

**College:** Southeast Community College  
**Location:** Cumberland, Kentucky  
**Practice:** Pine Mountain Community Development Corporation Loan Fund  
 Stimulating economic development with a revolving loan fund in distressed Appalachian communities

*Year Started* 1997

<i>Budget</i>	<i>Initial capital = \$105,000; all administrative costs paid by the community college</i>
<i>Program Participants</i>	<i>18 loans made since inception Over 300 applications received</i>
<i>College FTE</i>	<i>1,700</i>
<i>Target Sector</i>	<i>Small business</i>
<i>Staff Size</i>	<i>2 FT</i>
<i>Structure</i>	<i>Multi-bank CDC, linked to the community college</i>
<i>Key Outcomes</i>	<i>Provided over \$145,000 in loans Financed 13 start-up businesses Created over 50 jobs</i>

## Introduction

Many cities and towns throughout eastern Kentucky face the daunting challenge of economic transition. The mining industry, formerly the major employer in the region, has suffered a downturn in production. As a result, thousands of jobs have been lost, and young people and families have departed for greater opportunity elsewhere. As one community resident stated, “the profound effect of this loss ripples from school systems to retailers.”

In 1994, Southeast Community College (SECC) was one of nine community colleges around the nation selected to participate in the Ford Foundation’s Rural Community College Initiative

(RCCI). The aim of the RCCI is for participants to devise and implement plans for stimulating economic development in their service areas. A combination of SECC’s participation in RCCI and community input resulted in the Pine Mountain Community Development Corporation and its loan fund.

## Community Background

The economy of this rural area is in the midst of a steep decline, and Bell, Harlan, and Letcher, the counties that comprise SECC’s service area, are no exception. Indeed, the region’s unemployment rate

Program focus	Sector specific	Economic condition	Economic base			Target populations
			Mfg	Agr	Svc	
<i>Entrepreneurship</i>	<i>No</i>	<i>Distressed</i>	<i>4</i>	<i>0</i>	<i>24</i>	<i>Dislocated workers, economically disadvantaged, entrepreneurial candidates</i>

*Service Area*    *Bell, Harlan, and Letcher Counties*

<i>Total Population</i>	92,000
<i>Median Household Income</i>	\$18,000
<i>% Below Poverty Level</i>	33.4
<i>% Unemployment Rate</i>	11.0
<i>% Minority Population</i>	3.1
<i>% Rural Population</i>	80.7
<i>% High School Graduates</i>	47.3
<i>% College Graduates</i>	7.5

has been far above the national average. Equally telling, more than one-third of area residents have incomes below the poverty level.

SECC was established in 1960 through the University of Kentucky system; in 1998, the community college became a part of the wider Kentucky Community and Technical College system. The institution's primary objectives are to improve and expand the life skills and knowledge of the region's citizens, to strengthen the local workforce, and to enhance community economic development and quality of life. As the mining industry declines, SECC has broadened its mission to include more rigorous forms of continuing education and business development.

### **Program Description**

In 1996, SECC conducted a capital-needs assessment for the region. The results showed a demand for venture capital. Soon after (and in response to the RCCI mandate to undertake economic development projects in the region), SECC created the Pine Mountain Community Development Corporation (PMCDC) and the PMCDC loan fund. Money for the loan fund came primarily from area banks.

This for-profit loan fund is designed to provide capital for the smaller, retail cottage industries that could not get funding from traditional sources. Indeed, the PMCDC loan fund makes a point of reaching out to those residents who are not candidates for a traditional bank loan or conventional economic development funding and allowing them to exercise their initiative and take control of their own situations and lives.

To be eligible for loans from the fund, a business

must meet certain criteria, which includes agreeing to accept technical assistance as well as having been rejected for a traditional bank loan. Conditions of the funding are similar to most other community development corporations; namely, interest rates are slightly above (1 to 2 percent) the market rate. However, with the loan, recipients receive additional services and training to help them succeed at no cost.

A nine-member board of directors, including representatives from each county, governs the PMCDC revolving loan fund. In addition, community advisory boards are in place in each county served.

### **Outcomes**

The program has stimulated the local economy and promoted entrepreneurial activity throughout the SECC service area. It has done this quite efficiently: for every \$3500 loan, one job is created in these eastern Kentucky communities. The current national average is \$10,000 per one job created.

By expanding economic opportunity in one of the poorest regions of the United States, PMCDC is filling a vacancy in local and regional economic development circles. There are other development groups throughout Kentucky, but none adequately serve the population that so desperately needs their help. In this, the program has been extremely innovative. Applicants who previously had no idea that funding could come from a source other than a bank are now the proud owners of small businesses, generating jobs and helping to revitalize several small towns.

Participants stress that PMCDC's greatest strength lies in its ability to encourage those entrepreneurs who might not have made the plunge themselves. One recipient of funding who now owns and operates a thriving business in downtown Middlesboro has stated that "if you band together and have goals, you can accomplish anything...[it has been] life-changing to work with them."

### **Strengths, Challenges, and Replicability**

Over the past four years, the PMCDC program has become firmly entrenched in the community, and is poised to grow in the future. By emphasizing a diversified loan portfolio, the financiers are en-

sure that the local economy will not become dependent upon a single industry, as it previously had been upon mining.

The main difficulty in operating the fund is the limited pool of assets from which the funders are able to create loans. Currently, the PMCDC is in the process of becoming CDFI (Community Development Financial Institution) certified. It is the mission of these organizations to make loans and investments that are considered unbankable by conventional industry standards, and to serve borrowers and customers not serviced by mainstream financial institutions by linking financing to community development activities.

Also, though the original fund was for-profit, the organization is also looking into the possibility of creating a non-profit affiliate fund, which would be eligible to apply for the larger pool of foundation money.

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