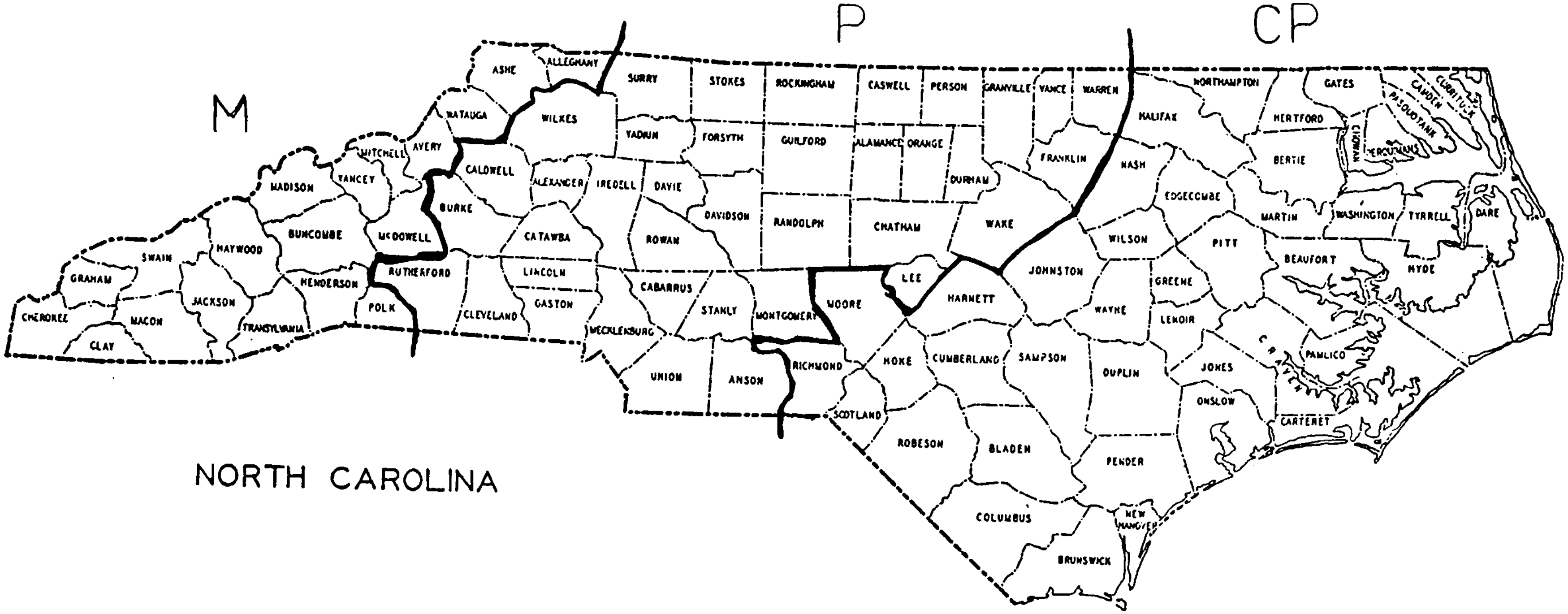

Figure C.2
'Geographer's' Definition of Regions

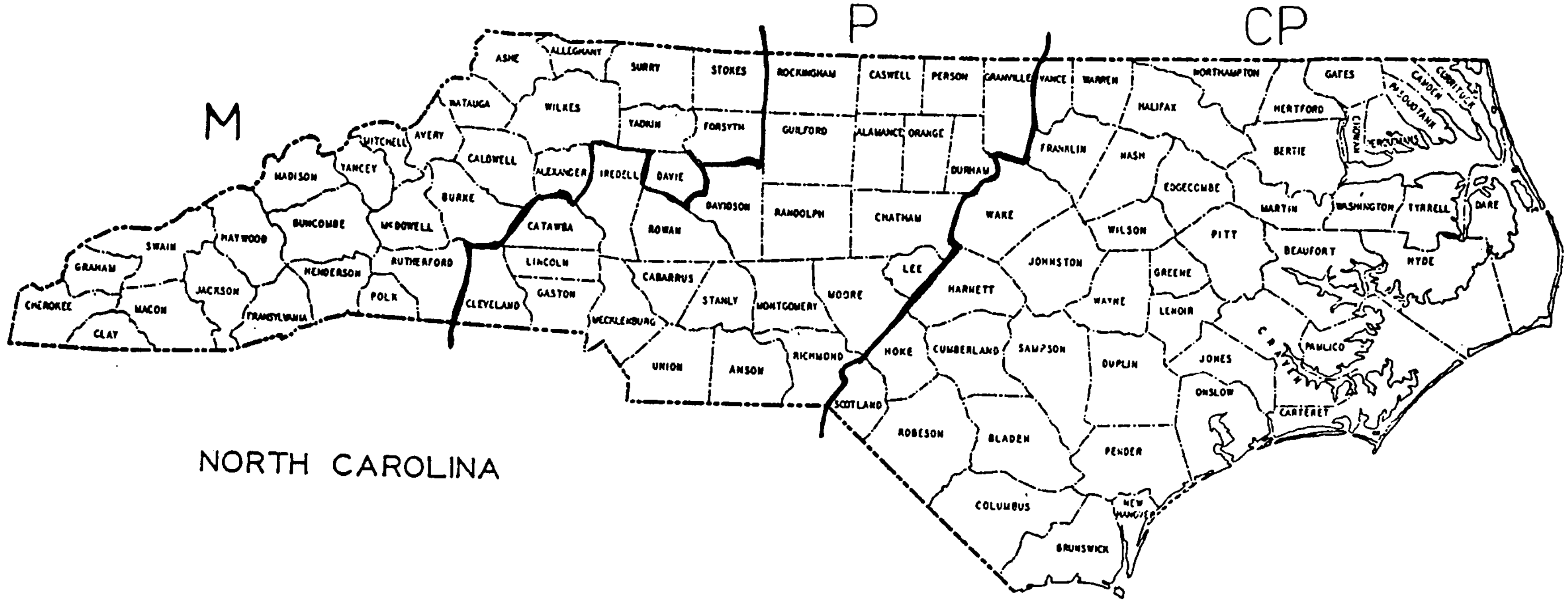

Figure C.3
'Planner's' Definition of Regions

THE 'GEOGRAPHER'S' DEFINITION OF REGIONS

MOUNTAIN REGION	
Alleghany	Macon
Ashe	Madison
Avery	McDowell
Buncombe	Mitchell
Cherokee	Polk
Clay	Swain
Graham	Transylvania
Haywood	Watauga
Henderson	Yancey
Jackson	

PIEDMONT REGION		
Alamance	Franklin	Rowan
Alexander	Forsyth	Rutherford
Anson	Granville	Stanly
Burke	Guilford	Stokes
Cabarrus	Iredell	Surry
Caldwell	Lee	Union
Caswell	Lincoln	Vance
Catawba	Mecklenburg	Wake
Chatham	Montgomery	Warren
Cleveland	Orange	Wilkes
Davidson	Person	Yadkin
Davie	Randolph	
Durham	Rockingham	

COASTAL PLAIN REGION		
Beaufort	Greene	Pamlico
Bertie	Halifax	Pasquotank
Bladen	Harnett	Pender
Brunswick	Hertford	Perquimans
Camden	Hoke	Pitt
Carteret	Hyde	Richmond
Chowan	Johnston	Robeson
Colombus	Jones	Sampson
Craven	Lenoir	Scotland
Cumberland	Martin	Tyrell
Currituck	Moore	Washington
Dare	Nash	Wayne
Duplin	New Hanover	Wilson
Edgecombe	Northampton	
Gates	Onslow	

THE 'PLANNER'S' DEFINITION OF REGIONS

MOUNTAIN REGION		
Alexander	Graham	Stokes
Ashe	Haywood	Surry
Avery	Henderson	Swain
Buncombe	Jackson	Transylvania
Burke	Macon	Watauga
Caldwell	Madison	Wilkes
Cherokee	McDowell	Yancey
Clay	Mitchell	
Davie	Polk	
Forsyth	Rutherford	

PIEDMONT REGION		
Alamance		Rowan
		Rutherford
Anson	Granville	Stanly
Burke	Guilford	
Cabarrus	Iredell	
Caldwell	Lee	Union
Caswell	Lincoln	
Catawba	Mecklenburg	
Chatham	Montgomery	
Cleveland	Orange	Wilkes
Davidson	Person	
Davie	Randolph	
Durham	Rockingham	

COASTAL PLAIN REGION		
Beaufort	Gates	Pamlico
Bertie	Greene	Pasquotank
Bladen	Halifax	Pender
Brunswick	Harnett	Perquimans
Camden	Hertford	Pitt
Carteret	Hoke	Robeson
Chowan	Hyde	Sampson
Colombus	Johnston	Scotland
Craven	Jones	Tyrell
Cumberland	Lenoir	Vance
Currituck	Martin	Wake
Dare	Nash	Warren
Duplin	New Hanover	Wayne
Franklin	Northampton	Wilson
Edgecombe	Onslow	

APPENDIX D

LOANS BY THE SMALL BUSINESS ADMINISTRATION
TO NORTH CAROLINA LOCAL DEVELOPMENT COMPANIES
TO JUNE 30, 1966

Source:

Small Business Administration. Local Development Company Loans. Washington D.C.: Small Business Administration, 1966.

LOANS TO NC LDCs FROM THE SBA
1959 TO 1966

COMPANY, location	DATE	SBA LOAN AMT	Final Beneficiary
FARMERS Industrial Development Corp. Rose Hill	3/5/59	247,500	Rose Hill Poultry Corp.
sub-total 6/30/59		247,500	
DURHAM Industrial Dev. Cor. Inc. Durham	8/6/59	63,000	Wholesaler Autos Supplies
RICHMOND County Ind. Dev. Cor. Rockingham	12/21/59	162,000	Rockingham Mills,Inc.
CREEDMORE Industries Inc. Creedmore	5/4/60	72,000	MacTaggart Sportswear
sub-total 6/30/60		544,500	
BURKE County Dev. Co., Inc. Morganton	11/8/60	225,000	Bay State Dyeing & Finishing Co.
WILSON Dev. Corp. Wilson	2/9/61	162,000	Carolina Casuals (ladies clothing)
WELDON Dev. Corp. Weldon	6/14/61	130,500	Carolina Sleepwear Corp.
sub-total 6/30/61		1,062,000	
GRANVILLE Industrial Developers Oxford	9/6/61	144,000	Outdoor Supply Co., Inc. (Camping Eq.)
HENDERSON County Ind. Dev. Co. Hendersonville	2/1/62	211,300	(Aluminum Trim & Extrusions)

COMPANY, location	DATE	SBA LOAN AMT	Final Beneficiary
NORTH SURREY Dev. Corp. Mt. Airy	2/1/62	246,240	Quality Mills, Inc (Cotton Knits)
sub-total 6/30/62		1,663,540	
GRANVILLE Industrial Developers Oxford	7/5/62	348,000	JFD Mnf. (Electronic Parts)
RICH SQUARE Improvement Corp. Rich Square	7/5/62	85,800	L.V.Myles Inc. (Women's Clothing)
YADKINVILLE Ind. Dev. Corp. Yadkinville	7/30/62	135,000	Bates Nitewear Co., Inc.
WILKES Area Dev. Assoc., Inc. North Wilkesboro	8/6/62	110,160	Nancy King Textiles, Inc.
GOLDSBORO Industries, Inc. Goldsboro	8/20/62	172,000	Supak & Sons Manf. Co. (Sportswear)
NEWTON GROVE Dev. Co. Newton Grove	9/13/62	168,000	Newton Grove Mnf. Co. (Housedresses)
SOUTHWEST ROBESON Dev. Co. Rowland	1/3/63	180,000	Rowland Mnf. Co. (Shirts)
MOUNT AIRY Dev. Corp. Mount Airy	2/1/63	104,670	Holder-Brown Corp. (Socks)
MOUNT AIRY Dev. Corp. Mount Airy	2/1/63	342,360	Perry Mnf. Co. (Sportswear)
DURHAM Investment Corp. Durham	4/5/63	169,200	Durham Drapery Co.

COMPANY, location	DATE	SBA LOAN AMT	Final Beneficiary
BURKE County Dev., Inc. Morganton	4/25/63	119,880	Morganton Dyeing & Finishing Co.
WEST LINCOLNTON Dev. Corp. West Lincolnton	5/23/63	300,000	Burris Mnf. Co. (Upholstered Furniture)
sub-total 6/30/63		3,898,610	
TARBORO-EDGECOME Dev. Corp. Tarboro	8/21/63	270,000	Phoenix Trimming (Synthetic Webb)
MOUNT AIRY Dev. Corp. Mount Airy	9/20/63	111,250	Dixie Exposaic (precast concrete)
DUNN Commercial Dev. Corp. Dunn	12/30/63	322,850	Dunn Meat Packers, Inc.
MADISON County Dev. Board, Inc. Marshall	3/13/64	64,350	(packing of fruits & veggies)
LINCOLN Industries Inc. Lincolnton	4/17/64	165,600	McGowen Glass Fiber Corp.
CAPE FEAR Industries, Inc. Fayettville	4/23/64	350,000	Ellery of Cal. (drapes & curtains)
LENOIR Area Dev. Assoc., Inc. North Wilkesboro	4/28/64	21,600	Foothills Pharmacy
CHERRYVILLE Dev. Corp. Cherryville	5/12/64	120,100	Meade Knitting Mills
LENOIR Area Dev. Assoc., Inc. North Wilkesboro	5/13/64	171,360	Lowes Supermarket

COMPANY, location	DATE	SBA LOAN AMT	Final Beneficiary
BURLINGTON Indu. Dev. Corp. Burlington	6/5/64	252,000	Universal Folding Box Co.
DURHAM Investment Corp. Durham	6/18/64	128,000	Hosiery Finishers, Inc.
LINCOLN Industries, Inc. Lincolnton	6/23/64	184,400	McGowen Glass Fibers
ALEXANDER County Industries, Inc. Taylorsville	6/25/64	216,000	Lewis & Sons (furniture)
sub-total 6/30/64		6,276,120	
DUNN Commercial Dev. Corp. Dunn	7/2/64	27,000	Dunn Meat Packers, Inc
LINCOLN Industries, Inc. Lincolnton	8/11/64	64,800	Consolidated Kintting Mills
FRANKLIN Building Corp. Louisburg	8/14/64	140,000	Gay Prod's Inc. (furniture)
GRANVILLE Industrial Developers, Inc Oxford	8/19/64	75,000	Outdoor Supply Co.
KING Industrial Dev. Corp. King	8/19/64	90,000	Custom House Drapery Co, Inc
BROWN MARSH Dev. Corp. Clarkton	8/31/64	85,000	Sportee Corp. (knit wear)
SHARPSBURG Industrial Dev. Corp Sharpsburg	11/10/64	82,250	Caro Craft, Inc (furniture)

COMPANY, location	DATE	SBA LOAN AMT	Final Beneficiary
NASHVILLE Industrial Dev. Corp. Nashville	11/27/64	148,800	Coburn Industries (mnf. Mobile Homes)
T & C Development Corp. Lincolnton	12/15/64	160,000	Warlick – Funeral Home
LINCOLN Industries Inc. Lincolnton	12/61/64	127,800	(warehouse)
LINCOLN Industries Inc. Lincolnton	1/8/65	350,000	Betterwear Hosiery Mill Inc.
LINCOLN Industries Inc. Lincolnton	1/21/65	344,200	Tait Yarn Co.
T & C Development Corp. Lincolnton	1/22/65	50,000	Kings Office Supply (store)
T & C Development Corp. Lincolnton	1/26/65	43,200	Town & Country Professional Building
T & C Development Corp. Lincolnton	2/16/65	28,800	Turner's Store (retail)
T & C Development Corp. Lincolnton	3/5/65	240,000	T & C Motel Corp.
RICHLANDS Industrial Corp. Richlands	4/5/65	187,920	Richlands Dyeing & Finishing Co.
LINCOLN Industries Inc. Lincolnton	4/6/65	88,800	Seth Lumber Co.

COMPANY, location	DATE	SBA LOAN AMT	Final Beneficiary
GRANVILLE Industrial Developers, Inc. Oxford	5/5/65	252,000	Ideal Fasteners (metal zippers)
LINCOLN Industries Inc. Lincolnton	6/2/65	272,000	Fashion Investment Co. (furniture)
LINCOLN Industries Inc. Lincolnton	6/2/65	350,000	Cochrane Industries, Inc (furniture)
EAST LINCOLN Dev. Corp. Lincolnton	6/9/65	184,000	Excel, Inc. (textiles)
LITTLETON Dev. Co. Littleton	6/14/65	189,000	Jayvee Brand (sleepwear)
WEST LINCOLNTON Dev. Corp. Lincolnton	6/14/65	28,060	Burris Mnf. Co. (furniture)
sub-total 6/30/65		9,884,750	
FARMVILLE Industries, Inc. Farmville	7/23/65	179,200	Valor Mnf. Co. (sportwear)
SPRING HOPE Investors, Inc. Spring Hope	7/23/65	70,500	Tar Heel Engineering .. (electronics)
RICH SQUARE Improvement Corp. Rich Square	8/4/65	220,000	L.V. Myles Inc. (sleepwear)
MOUNT AIRY Dev. Corp. Mount Airy	9/7/65	344,000	Perry Mnf. Co. (sportswear)
NEUSE RIVER Industries, Inc. Kinston	9/17/65	41,600	Neuse Industries (dresses)

COMPANY, location	DATE	SBA LOAN AMT	Final Beneficiary
DUNN Commercial Dev. Corp. Dunn	10/12/65	220,000	Modern Foods (food processor)
CRAVEN Industry Dev. Co. New Bern	10/29/65	120,150	Craven Industries (apparel)
BISCOE Development Corp. Biscoe	2/21/66	225,000	Montgomery Furniture Mnf. Co.
CARTERET Associated Industries Inc. Beaufort	2/28/66	80,000	General Steel Tank Co. (mnf.)
MOUNT AIRY Dev. Corp. Mount Airy	3/8/66	350,000	NC Foam Industries Inc. (mnf.)
WINTERVILLE Dev. Corp. Winterville	4/27/66	110,000	(machine shop)
RICHLANDS Industrial Corp. Richlands	5/12/65	90,000	Aero-Sol Packers, Inc. (service)
WILSON Industrial Dev. Foundation Wilson	5/25/66	300,000	Food Processors Incorporated
MOUNT OLIVE Business Dev. Corp. Mount Olive	6/17/66	350,000	The Murray Corp. (apparel)
SCOTLAND NECK Dev. Corp. Scotland Neck	6/28/66	53,000	Paul Bruce Mnf. Co. (apparel)
LINCOLN Industries Inc. Lincolnton	6/30/66	28,800	Custom Transport Inc. (service)
sub-total 6/30/66		12,667,000	

VITA

James Wesley Slate was born to James Wade and Leda May Slate in Williamsburg, VA on April 5, 1964. He attended the James City County - Williamsburg public school system, graduating from Lafayette High School in June, 1982. In May, 1989, James Wesley Slate graduated Magna Cum Laude from Christopher Newport College in Newport News, Virginia with a Bachelor of Arts degree in Economics. In August of 1990, Slate began studies at the University of Tennessee, Knoxville, and received a Doctor of Philosophy degree in Economics in May, 1995.

He is presently employed as an Assistant Professor of Economics/Finance at Tennessee Wesleyan College in Athens, TN.