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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-169230

RELEASED

JUN 17 1970

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Dear Mr. Gross:

Further reference is made to your letter of February 25, 1970, in which you requested that we obtain information from the Economic Development Administration (EDA), Department of Commerce, on any loans made to, or applied for by, the Lifetime Door Company, Inc. Specifically, you inquired about a loan that was made to the company for the construction of a plant in Hearne, Texas, and an application by the company for a loan for the construction of a plant in Los Banos, California. You requested that we advise you as to whether section 702 of the Public Works and Economic Development Act of 1965 (42 U.S.C. 3212) had been violated in authorizing a loan to this company.

Section 702 prohibits EDA from making loans to industries experiencing long-run overcapacity. You also requested that we provide you with EDA's justification for the loans and the Small Business Administration's (SBA) credit reports relating to these loans.

At a meeting on March 5, 1970, we furnished Mr. Julian Morrison of your staff with a copy of EDA's justification for the loan for the construction of a plant in Hearne, Texas. We informed Mr. Morrison that EDA had decided that reports from the SBA were not necessary since the company had an established credit rating and that the application for the loan for the plant to be constructed in Los Banos, California, was unapproved at that time. At a meeting with Mr. Morrison on April 2, 1970, we discussed the problems relating to the lack of statistical data on the capacity of the door manufacturing industry on both a national and a regional basis. We also pointed out that the difficulties in determining a violation of section 702 of the act were set forth in our report to you dated October 24, 1969, on EDA's loan to Television Electronics, Inc. These difficulties related to the intent of the statute with regard to the term "efficient capacity" and the time frame within which it was to be compared with demand.

It was agreed that our report to you would contain available data on the door production which was not included in EDA's 702 study and that we would not attempt to determine whether the loans to Lifetime Door Company, Inc., violated section 702.

We reviewed EDA files and information from the Bureau of the Census and the Business and Defense Services Administration of the Department of Commerce. We interviewed officials of EDA, the Business and Defense Services Administration, the Bureau of the Census, and a wood products manufacturers' association. Our work was performed at the agencies' headquarters in Washington, D.C.

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According to EDA records, Mr. William B. Gilbert of Livonia, Michigan, is the sole stockholder of the Lifetime Door Company, Inc. He had applied for three EDA business development loans totaling about \$1.2 million. EDA records showed that one of the loans for \$364,000 was fully disbursed and that the other two were classified by EDA as unapproved. In all three loan applications, Mr. Gilbert stated that the borrowed money would be used to finance the cost of constructing or expanding and of equipping the plants and that the buildings and equipment would be leased to Lifetime Door Company, Inc., affiliates.

Mr. Gilbert applied for an EDA loan on January 2, 1968, to finance the cost of building and equipping a hollow and solid core wooden flush door manufacturing plant in Hearne, Texas. On June 26, 1968, EDA authorized a loan of \$364,000 at an interest rate of 4.75 percent to finance 65 percent of the estimated project cost of \$560,000. The loan authorization provided for interest payments to commence July 14, 1969, and for principal repayments to commence May 15, 1970, and final payment to become due on or before May 15, 1989.

The loan authorization was modified to provide for interest payments to commence December 2, 1969, and for principal repayments to start September 2, 1970, since the loan was not fully disbursed until over a year after its authorization. The due date for the final payment on the principal was not modified. EDA records indicated that the loan was fully disbursed as of July 29, 1969, and that the interest payments were current as of April 30, 1970.

Mr. Gilbert applied for a second EDA loan on June 10, 1969, to finance the cost of expanding the facilities of the Lifetime Door Company of Carolina, Inc., located in Denmark, South Carolina. Construction of the existing plant was financed, in part, by a loan from the SBA in the amount of \$281,557. The application for a loan of \$221,000 to finance 65 percent of total estimated project expansion costs of \$340,000 indicated that Mr. Gilbert planned to add a prefinishing process and a vinyl door covering coating line to the existing plant. Mr. Gilbert also planned to increase the current production of the Denmark plant by about 20 percent over a period of 3 years.

According to Mr. Gilbert's loan application, the unpaid balance of the SBA loan was \$231,700, and all the terms of the loan were being properly complied with. An EDA official informed us that EDA verified information on the application relating to the SBA loan and that the unpaid balance of the loan at May 7, 1970, was \$212,794. Also, as of that date, the EDA loan had not been approved.

The third loan application dated October 27, 1969, showed that the company planned to build and equip a plant in Los Banos, California, to manufacture and prefinish hollow and solid core wooden, flush and louvered doors. The application was for a loan of \$650,000 to finance 45 percent of the total estimated project costs of about \$1.4 million. According to an EDA official, the application was unapproved as of May 7, 1970.

As previously stated in our report to you dated October 24, 1969, on EDA's loan to Television Electronics, Inc., section 702 of the act prohibits EDA from making a loan in an industry when the demand for the industry's product is not sufficient to employ the efficient capacity of existing enterprises. Efficient capacity is defined by EDA as that part of the capacity which is produced or supplied by existing competitive enterprises employing well-designed structures, equipment, machinery, and designs and techniques. In carrying out this provision of the act, the Industries Studies Division of EDA conducts a study in connection with each loan application to determine whether authorization of the loan would violate section 702.

We noted that the report resulting from the section 702 study conducted with respect to the application for the loan to finance construction of the manufacturing plant in Hearne, Texas, showed demand for wooden doors in terms of estimated value of construction starts and production of wooden doors in terms of "dollar value of shipments." The information in the report relating to the dollar value of shipments was as follows:

<u>Calendar year</u>	<u>Value of shipments in U.S.</u> <u>(000 omitted)</u>
1954	\$182,660 ^a
1958	197,698 ^a
1963	254,874 ^a
1964	266,509 ^b
1965	280,050 ^b

Sources: ^aCensus of Manufactures
^bAnnual Survey of Manufactures

Information in the report relating to the demand for wooden doors (shown in terms of the estimated value of construction starts) in the States of Arkansas, Louisiana, Oklahoma, and Texas, reflected increases from 1962 through 1964 and a decrease from 1965 to 1966.

The report did not include any estimates of efficient capacity of the wooden door manufacturing industry.

The Chief of the Industries Studies Division informed us that the demand figure in the report was expressed in terms of construction starts, because of the direct relationship between starts and demand for doors and because statistical information on estimated construction starts was the best information available. She stated that the report did not contain quantity figures for the production of wooden doors because that information is obtainable only at about 5-year intervals from the Bureau of the Census' Census of Manufactures.

According to the Chief, the results of the 1967 Census of Manufactures were not available in May 1968 when the 702 study pertaining to the loan for the Texas plant was completed and the most recent data available on the number of doors shipped were contained in the 1963 census. The Chief stated that data which are available only at 5-year intervals tend to be out of date and offer little basis for comparison. She stated also that data which are current and available on an annual basis show industry trends and are more meaningful for section 702 purposes. Therefore, the 702 study pertaining to the Texas plant contained estimates of the dollar value of shipments of wooden doors rather than noncurrent data on the number of doors shipped. The Chief also informed us that her division had been unable to obtain any efficient capacity data for the wooden door manufacturing industry.

We visited the Bureau of the Census to verify information obtained from the Industries Studies Division and to obtain information relating to the Census of Manufactures and the Annual Survey of Manufactures. A Bureau of the Census official stated that a Census of Manufactures is taken about every 5 years, while information included in the Annual Survey of Manufactures is estimated on the basis of an annual statistical sample of the industry. According to the official, based on information obtained during the sample survey, the latest Census of Manufactures data on the dollar value of shipments are adjusted to arrive at the estimates for the Annual Survey. The official stated also that, while some general quantity data were requested from the manufacturers for the Annual Survey, detailed data such as the quantity of flush wooden doors were not requested.

We asked officials at the Bureau of the Census whether statistics from the 1967 Census of Manufactures could have been made available to EDA early in 1968 for consideration in the review of the loan application for the Texas plant. The officials told us that the 1967 census forms were not mailed out until April 1968 and that the preliminary results would not have been available until about the middle of 1969. The Bureau of the Census furnished us information relative to wooden doors from the Preliminary Report of the 1967 Census of Manufactures.

The information showed that, while the dollar value of shipments of flush wooden doors increased by \$800,000 from 1963 to 1967, the number of flush wooden doors shipped declined by 3.6 million—from 29.9 million to 26.3 million. Although we recognize the problem of the lack of current statistical data for section 702 studies in various industries, we question the validity of using dollar amounts during an inflationary period to indicate an increase in demand.

We contacted a representative of the National Woodwork Manufacturer's Association, Inc., to obtain additional information on the production and capacity of the wooden door manufacturing industry. The representative obtained a statement for us from the association's executive vice president who stated in part that.

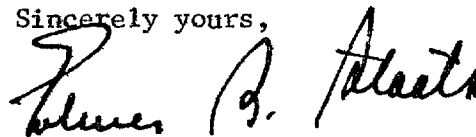
"The only figures we have are orders and shipments based on a small reporting group in our statistical program, and these are the figures that are made available to the Commerce Department.

"We have no idea of our industry capacity, and in fact, it's been so long since business has been such that our members were producing at capacity, I doubt that even they would know at this time what their potential capacity would be. Perhaps when the homebuilding industry activity picks up, we will have a better idea as to just what our door capacity is."

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We trust that this information will be of assistance to you. We have not obtained formal comments from Federal and non-Federal organizations concerned with the matters discussed in this report. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of this report.

Sincerely yours,



Comptroller General
of the United States

The Honorable H. R. Gross
House of Representatives