

Kentucky Highlands Investment Corporation

**Presentation for the
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Reinvestment Conference
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Kentucky Highlands Investment Corporation

Executive Summary

Kentucky Highlands Investment Corporation (KHIC) is a Community Development Corporation and a Certified Development Financial Institution headquartered in London, Kentucky. Founded in 1968, KHIC's mission is to generate employment opportunities and business growth in southern Kentucky. KHIC's primary focus to accomplish its mission is to provide debt and equity financing to the entrepreneurial community. These investments are generally in conjunction with a local bank. With total assets of \$57 million and net assets of \$43 million, Kentucky Highlands Investment Corporation, as a non-regulated lender, makes an excellent partner for banks. Furthermore, because of KHIC's mission, these projects usually are considered CRA-related loans.

Kentucky Highlands Investment Corporation

- Founded in 1968 – Managed by a diverse, community-based Board of Directors
- Mission is to generate employment opportunities in Southern & Eastern Kentucky
- Accomplish this through debt & equity financing and building an entrepreneurial community
- KHIC has invested \$175 million since founding
- Currently have \$41.7 million invested in the community, including \$7.8 million in equity
- Total assets of \$56.9 million with net assets of \$43.4 million

Kentucky Highlands Investment Corporation

- ◉ Provide financing through our existing capital base
- ◉ CDFI and New Markets Tax Credit recipient (1st Round)
- ◉ USDA – B & I Guaranty Lender (1st nonbank in U.S.)
- ◉ USDA – IRP program (1st in Kentucky)
- ◉ SBA Microloan (1st in Kentucky)
- ◉ Mountain Ventures – SBA Small Business Investment Company
- ◉ 1st Round Empowerment Zone
- ◉ 1st Round Rural LISC designee
- ◉ Meritus Ventures (RBIC) - \$36 million equity fund
- ◉ Southern Appalachian Fund (NMVC) - \$12 million equity
- ◉ Founder of the Appalachian Development Alliance

Kentucky Highlands Investment Corporation Service Area



2003 SERVICE AREA



EXPANDED SERVICE AREA



Kentucky Highlands Investment Corporation Investment Strategy

- ⦿ KHIC Staff updates its business plan annually
- ⦿ Examines mission-related programs for possible funding
- ⦿ Meet with potential partners on strategies outlined in the business plan
- ⦿ Meets monthly with existing partners (i.e., Appalachian Development Alliance)
- ⦿ Complete an annual portfolio valuation
- ⦿ Promote entrepreneurship as a development tool
- ⦿ Continuous training of staff and board

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Financing Strategies

- ◎ Senior Secured Debt
 - Term
 - Current Asset Financing – Lines of Credit
- ◎ Subordinated Debt
- ◎ Equity
 - Convertible Preferred
 - Common
- ◎ New Market Tax Credit Financing

Kentucky Highlands Investment Corporation Results

- ◉ Invested in Excess of \$170,000,000
- ◉ Provided Financing for 500+ Businesses
- ◉ Helped create 10,400 Jobs
- ◉ Produced Goods and Services valued at \$5.7 billion
- ◉ Paid \$1.6 billion in Salaries & Wages
- ◉ Produced an Estimated Tax Revenue \$300,000,000
- ◉ Not always been successful

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Our Keys to Success

- ⦿ Organization is both experienced and financially stable
- ⦿ Well-respected with contacts on regional, state and national levels – Partnerships are the key
- ⦿ Willing to take responsibility, take risks and try new concepts
- ⦿ Works well with local leaders to help implement their ideas or create local governance structures
- ⦿ Creates a plan for success and maintains its discipline
- ⦿ Remains flexible if a new approach is necessary
- ⦿ Employs third-party evaluators

Kentucky Highlands Investment Corporation CRA-Eligible Activities and Partnerships

- Rural Kentucky in general, and the KHIC service area in particular, has many community-based banks as well as national banks
- The demographics of the region mean that most loans are CRA-eligible
- Nevertheless, banks in the area are still seeking reliable partners for CRA-eligible projects

Kentucky Highlands Investment Corporation Partnerships

- ◉ Traditional lending to share working capital lines and debt financing on numerous CRA-eligible loans
- ◉ Often join with Cumberland Valley National Bank, a local lender headquarter in London, Kentucky
- ◉ American Dream Homeownership Challenge – CVNB provided \$50,000 in seed capital for innovative construction technique and subsidy for 3 homes
- ◉ Several 0% loans with FHLB-Cincinnati for land for incubator, 14 unit subdivision & HBEER design
- ◉ AHP applications of Self-Help Housing initiative

Kentucky Highlands Investment Corporation CRA-Eligible Opportunities with CDFI's and CDC's

- ◉ Participating on debt and operating lines -» many CDFI's can manage lines which are too small for banks
- ◉ When participating on loans, CDFI/CDC's can restructure in ways banks cannot as non-regulated lenders
- ◉ New Market Tax Credit
- ◉ CDFI/CDC's can be flexible with collateral in ways banks can no longer be
- ◉ CDFI's have been reviewed by the U.S. Department of the Treasury – not all CDC's have



Kentucky Highlands Business Accelerator

- ◉ Contracted for incubator feasibility study with support of the CVNB & FHLB-Cincinnati
- ◉ Contracted with Tech 2020, Oak Ridge, TN to help develop an entrepreneurial training program
- ◉ Began testing incubator viability in Spring 2007 by converting 2,000 s.f. of existing space into an incubator
- ◉ During the one-year trial period, five companies utilized incubator space and services
- ◉ Put together \$2 million, including \$500,000 from KHIC, \$1.08 million from EDA and \$300,000 from ARC
- ◉ Began construction in January 2010 – LEED Silver

Kentucky Highlands Investment Corporation

Houseboat to Energy Efficiency Residences

(HBEER)

- Over the past year, houseboat industry has collapsed, resulting in the loss of over 700 high skilled jobs
- Creates a “green” company to boost the local economy and create better living conditions in the region
- Rehire and restart idle houseboat plants to produce energy-efficient, moderately priced, modular homes
- Create a value chain for local material suppliers
- Maximize energy efficient and environmentally sound concepts in home construction and design of neighborhoods
- Construct homes that lower income families can afford to maintain and to pay the utilities
- Supported by CVNB & FHLB-Cincinnati with 0% interest loans