

# **AN EVALUATION OF HAWAII'S AGRICULTURE LOAN SYSTEM**

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## **FOREWORD**

This study was prepared in response to Senate Concurrent Resolution No. 131 (2000). The Concurrent Resolution directed the Legislative Reference Bureau to conduct an evaluation of the agricultural loan system in Hawaii. The Bureau conducted that evaluation by means of questionnaires to farmers, financial lenders, major landowners, and other government agencies and by personal interviews with various people familiar with the agriculture loan system. This report contains the results of that evaluation.

The Bureau extends its appreciation to all of those persons who assisted in this study, including farmers, financial lenders, major landowners, and others who graciously provided information in order to improve the agriculture loan system.

Wendell K. Kimura  
Acting Director

January 2001

## Fact Sheet

### AN EVALUATION OF HAWAII'S AGRICULTURE LOAN SYSTEM

#### I. Highlights

- A. In general, based on the number and kinds of responses received to questionnaires sent to farmers, lenders, and major landowners, the agriculture loan system appears to be meeting the credit demands of the great majority of the agricultural community in Hawaii.
- B. The system, however, may be improved in three areas:
  - (1) By responding to the needs of new farmers who have no farming experience;
  - (2) By ensuring that the three major lending sectors (banks, Farm Credit Services Hawaii, and government lenders) all participate in the system fairly and equitably; and
  - (3) By resolving the stalemate that exists with regard to the problem stemming from state-leased lands that has resulted in less credit being available to farmers.
- C. The State may be able to provide more loan funds to farmers by adopting loan programs along the lines of those available in other states such as the "Aggie bond" program and the "Linked Investment Program".

#### II. Anticipated Questions

- A. Will more loans be made available to farmers as a result of this study?

Answer: It is important to remember that there is a delicate balance that exists between the three major lending sectors in Hawaii. The legislature, in its attempt to assist farmers with more loan moneys must be very cognizant of this balance because the demise of any one of them could severely upset the farm loan market and its farmer beneficiaries.

B. Is there any hope for new farmers without any experience to obtain a farm loan?

Answer: Yes, the credit demand by inexperienced farmers is not being met by any of the three major lending sectors. More state funding to micro lenders who service inexperienced farmers would greatly improve the supply of funds to these farmers.

C. What else can be done to improve the loan system?

Answer: Better access to loan information. The Department of Agriculture is in the process of providing this very service so that farmers are more aware of the different types of available loan services.

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## **Chapter 1**

### **INTRODUCTION**

Pursuant to Senate Concurrent Resolution No. 131 (2000) (Appendix A), the Legislative Reference Bureau was requested to conduct an evaluation of the agriculture loan system in Hawaii.

The agriculture loan system is basically made up of lenders (government and private) and borrowers (farmers). But pursuant to S.C.R. No. 131, major landowners and other government agencies and organizations were also included and contacted either personally or by questionnaire as part of the evaluation.

#### **Legislative Intent**

S.C.R. No. 131 appeared to be motivated primarily by the dramatic changes in the agricultural industry brought about by the closure or downsizing of several large sugar and pineapple plantations. These closures have led to the displacement of thousands of plantation workers, as well as the availability of almost one hundred thousand acres of arable plantation land.<sup>1</sup>

The Legislature was also concerned with converting the physical and economic agricultural infrastructure that once catered almost exclusively to these large plantations to one that could provide for farmers (including displaced plantations workers) that were attracted to the emerging diversified agricultural sector. This sector recorded annual farm revenues of \$509.2 million in 1998 with record sales in produce like coffee, macadamia nuts, papayas, guava, tropical cut flowers and bananas.<sup>2</sup>

To facilitate the continued success of diversified agriculture, S.C.R. No. 131 sought to assist the financing needs of farmers by evaluating the agriculture loan system.

#### **Scope of the Evaluation**

For the purposes of this report, the term "farmers" includes both agricultural and aquacultural farmers, ranchers, dairy and hog farmers, egg producers, flower and tree growers, and any other type of agricultural or aquacultural professional. For the purpose of creating manageable parameters to clarify the focus of the evaluation, the term "farmers" does not include ancillary services or functions associated with farming such as packing and shipping, or other services that add value to the basic item being farmed.

This report is also limited to issues that are directly related to the agriculture loan system. Issues such as removing contaminated soil on leased land and water rights, although

tremendously important to farming in general, are beyond the scope of this report. Finally, this report concentrates primarily on state-loan programs rather than federal or private loan programs.

### **Focus and Methodology**

The primary focus or criterion used to evaluate the agriculture loan system was: "Has the agriculture loan system met the credit demands of Hawaii's farmers?" To answer this question, three separate questionnaires (Appendix B) were developed and sent to: (1) lenders -- including government loan programs/banks/credit unions and other government agencies; (2) farmers/ranchers/agribusiness; and (3) major landowners. The questionnaire for farmers was also included in the Hawaii Farm Bureau Federation's September 2000 newsletter.

Pursuant to the Concurrent Resolution, every attempt was made initially to contact all named agencies and groups in the Concurrent Resolution as well as various sectors of the agriculture community through trade association mailing lists, referrals, and other public mailing lists. Unfortunately, however, invalid or obsolete mailing addresses with no forwarding addresses coupled with reticent potential participants made the work difficult at times. Nevertheless, the questionnaire was sent to 374 farmers, lenders, government agencies and major landowners (not including the Hawaii Farm Bureau Federation's newsletter circulated to its 2000 members). Although the number of responses to the questionnaires was statistically insignificant, it was helpful in identifying issues and problems with respect to the agriculture loan system.

Lastly, in addition to the questionnaires, personal interviews were conducted with selected farmers, financial lenders, government agencies, and other agricultural experts familiar with the agriculture loan system to supplement the information gathered from questionnaires. Where permitted, the people making comments and suggestions were identified.

### **Organization of this Report**

This report is organized into three chapters that discuss the results of the three questionnaires sent to: (1) lenders, (2) farmers, and (3) landowners. The report is concluded with recommendations that include suggested legislation.

### **Endnotes**

1. See legislative findings made in Act 176, Session Laws of Hawaii 1998, section 1.
2. Hawaii Agricultural Statistics Service at [www.nass.usda.gov/hi](http://www.nass.usda.gov/hi).

## Chapter 2

### GOVERNMENT AND COMMERCIAL LENDERS AND OTHER GOVERNMENT AGENCIES

Government and commercial lenders play a critical role in the agriculture loan system by providing capital to farmers for a variety of farm expenses and functions including the operation and expansion of a farm.

In order to determine whether the agriculture loan system is working, it is first necessary to understand how the system is set up. A long time banker familiar with the agriculture loan system explained the "Hierarchy of Lenders" of years past,

On the top of the hierarchy were rightfully so, the commercial banks. The Farm Credit System represented the next level. Then, came the public lenders led by the USDA [United States Department of Agriculture] and SBA [Small Business Administration] programs. The "lender of last resort" was the State DOA [Department of Agriculture].

For all intents and purposes, the system worked well. The commercial banks concentrated on the upper end of the loan market with clients who were usually well established, dependable, and had a proven track record. The DOA serviced the low end of the market with those who were having troubling gaining credit. And the middle of the market was serviced primarily by the Farm Credit Service, along with the U.S. Department of Agriculture's Farm Service Agency<sup>1</sup> and the U.S. Small Business Administration.

Although the cast of lenders has basically remained the same, the changing agricultural landscape has resulted in changes in the traditional hierarchy of lenders. The following is a brief description of today's agriculture lenders.

#### **Commercial Lenders**

According to the Hawaii Bankers Association, only four banks (Bank of Hawaii, First Hawaiian Bank, Central Pacific Bank, and Hawaii National Bank) had any record of loans made to farmers. Those loans totaled \$21,117,000 as of March 31, 2000, with Bank of Hawaii providing the lion's share of farm loans at \$18,580,000. There are no statistics on the number of loans made, but presumably these loans were substantial and made to the upper end of the agriculture loan spectrum. None of the credit unions that responded to the questionnaire had any record of loans made to farmers.

Banks basically offer direct loans to farmers. Direct loans are entirely financed by the lender. In order to expand their clientele, banks may share the financing risk with a participating agency (participation loan), or request an insurance guaranty as additional security for a loan from a participating agency (guarantee loan).

Generally, banks do not provide farm loans per se, instead farm loans are serviced under the broad category of "commercial loans". Farmers are treated just like any other loan customer and must qualify for loans on the same basis as everyone else.

Both government and commercial lenders generally require the following of loan applicants:<sup>2</sup>

1. Character (managerial ability, credit history/experience, etc.);
2. Capital (how much cash has been invested in the farm);
3. Conditions (must be suitable, whether it be economic, regulatory, personal, etc. during the time of the loan);
4. Collateral; (property that is pledged as security for the satisfaction of the loan); and
5. Capacity (cash flow or the ability to pay off loans).

Lenders vary on the emphasis placed on any one of these qualifications, as well as the terms of a loan (i.e., interest rate, duration of the loan, etc.).

Several local banks (Bank of Hawaii, American Savings Bank, Central Pacific Bank, and others) also participate with other foundations and agencies (including the Harold Castle Foundation, the McInerney Foundation, the Hawaii Community Foundation, the Gerbode Foundation, and the Rural Community Assistance Corp in California) in the Hawaii Community Loan Fund. The Fund is a nonprofit community development finance institution that provides micro loans to economically disadvantaged borrowers who cannot access traditional sources of capital.

### **The Farm Credit Administration**

The Farm Credit Administration is part of a nationwide system of associations chartered to provide loans to farmers, ranchers, and fishermen. The Farm Credit Administration's branch in Hawaii is Farm Credit Services of Hawaii (FCSH) (Appendix C), which includes the Federal Land Bank Association of Hawaii and the Hawaii Production Credit Association. FCSH is owned and directed by farmers and makes loans for land, livestock, and equipment purchases, as well as construction and operating purposes. Applicants must be full- or part-time farmers and the loan must be agricultural in nature. FCSH aspires to service forty percent of the farming community and approves forty to sixty loans annually.<sup>3</sup>

## **Federal Programs**

The federal government provides grants and loans through programs under the United States Department of Agriculture's Farm Service Agency (FSA) and programs under the Small Business Administration (SBA).

The FSA (Appendix D) provides direct, emergency, and guaranteed loans to farmers. Eighty percent of FSA's loans are guaranteed and secure loans made by other commercial farm lenders. The FSA also provides loans to new farmers and ranchers. Generally, although the name might imply otherwise, a "new farmer" is a person who has at least three years farming experience. The FSA also offers programs for socially disadvantaged farmers that includes Asian immigrant farmers (Appendix E).

In the last five years, the FSA has serviced approximately two hundred loan applications, of which, one hundred and twenty were successfully approved. The goal of the FSA's loan program is to eventually move its borrowers to commercial lenders.<sup>4</sup>

The U.S. Small Business Administration (SBA) (Appendix F) is another source of federal loan funds and is congressionally mandated to assist the nation's small businesses in meeting their financial needs. Since farming is considered a small business, qualifying farmers are eligible for SBA loans and micro loans that are provided to community based nonprofit organizations. In Hawaii, Pacific Gateway serves as the intermediary lender providing micro loans in amounts of \$25,000 or less to borrowers.

In the last five years, the SBA has guaranteed about five farm loans and made an estimated thirty micro loans -- mostly in response to the demand at the low end of the market.<sup>5</sup>

## **State Loan Programs**

The Department of Agriculture's (DOA) (Appendix G) Agricultural Loan Division administers the State's agriculture loan programs. Essentially, the DOA serves as a lender of last resort, which means credit denial from two other government or commercial lenders is a prerequisite to DOA loan eligibility. The DOA offers a variety of farm loans including loans for new farmers and part-time farmers. Generally, a "new farmer" (Appendix H) must possess some form of farming experience which includes experience in a school, a farming organization or a working plantation. The DOA also offers loans for "economically depressed areas"<sup>6</sup> such as communities in or surrounding closed sugar plantations.<sup>7</sup> During the past five years, the DOA has made 103 farm loans totaling \$10.56 million.<sup>8</sup>

Another source of state funding for farmers is available through the Department of Business, Economic Development, and Tourism (DBEDT), which provides loans directly and indirectly to farmers through the Hawaii Capital Loan Program, the Hawaii Strategic Development Corporation, and the Community Based Economic Development (CBED) Program. For the most part, only CBED is actively involved with lending funds to farmers. As of June 2000, the Hawaii Capital Loan Program had only one farm loan outstanding that was

past due as of December 1999. No questionnaire response was received from the Hawaii Strategic Development Corporation.

CBED offers loans, grants and technical assistance to eligible nonprofit, geographic, cultural, or economic-based community groups. Since its inception in 1990 through 1997, CBED grants and loans have been matched by an average of eight dollars of private financing from over thirty different sources. Over \$2 million of state money has been committed from the CBED Revolving Fund to a total of seventy-six community based organizations statewide that expect to generate 629 business start-ups and expansions statewide.

### **The Agribusiness Development Corporation**

Although not commonly thought of as a lending agency, the State's Agribusiness Development Corporation (ADC) is responsible for providing "[a]lternatives in the establishment of sound financial programs to promote the development of diversified agriculture,"<sup>9</sup> and for providing "programs to promote and facilitate the absorbing of displaced agricultural workers into alternative agricultural enterprises."<sup>10</sup> The ADC is also charged with, among other duties, addressing the "downsizing of the sugar and pineapple industries" that created an "unprecedented opportunity for the conversion of agriculture into a dynamic growth industry."<sup>11</sup>

However similar the role of the ADC may appear to be to the objectives of S.C.R. No. 131, the ADC has, to the contrary, interpreted its responsibilities and duties very broadly to focus on issues greater than direct assistance to displaced plantation workers. Consequently, the ADC has not provided any agriculture loan assistance (e.g., funds, guidance, education, etc.) to farmers. The ADC expects (at this writing) to publish its long awaited Strategic Plan and the Hawaii Agribusiness Plan by October 1, 2000. The Board of Directors of the ADC is currently scheduled to sunset on July 1, 2001.

### **Micro Lenders**

Micro lenders cater to the low end of the farm loan market with loans that are generally less than \$5,000, although some micro lenders may loan as much as \$25,000. Micro lenders may be privately or publicly funded, or like the Community Based Economic Development (CBED) program -- a combination of both.

Micro loan borrowers are typically new farmers from a small farm that are in need of a small loan. But because of their credit history, lack of farming experience and/or the size of the loan, they have been denied credit from banks and government agencies. Consequently, micro lenders have less stringent loan qualifications and requirements to accommodate their clientele but sometimes charge a higher interest rate.

Typically, as is the case with micro lender Maui Economic Opportunity Business Development Corporation, greater emphasis is placed on the "character" requirement of borrowers, especially since new farmers usually lack capital, collateral, and capacity (cash flow).

Additionally, Maui Economic Opportunity relies on peer recommendations to augment their loan approval process from organizations such as the Kauai Farm Bureau and the University of Hawaii College of Tropical Agriculture and Human Resources staff as part of its loan approval process.

Although investigating the "character" of prospective clients is often tedious and time-consuming work, the results can be very rewarding. For micro lender Hawaii Community Loan Fund, it means a default rate of about five percent, which is a respectable rate comparable to most other lenders.

Other micro lenders include the Department of Labor and Industrial Relations' Office of Community Services, Economic Opportunity Offices throughout the State, Lokahi Pacific, Red Manini, the Hawaii Community Loan Fund, Pacific Gateway, and immigrant centers statewide.

Micro lenders provide a needed credit service that is not being met by traditional government and commercial loan programs. This service, however, is almost statistically anonymous. No data exists on the exact number of micro lenders doing business in Hawaii, nor the amount or number of loans they process for farmers.

### **Other Types of Loans**

Also available to farmers are loans made with consumer credit cards. These loans are usually made for less than \$5,000 and are a relatively accessible but expensive way of borrowing money. Since credit card companies do not monitor the reason for such loans, no data is available on the number nor frequency of this type of loan to farmers.

Another form of financing is the practice of borrowing funds from family and friends. According to micro loan lenders, this type of financing is widely practiced by new farmers (see Chapter 3 under "new farmer" section) that lack access to more traditional lending sources.

Finally, there is a form of financing that is on the opposite end of the agriculture loan spectrum from the two previous financing forms -- financing from private investors. Although farming in Hawaii is not commonly thought of as a haven for investors, like most other businesses, it can provide a profitable return when run by an experienced and knowledgeable professional. In the case of farming, it is a "coordinating entrepreneur". A "coordinating entrepreneur" is a term that refers to a farmer who has mastered "the business", or more specifically, the "marketing" end of farming. A coordinating entrepreneur usually markets what he or she farms, but also coordinates the marketing activities of other farmers as well.

### **The Changing Face of Government and Commercial Lenders**

The hierarchy of lenders has changed over the past few years, due in large part to the changing dynamics of the agriculture industry. Although the lenders of old are still present, their

focus has changed in response to market and societal demands. These demands are reflected in the questionnaire sent to government and commercial lenders.

### **The Questionnaire**

A questionnaire was developed and sent to government and commercial lenders including banks and credit unions and other government agencies specified in S.C.R. No. 131. Of the sixty-two questionnaires that were sent out, twenty-five were completed -- twelve with no comments and thirteen with the following comments and suggestions to improve the agriculture loan system.

### **Comments and Suggestions**

1. Provide more assistance and funds for new farmers;
2. Provide more "business" and technical training programs for farmers;
3. Provide more assistance and funds for aquaculture;
4. Treat forestry farmers like any other agricultural crop;
5. Too much emphasis by state government on the high-technology industry;
6. Provide more government loans, including guaranteed farm loans; and
7. DOA is competing with Farm Credit Services of Hawaii.

### **New Farmers and Training Programs (Items #1 and #2)**

This is basically the same sentiment for "new farmers" expressed in questionnaires sent to farmers (see Chapter 2) and landowners (see Chapter 3) regarding the lack of training and education programs for all farmers, but especially new farmers. All three types of questionnaires have recognized a gap in the agriculture loan system that has not provided for the needs of new farmers. A discussion of the new farmer follows in the next chapter.

With respect to technical training programs, these suggestions are ways in which farmers may better prepare themselves to qualify for farm loans. Technical training refers to agriculture courses to boost productivity, as well as financial planning courses to enhance farm loan applications.<sup>12</sup>

Both comments on new farmers and technical training are insightful because it is coming directly from lenders and reflects their concern to problems that can hopefully be remedied to increase commercial financing to farmers.



### **Aquaculture (Item #3)**

Comments regarding aquaculture are from the state Aquaculture Development Program. According to the Program, except for DEBDT (which is only providing funds to the high-technology segment of the aquaculture industry), commercial and government lenders are not providing funds to aquaculture farmers. Additionally, the program believes the DOA's Aquaculture Revolving Fund is underfunded and that risk capital in the \$500,000 to \$5 million range for aquaculture farmers is lacking. The Program also believes that aquaculture's poor showing of late and the lack of a track record for many aquaculture species and technologies are reasons for this lack of support. They suggest that more information is needed for lenders to evaluate risks in the aquaculture industry.

### **Forestry (Item #4)**

With respect to forestry, the state Division of Forestry and Wildlife believes that lenders are reluctant to provide loans for forestry activities. The Division suggests that lenders treat forestry farmers like any other agricultural crop.

Ironically, Bank of Hawaii in its 1998 Annual Economic Report Hawaii's Economy by Industry, Agriculture and Manufacturing, finds that:

"Agro-forestry" and traditional forest-product industry growth are constrained only by the bureaucratic obstacles that have prevented global timber concerns from capitalizing on Hawaii's superb potential in a more timely fashion. Both former plantation lands and, increasingly, ranch lands, for which forestry represents a more lucrative land use, are available to new forest plantings. Meanwhile, old-growth timber in many of the large forest reserves, which were planted in the watershed movement of the early 20th century, is of harvestable maturity. The combination of an industry infrastructure mobilized to harvest existing stands of older growth, long-rotation trees, and the prospect of future harvest of current short-rotation plantations, promises a significant sustainable contribution to Hawaii agriculture.

It would appear that despite a glowing report on the potential of the forestry industry by Hawaii's leading commercial bank for farm loans, the forestry industry is still experiencing problems with financing. Like the aquaculture industry, a lack of information and communication between lender and farmer has mitigated the full potential of these emerging agriculture industries.

### **High-Technology (Item #5)**

With respect to the comment that farmers appear to be ignored when compared to the more glamorous high-technology industry (which is shared by the state Aquaculture Development Corporation), this observation appears not far from the truth. In an interview with

the Honolulu Advertiser,<sup>13</sup> the Governor made the following comment on agriculture and the economy:

[T]he widespread perception is that agriculture is big. It's not. Agriculture in the state is only like 2 percent of our state gross product. ... So the [economic] pillars are changing. And then instead of three, there's going to be maybe, one big one - tourism - and then several other ones ... healthcare, military, and then a whole lot of others, from education to high tech, biotech.

Since the Governor plays an integral part in establishing policy that affects the agriculture loan system, his perception of agriculture and the role it plays in Hawaii's economy is crucial to any evaluation of the system. His comments above appear inconsistent with the purposes of S.C.R. No. 131 and more supportive of the high technology industry. At best, the Governor's support for agriculture seems luke warm. While he has supported emergency funding for former plantation communities, he has also vetoed legislation to provide sugar producers on Kauai with \$5 million in state loans and legislation creating tax credits for agricultural producers.

### **Provide More Government Loans and Guaranteed Loans (Item #6)**

In addition to the gaps in the agriculture loan system that have thus far been identified for new farmers, aquaculture, and forestry, the lenders have also recognized an enduring and basic need for more affordable loan funds. A former banker familiar with the agriculture loan system offered the following explanation for the lack of available farm credit in Hawaii:

Generally, the "government" programs have turned toward loan guarantees to minimize risks, reduce their need for due diligence (the lender provides this), and preserve or extend their loan funds (through minimizing direct loan programs). ... The end result is a tightening of available credit to agriculture.

Ironically, the end result need not be a tightening of available credit. A few commercial bankers have expressed (through questionnaire) a desire for more government guaranteed loans as additional security for loans they would have otherwise made. In other words, regardless of any perceived minimizing of direct loan programs, an increase in government guaranteed loans might very well increase the amount of available commercial credit to farmers. The DOA seemed pleasantly surprised to hear of this response and appeared more than willingly to consider the possibility of increasing state guaranteed funds.<sup>14</sup> This action would also be consistent with FSA's policy which concentrates eighty percent of its loans in a guaranteed form.

A discussion of a lack of affordable loans continues in the following chapter.

### **DOA Competing with FCSH (Item #7)**

The DOA was accused of refinancing loans from borrowers who had previously qualified for loans with Farm Credit Services of Hawaii (FCSH). According to the questionnaire response provided by FCSH:

Why should the taxpayers [through the DOA] subsidize these borrowers with low interest loans when they are capable of paying market interest rates? The State is unfairly competing with private lenders. If they want to compete with private lenders they should charge interest rates that would provide a return to the taxpayers of the State of Hawaii.

Specifically, FCSH was concerned with the disbursement of state funds by DOA to "economically depressed areas" of the State under Act 118, Session Laws of Hawaii 1998, and Act 157, Session Laws of Hawaii 1999 (Acts 118 and 157). FCSH claims that some of the farmers who received the low interest loans used the proceeds to refinance loans they carried with FCSH.

According to the DOA, the purpose of Acts 118 and 157 was to assist former plantation communities by boosting economic expansion and creating new jobs. To achieve that goal, and armed with a waiver of the two-denial requirement, the DOA sought out farmers in those communities who were in a position to create that kind of economic expansion. Farmers who might not have otherwise qualified for DOA loans, were picked for their ability to expand their farms, hire new employees (displaced plantation workers), and thereby boost the local economy. This was no doubt a commendable objective, but for the FCSH allegations.

First, assuming that these allegations of refinancing did in fact take place, it compromises the DOA objective of economic expansion. Although using the funds for refinancing lowers a farmer's loan expense, it pales next to the golden opportunity that cheap credit can mean for long-term financial growth. Refinancing therefore necessarily defeats the purpose of, and squanders the opportunities intended by Acts 118 and 157.

Second, refinancing has the secondary effect of unduly interfering with the marketplace -- or so to speak, the hierarchy of lenders. Since FCSH makes as many loans as DOA and FSA combined, the use of funds made available though Acts 118 and 157 for refinancing necessarily interferes with the economic health of a major player in the agriculture loan system in Hawaii. In fact, the use of funds for refinancing FCSH loans may have ironically weakened (by taking its market share) the only lender who would be capable or interested in providing credit in the future, to some of the very persons intended to be benefited by Acts 118 and 157 -- displaced plantation workers.

### **Other Government Agencies**

Pursuant to S.C.R. No. 131, certain government agencies were contacted for their input on the agriculture loan system. The following agencies had either no comment or did not respond to the questionnaire:

1. The University of Hawaii College of Tropical Agriculture and Human Resources;
2. The Department of Hawaiian Home Lands;

3. The Rural Development Hawaii, State Office, Business and Industry Loan Guarantee Program; and
4. The Office of Hawaiian Affairs.

### Endnotes

1. Formerly known as the Farmers Home Administration.
2. Questionnaire responses from lenders.
3. For more information, see FCSH's website at <http://www.farmcreditserviceofhi.org>.
4. A complete explanation of the FSA's loan program is available on its website at <http://www.fsa.usda.gov>.
5. More information is available on the SBA's website at <http://www.sbaonline.sba.gov/financing>.
6. "Economically depressed areas' means islands having unemployment rates in excess of seven percent." Act 118, Session Laws of Hawaii 1998, section 1.
7. See Act 118, Session Laws of Hawaii 1998, and Act 157, Session Laws of Hawaii 1999.
8. See the DOA's website: <http://www.hawaiiag.org/hdoa> for more financing information.
9. Section 163D-5(4), Hawaii Revised Statutes.
10. Section 163D-5(6), Hawaii Revised Statutes.
11. Section 163D-1, Hawaii Revised Statutes.
12. Questionnaire responses from lenders.
13. *The Honolulu Advertiser*, July 9, 2000, internet article.
14. Interview with staff at the DOA agriculture loan division.

## Chapter 3

### THE FARMERS

Few occupations pose more risk, uncertainty and problems than farming. The only outcome that is guaranteed in farming is anxiety -- and for good reason. Farmers contend with the weather, water supply, infestation by insects and pests, plant and animal diseases, soil quality, maintaining and operating machinery, seed, feed, crop selection, a sometimes fickle consumer market, distribution, marketing, and a host of other factors not the least of which includes -- financing.

Like any other business, capital is necessary for a multitude of purposes including the operation and expansion of a business. But unlike other businesses, the extraordinary risks related to farming, coupled with the deferred nature of profits that are necessarily realized only after harvest make financing for some farmers very difficult. Unfortunately, no reliable statistics are available from either government or private lenders that can quantify this difficulty. But based on the responses to the questionnaire sent to farmers (or lack thereof), there appears to be little indication of farmers having difficulty obtaining financing.

Of the 264 questionnaires sent to farmers, twenty-two responded with either no comment or did not think financing was a problem. Only twenty-four farmers responded with comments that were critical of the agriculture loan system. That means, that of the 264 questionnaires sent to farmers, a vast majority or 240 farmers either chose not to comment or were not critical of the agriculture loan system. Additionally, of the two thousand members of the Hawaii Farm Bureau Federation that received the questionnaire in its newsletter, only two farmers responded.

Most of the twenty-four responses (with comments) reflected a generic dissatisfaction with lenders (e.g., too much paperwork, lack of simplified loan applications, process too long, system not user friendly, etc.). This complaint is not new to lenders who are quick to point out that almost all loans that lenders service (i.e., consumer loans, mortgage loans, etc.) face the same criticisms and that the banking industry as a whole is moving toward easier and expedited loan processing. They also point out that commercial loans (which includes farm loans) are more technical in nature than consumer loans and require tedious record keeping and financial planning -- something some farmers admittedly dread.

#### Comments and Suggestions

Other comments and suggestions made by farmers are as follows:

1. More assistance to new farmers;
2. More loan information programs;
3. Problems with state leased land;

4. More affordable farm loans and grants; and
5. High cost of loan applications.

### **Assistance to New Farmers (Item #1)**

The problems of the new farmer were apparent in questionnaires sent to farmers, lending agencies, and landowners, and repeatedly confirmed through personal interviews. Ironically, although new farmers have probably experienced the most difficulty obtaining a loan, they are necessarily the least represented in this report. This is because they are outside farming's mainstream and suffer from a lack of information, outside contact, and in most cases -- a lack of credit. They are usually not part of any mailing list or affiliated with any farm organization and are in most instances difficult to locate, let alone contact. For the most part, they are the forgotten part of Hawaii's agriculture loan system.

For the purposes of this report, new farmers have been identified as: (1) displaced plantation workers, (2) immigrants, (3) inexperienced, or (4) a combination thereof.

### **Displaced Plantation Workers**

Although displaced plantation workers are skilled in the production of sugar and pineapple, they are considered "new" because of the different skills and knowledge (new tools and machinery, different crops, business skills, etc.) needed to operate a small independent farm. But unlike their immigrant and inexperienced counterparts, displaced plantation workers have been blessed with both state and federal financial aid.

Displaced plantation workers have benefited from state farm loan programs for Hamakua, Waialua, Ka'u, and other plantation communities. Various displaced workers received grant-in-aid assistance from the State's Kohala Task Force<sup>1</sup> in the early 1970s and the federal government's Rural Economic Transition Assistance -- Hawaii (RETA-H) program (Appendix I) in the 1990s. Both grant programs pumped millions of dollars into plantation economies on behalf of displaced plantation workers.

The Kohala Task Force was the State's attempt at assisting the tiny community of Kohala on the Big Island after the closure of Castle and Cooke's Kohala Sugar Company. The RETA-H program was administered and financed by a conglomeration of federal agencies that provided nearly \$25 million in grants to plantation communities on Oahu, Kauai, and the Big Island. Finally, the State in 1998 appropriated \$2 million under Act 118, Session Laws of Hawaii 1998, and \$2.5 million in 1999 under Act 157, Session Laws of Hawaii 1999, to assist farmers in "economically depressed areas" that includes former plantation communities.

Although the displaced plantation worker has had more access to loan funds as compared to his "new farmer" counterpart, the displaced worker is still in need of assistance. The jump

from working as one of hundreds of employees on a large plantation to becoming an independent farmer can be traumatic and daunting. Regardless of the availability of capital, the skills and knowledge needed to become an independent farmer is still an issue for all farmers, especially new farmers, including displaced plantation workers.

### **The Immigrant Farmer**

Another group of new farmers is the immigrant farmer. Unlike the displaced plantation worker who was easily identified and the beneficiary of specific government programs, the immigrant farmer is pretty much anonymous. The immigrant farmers usually have little or no contact with the mainstream farming community and have generally maintained the farming practices and lifestyle that they successfully practiced in their motherland. Although there are no statistics on the population of immigrant farmers, their numbers are estimated in the hundreds.

Local immigrant centers that provide various types of social and financial assistance to immigrants report an understandable hesitation by some immigrant groups to assimilate into the mainstream farming community. Primarily because of language and cultural barriers, and anything remotely connected with government, these groups have necessarily devised ways of cooperatively farming around these barriers without "outside" assistance.

But, as successful as some immigrant groups have become, others are relegated to subsistence level farming. Whether intentional or not, such levels are dictated, in large part by the availability of credit. And since immigrant farmers retain the capital acquisition practices of their motherland (i.e., personal savings and small loans from friends and family), their chances for farming and financial growth is understandably limited.

To assist immigrant farmers, the State recently enacted Act 51, Session Laws of Hawaii 2000, which expanded loan eligibility requirements to include permanent resident aliens with three years of residency. The federal government also provides a program for socially disadvantaged farmers that qualifies Asian immigrant farmers for federal loans (Appendix E). But the fear felt by immigrant farmers of anything connected with "government" is real and undeniable. No matter how many government programs are provided to immigrant farmers, the end result is minimal to nonexistent if the intended beneficiaries of the programs do not avail themselves of these services.

### **The Inexperienced Farmer**

Another group of new farmers is the "inexperienced farmer". Ironically, the definition of a "new farmer" for any government or private program is not someone who is "new" at farming, but someone who possesses some form of experience (Appendix H). A person who has absolutely no experience (i.e., educational, work related, or otherwise), cannot qualify for a "new farmer" farm loan.

Although there are no statistics on the number of inexperienced farmers in Hawaii -- their presence is verified by other farmers, lenders, and community organizations. Like the displaced plantation worker, the inexperienced farmer has little or no knowledge or experience of running an independent farm. But unlike the displaced plantation worker, the inexperienced farmer has no government programs to depend on. Even the immigrant farmer, who is experienced and survives in a cooperative farming lifestyle, appears to be better off than the inexperienced farmer who enjoys neither of these benefits.

Additionally, unlike their "new farmer" counterparts, the inexperienced farmers face the classic "Catch 22" -- they cannot get a loan without experience, and they cannot get experience unless they can get a loan (to finance, for example the start-up costs of a new farm). But, according to lenders, it is a necessary catch.

Although it is relatively easy to understand why society might benefit from giving loans to new farmers (e.g., provide jobs, support economic growth, facilitate open space, and a local food supply, etc.) understanding the lenders' position may not be as simple.

All lenders, especially the DOA, disburse loan funds from a relatively finite supply or pool of money. That supply is virtually perpetual, depending on the economic integrity of its borrowers. That is, as long as borrowers faithfully repay their loans, the funds will "revolve" to provide more funds to prospective borrowers. If however, borrowers default on their loans, no loans can be made to anyone else. Thus, to increase the likelihood that loans will be repaid, certain requirements, such as "experience" are required of new farmers.

Presently, it is almost impossible for an inexperienced farmer to obtain a conventional farm loan. Without the required experience, these farmers must seek financing from micro lenders, family and friends, or from the use of credit cards.

### **Loan Information Programs (Item #2)**

A common complaint by farmers was the lack of available loan information programs (especially for new farmers). Currently, there are no information clearinghouses for farmers to learn about farm loans -- and the information that was available, appeared to be limited exclusively to Oahu farmers. Some farmers also do not understand the basic structure of government nor the difference between state and federal programs. Clarification in these areas would reduce the level of anxiety experienced by those in need of farm credit.

### **Problems with State Leased Land (Item #3)**

See Chapter 4 on major landowners.



#### **More Affordable Loan Funds (Item #4)**

Several farmers commented on the lack of affordable farm loans. For example, according to the Hawaii Pork Industry Association, an estimated forty percent of Hawaii's hog farmers carry an average loan balance of \$77,000 with capital investments of \$2,000 to \$3,000 in each sow that they own -- a highly expensive proposition. Like other comments received from crop farmers, the lack of affordable credit necessarily limits crop or hog production and the potential for financial growth.

A good example of credit helping to foster financial growth was evident under Acts 118 and 157. The laws provided over \$4 million in low interest loans to farmers in economically depressed areas of the State. According to the DOA, the intent of the laws was to focus on farmers who could do the most good for the local farming community -- that is, established farmers who could provide employment to displaced plantation workers, rather than providing loans directly to displaced plantation workers seeking to become farmers. According to the DOA, the availability of affordable credit resulted in the construction of new capital projects and new farm hires that would have been postponed without the funds provided by these laws.<sup>2</sup>

#### **High Cost of Loan Applications (Item #5)**

Some farmers complained of the high cost of loan applications. Like any other loan application for any other reason, lenders charge a nonrefundable fee, usually in the hundreds of dollars, to loan applicants to compensate them for their time spent evaluating the application. For most farmers, the fee is a cost of doing business. But for the farmer who is barely making ends meet and who probably will qualify for the DOA loan, the two denial requirement is an expense that she can ill afford.

Although the two-denial requirement achieves its objective of ensuring only qualified farmers apply for DOA loans, the requirement also unwittingly penalizes the farmer it was intended to assist.

### **Endnotes**

1. "The Kohala Initiative" A Report of the Kohala Task Force, John Farias, Jr., Chairman, Kohala Task Force, Honolulu, Hawaii, May 1978.
2. Interviews with the Department of Agriculture staff.

## Chapter 4

### MAJOR LANDOWNERS

Pursuant to S.C.R. No. 131, major landowners in Hawaii were contacted to elicit their input with respect to the agriculture loan system.

#### The Questionnaire

Of the twenty-seven major landowners and agencies of private and public lands that were contacted by questionnaire, fourteen of the twenty private landowners that responded had neither comment nor problems with the agriculture loan system. That means that twenty-one of the twenty-seven landowners contacted were apparently satisfied with the agriculture loan system. One landowner even went so far as to suggest that the State not disturb the relationship between private landowners and farmers because the inherent features of the marketplace adequately provided for both landowners and farmers.

That is not to say that the farmer/landowner relationship is not without its problems. Of primary concern to some farmers was the issue of state-leased land. Although this issue affects privately leased land as well, it is for the most part a state-leased land issue.

#### State-Leased Land

Presently, farmers may lease state land from the Department of Land and Natural Resources (DLNR) or the DOA through its Agricultural Park Program. A third public entity, the Agribusiness Development Corporation is in the process of negotiating its first lease for farmland on the Big Island in Hamakua.

According to DLNR, as of February 8, 2000, there were 249 DLNR leases statewide.<sup>1</sup> Currently there are eight agricultural parks in the State; four on Hawaii, three on Oahu, and one on Kauai. Except for the park on Kauai, all of the State's 196 lots are presently under lease.<sup>2</sup>

#### DLNR Land Leases

According to responses from all three categories of questionnaires, as well as from personal interviews, the problem with DLNR state-leased land is the perceived hesitancy by commercial lenders to honor state leases as collateral for loan purposes. At the forefront of dissident lenders is Farm Credit Services of Hawaii (FCSH) which has stopped recognizing state leases since 1993. As a major player in the agriculture loan system, FCSH's departure from state-leased land loans has had a major impact on the loan market.

The causes of the rift between FCSH and the State are many, but the primary problem appears to be an unwillingness by both parties to compromise on issues that they perceive as indispensable to their position. DLNR defends its strict policy posture primarily because of its role as trustee of the public lands under chapter 171, Hawaii Revised Statutes (HRS). As trustee, DLNR has a fiduciary duty to ensure the proper administration of all lands under its purview, including state land leased under chapter 171, HRS. What may be perceived as "inflexibility" on the part of DLNR, may very well be the faithful execution of an agency's fiduciary duties. But interestingly, lands leased by farmers under private trusts requiring a similar exercise of fiduciary duties by its trustees, do not suffer the same criticisms and problems. Consequently, it is not unusual to find farmers on privately leased land who refuse to farm on state-leased land.

FCSH defends its position by blaming DLNR loan documents that unfairly burden it with unreasonable liability as well as anecdotal examples of administrative decisions that were contrary to law or DLNR policy. But like DLNR, other lenders recognize state leases under DLNR and do not appear to have encountered the same problems as FCSH.

The problem is further aggravated because 78 of the 249 DLNR leases expire within the next ten years. Seventeen expire this year alone.<sup>3</sup>

The problems surrounding state-leased land is beyond the scope and resources of this report. Fortunately, however, these problems are not beyond resolution, as all parties -- including the State, lenders, farmers and private landowners expressed a sincere interest in working out their differences to make more state-leased land available for farming.

### **Comments and Suggestions**

The following comments and suggestions were also made by major landowners:

1. Establish outreach loan information programs for farmers (especially new farmers);
2. Provide more low interest farm loans; and
3. Address the concern by a landowner that allowing residential housing for farmers on leased agriculture land may subject the landowner to the Land Reform Act.

### **Outreach Loan Information Programs and Low Interest Loans (Items #1, #2)**

These comments were discussed in chapters II and III regarding lenders and farmers, respectively.

### **Land Reform Act Concerns (Item #3)**

The Land Reform Act under chapter 516, HRS, allows lessees of privately held residential leasehold land to condemn and purchase the land in fee. The Act, under section 516-2, HRS, applies almost exclusively to "lands leased as residential lots". Since land offered for lease by private landowners as farmland is not a residential lot, logically the Land Reform Act would not appear to be of concern. It would seem that a landowner concerned about the possibility of condemnation could avoid the problem by prohibiting farmers from residing on the leased farmland.

But in the interest of a farmer's housing and credit needs, and to assure private landowners that the Land Reform Act does not apply to leased land that is primarily farmland, chapter 516, HRS, could be amended to specifically exempt leasehold farmland with a residential structure from the Land Reform Act. The amendment would enhance a farmer's ability to obtain a loan by increasing the equity in the leased property that is given as collateral for the loan.

### **Endnotes**

1. Letter from Timothy E. Johns, Chairperson of the Board of Land and Natural Resources, to the Honorable Felipe P. Abinsay, Jr., Chair of the House Committee on Agriculture, February 8, 2000.
2. Department of Agriculture internet website at [www.hawaiiag.org/hdoa/arm\\_agparks.htm](http://www.hawaiiag.org/hdoa/arm_agparks.htm).
3. Johns letter, note 24.

## Chapter 5

### CONCLUSION AND RECOMMENDATIONS

For the most part, the agriculture loan system appears to be working. That is, it appears that government and private lending agencies adequately provide for the credit needs of most farmers and have been refocusing their loan programs in response to a changing clientele. But there is room for improvement, primarily in three areas of the system.

First, with respect to lenders, a major player in the system -- Farm Credit Services of Hawaii may be getting less than its fair share of the farm loan market due to the good intentions of state government;

Second, with respect to farmers, the needs of "new farmers" are not being adequately met; and

Third, problems surrounding the state leased land system are preventing farmers from utilizing available credit to farm on state leased land.

The Legislative Reference Bureau respectfully makes the following recommendations:

#### **Coordinating Body**

First, there is a need for an agriculture coordinating body whose purview includes all segments of the agriculture community (including the agriculture loan system). During the evaluation process, it became quite evident that government agencies, commercial lenders, and farmers were not always working with the same or adequate information. Communication gaps between government and private lenders and gaps between parties involved with the state-leased land issue could be mitigated if better channels to exchange information were in place.

A major stumbling block to this suggestion, however, is the administrative placement of the coordinating body. Some farmers equate the placement of a coordinating body with power. That is, they believe that wherever the coordinating body is administratively placed ultimately becomes the authority for setting agricultural policy in Hawaii. Considering the Governor's remarks mitigating the importance of agriculture to Hawaii, another "Governor's Agriculture Coordinating Committee" of the past is highly unlikely. If the idea of a coordinating body is embraced by the industry, a choice for administrative placement of this body would have to come from the industry with assurances that the body would be purely advisory.

On another level, the Department of Agriculture (DOA) is moving toward better communication with private lenders to facilitate credit availability to farmers. This is a crucial step in bridging the communication gap between government and private lenders. It should also be noted that what appears to be a lack of an overall farm loan policy at banks necessarily requires treating each bank branch as a separate lending entity.

*Recommendation:* Establish a statewide agriculture coordinating body that provides a forum for policy making entities of the agriculture community to discuss agricultural issues (including the agriculture loan system) and provide an information clearinghouse for lenders with respect to statistical information. This information would be especially helpful to new agricultural industries such as forestry and aquaculture that would benefit from the distribution of information to lenders to enhance their likelihood of obtaining credit.

Another objective of the coordinating body might be to quantify the supply and demand for agricultural loans in the State. This information is essential to conclusively determine the efficacy of the agriculture loan system.

See Appendix J for suggested legislation.

### **Affordable Loans**

Second, there is a need for more affordable state loans for all agricultural purposes, including purchasing farmland, boosting economic growth, and assisting new farmers.

*Recommendation:* Utilize innovative financing mechanisms such as Iowa's Linked Investment Program and "Aggie Bond" programs that utilize federal assistance to provide more state loans to farmers.

The Linked Investment Program allows the budget director to purchase a certificate of deposit below the current market rate from a local financial institution and loan the money to farmers at a low interest rate. This would be an excellent vehicle for new farmer loans or to augment loans to the general farming community; provided that the new supply of funds does not disturb the balance between lenders in the agriculture loan system. See Appendix K for suggested legislation. Although Appendix K is patterned after the Iowa law that targeted new farmers, the bill can be expanded to benefit all farmers if the legislature so desires.

Another suggestion is the "Aggie bond" loan program that enables lenders to receive federally tax-exempt interest on loans made to new farmers. Widely administered on the mainland, it may provide assistance to the new farmer with some experience but not the farmer with absolutely no experience at all. Displaced plantation workers starting a new farm would be able to utilize these funds. See Appendix L for suggested legislation.

The State should also concentrate on providing more guaranteed farm loans to maximize the lending opportunities available from commercial lenders. State guaranteed loans are a good way of encouraging participation by commercial lenders who would otherwise not be involved in farm loans.

Finally, the State should also consider increasing loan aid to genuine new farmers, that is farmers without any experience. The only prudent and feasible way to do this is to support those who have the most experience and administrative capabilities to process and award such loans --

the micro lenders. Initiating or increasing funding to these nonprofit organizations will address a demonstrated need in the agriculture loan system.

### **Loan Information**

Third, there is a need to assist farmers (especially new farmers) with loan information. The DOA has just announced a new outreach program to provide such information to farmers across the State. Hopefully, the program will include loan services from all sources (both government and commercial lenders) to provide borrowers with a comprehensive and complete offering and explanation of farm financing in Hawaii.

Additionally, the Agribusiness Development Corporation is also considering a one-stop service to provide new farmers with needed information relative to starting a farm. Both proposed programs if implemented would greatly reduce the confusion surrounding farm loans and serve a need that has been expressed by all segments of the farming community. These programs would be especially helpful to new farmers such as displaced plantation workers and inexperienced farmers with information not only on the availability of credit but also training programs offered by the University of Hawaii's College of Tropical Agriculture and Human Resources. Hopefully, these efforts will be coordinated to maximize efficiency and reduce duplicative services.

*Recommendation:* Special attention should be given to the needs of immigrant farmers. The DOA and University of Hawaii recently conducted an outreach program to educate immigrant farmers on the proper use of pesticides. This kind of personal approach is necessary in order to reach immigrant farmers who would not otherwise avail themselves of any service provided by any government program. Hopefully, future efforts by the DOA or ADC will consider this suggestion.

Part of any effort to provide information to farmers should include access to information on the internet. There is a wealth of information on the internet on a variety of farming subjects including the agriculture loan system of this and possibly every other state in the union. Providing reasonable access to the information highway would greatly enhance the distribution of information to farmers.

With respect to new farmers, besides one-stop services and more loan information, they would benefit from an enhanced agricultural park program. This state program is an excellent opportunity for new farmers to learn and grow in a new career.

## State-Leased Land

Fourth, the confusion surrounding the use of state-leased land as loan collateral is beyond the scope and resources of this evaluation. However, resolution to this perplexing problem is attainable, as all parties (government agencies, lenders and farmers) are optimistic and willing to work out their differences in order to provide more state land for farming.

*Recommendation:* Convene a blue ribbon panel representing all pertinent sectors of the agriculture community to discuss and make recommendations on the substantive and procedural changes needed to enhance the use of state-leased lands. The panel should include representatives from the DLNR, DOA, FSA, the Small Business Administration, the Hawaii Farm Bureau, private lenders including FCSH, and private landowners. Considering the diverse nature of these organizations, hopefully the impetus to resolve the state-leased land issue will come from the industry itself, but that not forthcoming, the legislature should name a lead agency for administrative purposes. See Appendix M for suggested legislation.

## Land Reform Act

Fifth, with respect to the fear by landowners of privately owned leased land that the Land Reform Act may result in the condemnation of their land if they allow farm housing on the land, the legislature may want to consider the following suggestions:

- (1) Exempt privately owned land leased primarily for agricultural purposes from the Land Reform Act. This amendment would specifically protect landowners that lease to farmers with a residential housing on the land. See Appendix N for suggested language; or
- (2) Establish agricultural subdivisions that encourages landowners to lease their land to farmers by prohibiting residential housing on the property. See Appendix O for suggested language.

## Farm Credit Services Hawaii

Sixth, considering the sometimes tenuous position FCSH has found itself with the disbursement of Acts 118 and 157 funds and the problems with state leased land, the legislature may want to consider amending section 155-3, HRS, to help FCSH stabilize its foothold in the agriculture loan system.

Before 1997, section 155-3, HRS, relating to loan restrictions, required **all** prospective DOA loan applicants to be specifically denied loans from the (now defunct) Farmers Home Administration (for federal loans), Farm Credit Services System, and by two private lenders before applying for loans with the DOA. In 1997, however, the law was amended to require loan applicants to obtain loan denials from **any two** of the above-mentioned lenders. In other words, a FCSH loan denial was not necessarily a prerequisite to a DOA loan.



## CONCLUSION AND RECOMMENDATIONS

According to Standing Committee Report No. 280 of the House Journal, 1997, the legislature made this amendment to "expedite the credit denial process", presumably for the benefit of farm loan applicants. The amendment served its objective, but it also allowed applicants to bypass FCSH before applying for a DOA loan.

*Recommendation:* Amend section 155-3, HRS, to require loan approval by FCSH as a prerequisite to a DOA loan application. See Appendix P for suggested legislation.

Secondly, with respect to Acts 118 and 157, there is a need for greater accountability of these funds by the DOA. The allegations made by FCSH are not entirely without merit, considering the DOA requires minimal verification from loan recipients. Considering the large sums of loans provided, it would behoove the DOA to institute on-site inspection of recipient farms and to more closely verify the actual numbers of new hires made after disbursement of the loan funds. Since the DOA could easily institute this type of enhanced verification on its own, no legislation is suggested.

### **High Cost of Loan Applications**

Seventh, rather than simply suggesting state reimbursement for loan fees incurred by a successful DOA loan applicant, perhaps the better way is to provide reimbursement only after the first DOA loan application made within five years. In this way, the reimbursement is not overly burdensome to the State and it necessarily provides relief to the DOA loan applicant who is probably in greater need of assistance having had to apply for two loans within five years. See Appendix Q for suggested legislation.

SENATE CONCURRENT  
RESOLUTION  
REQUESTING THE LEGISLATIVE REFERENCE BUREAU TO EVALUATE THE  
AGRICULTURE LOAN SYSTEM IN HAWAII.

1 WHEREAS, the agricultural sector continues to make a  
2 significant contribution to Hawaii's economy, and is the  
3 business opportunity of choice for many rural communities; and  
4

5 WHEREAS, the agricultural sector produces about  
6 \$500,000,000 annually of the gross product of Hawaii and  
7 directly employs over forty thousand persons through more than  
8 five thousand five hundred farm and ranch businesses. The vast  
9 majority (eighty-six per cent) of the farm units are less than  
10 ten acres, with reported gross annual revenues of \$50,000 or  
11 less; and  
12

13 WHEREAS, the business growth in the agricultural sector is  
14 the fastest growing segment of our recovering economy; and  
15

16 WHEREAS, rural Hawaii is experiencing a historic change  
17 from the once dominant sugarcane and pineapple plantation  
18 cropping pattern to a much more diverse and new agriculture as  
19 sugar mills and canning plants have been closed; and  
20

21 WHEREAS, this change has been and is being caused, in  
22 large measure, by market forces that are controlled outside the  
23 State; and  
24

25 WHEREAS, this rural transition requires the conservation  
26 and conversion of the improved crop lands and their production  
27 infrastructure, such as cleared and graded fields, irrigation  
28 and drainage works, and roads and bridges, in order to  
29 facilitate the start-up of new agricultural enterprises of all  
30 sizes and types; and  
31

32 WHEREAS, examples of new agricultural enterprises include  
33 trees for fiber for international markets, fresh produce crops  
34 to displace interstate trade to increase self-sufficiency, and  
35 new and treated flower and fruit products for interstate  
36 markets; and  
37

1 WHEREAS, these new rural enterprises provide sources of  
2 needed employment for displaced agricultural workers and their  
3 communities; and  
4

5 WHEREAS, this farm business change creates the demand for  
6 new investment for the modification of production facilities to  
7 deliver new products to local, interstate, and international  
8 markets; and  
9

10 WHEREAS, the farm credit system has had to undergo changes  
11 during this transition as the result of mature, corporate  
12 agricultural companies being replaced by a mixture of expanding  
13 or new start-up farm operations of variable financial strength  
14 and experience, but with significant investment requirements;  
15 and  
16

17 WHEREAS, the public and private farm credit system, which  
18 had been devised to respond to the credit demand of the  
19 plantation agricultural pattern, may not be adequate or  
20 appropriate in today's economy; and  
21

22 WHEREAS, agricultural land and water use rights may not be  
23 adequately conveyed to a tenant to provide reasonable security  
24 for the extended credit needed for redevelopment needs; and  
25

26 WHEREAS, there is an immediate need for an evaluation of  
27 the farm credit demand and supply system and the public and  
28 private constraints to those credit transactions; now,  
29 therefore,  
30

31 BE IT RESOLVED by the Senate of the Twentieth Legislature  
32 of the State of Hawaii, Regular Session of 2000, the House of  
33 Representatives concurring, that the Legislative Reference  
34 Bureau is requested to evaluate the agriculture loan system in  
35 Hawaii; and  
36

37 BE IT FURTHER RESOLVED that the Bureau is requested to  
38 consult with the following state agencies and private companies  
39 in conducting its evaluation:  
40

41 (1) The Department of Agriculture, including the  
42 Agricultural Loan Division, and the Aquaculture  
43 Development Program;  
44

- 1 (2) The Hawaii Farm Bureau Federation;
- 2
- 3 (3) The College of Tropical Agriculture and Human
- 4 Resources, University of Hawaii at Manoa;
- 5
- 6 (4) The Department of Land and Natural Resources;
- 7 including the Division of Land Management and the
- 8 Division of Forestry and Wildlife;
- 9
- 10 (5) The Department of Hawaiian Home Lands;
- 11
- 12 (6) The Office of Hawaiian Affairs;
- 13
- 14 (7) The Department of Business, Economic Development, and
- 15 Tourism;
- 16
- 17 (8) The Rural Development, United States Department of
- 18 Agriculture, Business and Industry Loan Guarantee
- 19 Program;
- 20
- 21 (9) The Farm Service Agency, United States Department of
- 22 Agriculture;
- 23
- 24 (10) The Hawaii Small Business Development Center Network,
- 25 a partnership program between the University of
- 26 Hawaii at Hilo and the United States Small Business
- 27 Administration;
- 28
- 29 (11) The United States Small Business Administration;
- 30
- 31 (12) Major owners of agricultural lands in Hawaii;
- 32
- 33 (13) Major financial institutions in Hawaii and other
- 34 banking interests;
- 35
- 36 (14) Major agribusiness in Hawaii;
- 37
- 38 (15) Major farm and ranch businesses in Hawaii, including
- 39 part-time, full-time, and every operating size of
- 40 growers of food, fiber, and flowers for sale,
- 41 including aquacultural and maricultural farmers;
- 42
- 43 and
- 44

1 BE IT FURTHER RESOLVED that these state agencies and  
2 private companies are requested to cooperate with and provide  
3 assistance to the Bureau with respect to its evaluation; and  
4

5 BE IT FURTHER RESOLVED that the Legislative Reference  
6 Bureau is requested to report its findings and recommendations,  
7 including any proposed implementing legislation, to the  
8 Legislature no later than twenty days before the convening of  
9 the Regular Session of 2001; and  
10

11 BE IT FURTHER RESOLVED that certified copies of this  
12 Concurrent Resolution be transmitted to the Acting Director of  
13 the Legislative Reference Bureau; the Chairperson of the Board  
14 of Agriculture; the Administrator of the Agricultural Loan  
15 Division; the Manager of the Aquaculture Development Program;  
16 the President of the Hawaii Farm Bureau Federation; the Dean of  
17 the College of Tropical Agriculture and Human Resources,  
18 University of Hawaii at Manoa; the Chairperson of the Board of  
19 Land and Natural Resources; the Administrator of the Division  
20 of Land Management; the State Forester, Division of Forestry  
21 and Wildlife; the Chairperson of the Hawaiian Homes Commission;  
22 the Chairperson of the Board of Trustees of the Office of  
23 Hawaiian Affairs; the Director of Business, Economic  
24 Development, and Tourism; the State Director of Rural  
25 Development, Hawaii State Office, United States Department of  
26 Agriculture; the State Executive Director of the Farm Service  
27 Agency, United States Department of Agriculture; the State  
28 Director of the Hawaii Small Business Development Center  
29 Network; and the State Director of the United States Small  
30 Business Administration.  
31  
32  
33  
34  
35

OFFERED BY: \_\_\_\_\_

## Appendix B

### AGRICULTURE LOAN SYSTEM QUESTIONNAIRE Government Loan Programs/Banks/Credit Unions

1. Your name and title: \_\_\_\_\_ (please print).

Your company: \_\_\_\_\_.

If the answers to any question are available on a website, please provide the address:

\_\_\_\_\_  
—

*Skip questions 2 through 7 if your agency does not provide loans to farmers.*

2. Briefly explain the types of loans or grants available to agricultural or aquacultural farmers or ranchers through your agency or bank.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. What are the applicant qualifications for each type of loan or grant?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Within the last five years, how many agricultural or aquacultural farmers or ranchers have applied for each type of loan/grant? How many have successfully received loans/grants?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Do you have any loan or grant programs for new agricultural or aquacultural farmers or ranchers? If so, please describe those programs.

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6. Does your agency or bank have a system of evaluating its farm loan or grant program? If so, what are the results or findings of that evaluation?

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7. How does your agency or bank determine the success or failure of its farm loan/grant program?

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8. Is the present farm loan system in Hawaii fulfilling the demand and needs of Hawaii's agricultural or aquacultural farmers or ranchers? If not, why not?

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9. How can the farm loan system be improved?

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10. Any other comments. Please feel free to attach additional pages for your response as needed.

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Thank you for your response. The information you supplied will be part of a report to the 2001 Legislature. If you would like to receive a copy of the report, please check here [ ]. If you would like your comments to remain confidential, please check here [ ]. Your assistance in returning this questionnaire to the Legislative Reference Bureau, State Capitol, Room 446, Honolulu, Hawaii 96813 (in the enclosed envelope) or by fax at 587-0681 by **August 4, 2000**, is greatly appreciated. If you have any questions, please contact me by phone at 587-0673 or by e-mail at [ikuma@capitol.hawaii.gov](mailto:ikuma@capitol.hawaii.gov). Thank you.



**AGRICULTURE LOAN SYSTEM QUESTIONNAIRE**  
**Farmers/Ranchers/Agribusiness**

1. Your name and title: \_\_\_\_\_ (please print).  
 Your \_\_\_\_\_ company:

If the answers to any question are available on a website, please provide the address:  
 \_\_\_\_\_  
 \_\_\_\_\_

2. Have you applied for any loans or grants in the last five years that was related to agriculture?  
 Yes [ ] No [ ]

3. If yes, please supply the following information:

SOURCE (Bank/Other)	DATE OF APPLICATION	AMOUNT*	PURPOSE OF LOAN
1.			
2.			
3.			
4.			
5.			

\* \$5,000 or less            A  
 \$5,001 to \$25,000        B  
 \$25,001 to \$50,000      C  
 \$50,001 to \$100,000    D  
 More than \$100,000     E

4. Did you successfully obtain any of the above loans or grants?    Yes [ ]    No [ ]

If yes, which ones? \_\_\_\_\_

If no, did you pursue the loan through any other means? (relatives, credit cards, etc.)

If no, what were the obstacles that prevented you from obtaining the loan or grant?  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

5. Is the present farm loan system in Hawaii fulfilling the demand and needs of Hawaii's farmers?  
Yes [ ] No [ ] (If you answered "Yes", please skip question 6.)

6. If not, why not?

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7. How can the farm loan system be improved?

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8. Any other comments. Please feel free to attach additional pages for your response as needed.

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**AGRICULTURE LOAN SYSTEM QUESTIONNAIRE**  
**Major Landowners**

1. Your name and title: \_\_\_\_\_ (please print).

Your company: \_\_\_\_\_

If the answers to any question are available on a website, please provide the address:

\_\_\_\_\_  
-

2. Are you currently renting or leasing land to agricultural or aquacultural farmers or ranchers?

Yes [ ]      No [ ]

If yes:

A. Has Hawaii's agricultural loan system presented any problems to you as a landowner either directly or indirectly?      Yes [ ]      No [ ]

If yes, please explain: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

B. How would you describe your company's relationship with tenant farmers? (Good? Bad? and Why?)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

C. What role does farming play in your company's plans as a major landowner?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 
3. Any other comments. Please feel free to attach additional pages for your response as needed.

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Thank you for your response. The information you supplied will be part of a report to the 2001 Legislature. If you would like to receive a copy of the report, please check here [  ]. If you would like your comments to remain confidential, please check here [  ]. Your assistance in returning this questionnaire to the Legislative Reference Bureau, State Capitol, Room 446, Honolulu, Hawaii 96813 (in the enclosed envelope) or by fax at 587-0681 **as soon as possible**. If you have any questions, please contact me by phone at 587-0673 or by e-mail at [ikuma@capitol.hawaii.gov](mailto:ikuma@capitol.hawaii.gov). Thank you.



## Farm Credit Services of Hawaii

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Federal Land Bank Association of Hawaii, FLCA  
Hawaii Production Credit Association

### Farm Credit Services of Hawaii Offers Flexible Agricultural Loans

Farm Credit Services of Hawaii is a Hawaii-based financial association that provides mortgage and operating loans exclusively to farmers, ranchers, fishermen, nursery owners and country home owners throughout the Islands. Farm Credit Services of Hawaii is comprised of the Federal Land Bank Association of Hawaii, FLCA and the Hawaii Production Credit Association.

The Federal Land Bank Association, FLCA provides long-term loans, usually for land. The association finances the purchase of open land and improved land, the construction of new farm and ranch projects, new homes in the country and home improvement projects on country homes. The association also refinances existing agricultural mortgages. On the other hand, the Hawaii Production Credit Association offers shorter-term loans to finance new equipment, inventory and other capital improvements for agriculturally related businesses.

According to Ted Tokunaga, president and chief executive officer of Farm Credit Services of Hawaii, the Federal Land Bank Association of Hawaii, FLCA and the Hawaii Production Credit Association, Farm Credit Services of Hawaii is unique in Hawaii due to its understanding of farmers and its sensitivity to their particular problems and needs.

"We know that farming can be a very risky business," he notes. "We fully understand the risks farmers take due to such factors as unpredictable weather conditions, marketing problems and business challenges, including increases in such costs as fertilizers and labor, labor shortages, and airline or shipping strikes which may make it difficult for farmers to market their products. In addition, since farming is very physical, we realize that farmers may experience personal health problems, such as strokes and heart attacks, that may impact their production."

Tokunaga adds that Farm Credit Services of Hawaii custom designs loans to meet the special needs of its clients.

"We offer very flexible and attractive loans and are capable of restructuring loans in progress if necessary," he says. "If one of our borrowers ever gets into trouble, we have the means to assist him by restructuring his loan to allow him to continue to farm, rather than to go under."

"For example, after Hurricane 'Iniki battered Kauai, about six of our clients on the Garden Island sustained major damage to their operations. To help them out, we granted them forebearances that waived the normal conditions of payment on their loans and gave them more time to make their payments. Then, when the farmers got back on their feet a few months later, we reactivated their notes. Through this process we gave the farmers a chance to rebuild their operations and service their

debts under normal, rather than extenuating, circumstances."

The Federal Land Bank Association of Hawaii was established in Honolulu in 1966. Owned and directed by its members, the association is part of the Farm Credit System, a nationwide lending institution which has serviced the agricultural community across the continental United States since 1917. The Hawaii Production Credit Association was established in Honolulu in 1976. On July 1, 1996, the boards of both associations approved joint management and established Farm Credit Services of Hawaii.

For a complimentary consultation and quote, contact:

Farm Credit Services of Hawaii  
Control Data Building  
2828 Paa Street, Suite 2085  
Honolulu, HI 96819

Phone: (808) 836-8009  
FAX: (808) 836-8610

Farm Credit Services of Hawaii  
988 Kinoole Street  
Hilo, HI 96720

Phone: (808) 961-3708  
FAX: (808) 961-5494

Residents of the Neighbor Islands may call the association's toll-free number: 1-800-894-4996.

Thank you for visiting the web site of Farm Credit Services of Hawaii! Aloha!

Posted on 5/1/98.

**Note:**

"FLCA" stands for "Federal Land Credit Association." A federal land credit association is a stand-alone, direct lending association. FLCAs were created in the United States when Congress passed the Farm Credit Act of 1971. There are 31 federal land credit associations in the United States. The Federal Land Bank Association of Hawaii, FLCA is one such association.

Each federal land credit association is supervised by a Farm Credit Bank. The Federal Land Bank Association of Hawaii, FLCA is supervised by the Western Farm Credit Bank, which is located in Sacramento, California.





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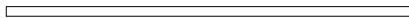


## Farm Loan Programs

FSA offers direct and guaranteed farm ownership and operating loans to farmers who are temporarily unable to obtain private, commercial credit. Often, FSA borrowers are beginning farmers who can't qualify for conventional loans because they have insufficient financial resources. The Agency also helps established farmers who have suffered financial setbacks from natural disasters, or whose resources are too limited to maintain profitable farming operations.

Under the guaranteed loan program, FSA guarantees loans made by conventional agricultural lenders for up to 95 percent of principal. The lender is responsible for servicing the borrower's account for the life of the loan. All loans must meet certain qualifying criteria to be eligible for guarantees, and FSA has the right and responsibility to monitor the lender's servicing activities. Farmers interested in guaranteed loans must apply to a conventional lender, which then arranges for the FSA guarantee.

Applicants unable to qualify for a guaranteed loan may be eligible for a direct loan from FSA. Direct loans are made and serviced by FSA officials, who also provide borrowers with supervision and credit counseling. Funding for direct loans is limited, and applicants sometimes have to wait for funds to become available. To qualify for a direct farm ownership or operating loan, the applicant must be able to show sufficient repayment ability and pledge enough collateral to fully secure the loan.



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To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, D.C., 20250-9410, or call (202) 720-5964 (voice or TDD).

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**March 2000**

## **Loans for Socially Disadvantaged Persons**

The Farm Service Agency (FSA) can make and guarantee loans to socially disadvantaged applicants to buy and operate family-size farms and ranches. Funds specifically for these loans are reserved each year.

A socially disadvantaged farmer or rancher is one of a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as members of the group without regard to their individual qualities. For purposes of this program, socially disadvantaged groups are women, African Americans, American Indians and Alaskan Natives, Hispanics, and Asians and Pacific Islanders.

This program:

- Targets direct and guaranteed loan assistance to socially disadvantaged persons;
- Discovers and removes barriers that prevent full participation of those persons in FSA's farm loan programs;
- Provides information and assistance to applicants to help them develop sound farm management practices, analyze problems, and plan the best use of available resources essential for success in farming or ranching.

### ***Types of Loans***

Direct loans are made to applicants by FSA and include both farm operating and farm ownership loans.

Guaranteed loans also may be made for ownership or operating purposes, and may be made by any lending institution subject to Federal or State supervision (banks, savings and loans, and units of the Farm Credit System) and guaranteed by FSA. Some State governments also operate farm loan programs that are eligible for FSA guarantees. Typically, FSA guarantees 90 or 95 percent of a loan against any loss that might be incurred if the loan fails.

### ***Use of Loan Funds***

Farm ownership loan funds may be used to purchase or enlarge a farm or ranch, purchase easements or rights of way needed in the farm's operation, erect or improve buildings such as a dwelling or barn, promote soil and water conservation and development, and pay closing costs. Guaranteed farm ownership funds may also be used to refinance debt.

Farm operating loan funds may be used to purchase livestock, poultry, farm and home equipment, feed, seed, fuel, fertilizer, chemicals, hail and other crop insurance, food, clothing, medical care, and hired labor. Funds also may be used to refinance debt and to install or improve water systems for home use, livestock or irrigation, and other improvements.

### ***Who May Borrow***



Individuals, partnerships, joint operations, corporations, and cooperatives primarily and directly engaged in farming and ranching on family-size operations may apply. A family-size farm is considered to be one that a family can operate and manage itself.

In addition to being members of a socially disadvantaged group, individual applicants under this program must meet all requirements for FSA's regular farm loan program assistance, including:

- Having a satisfactory history of meeting credit obligations;
- Having sufficient education, training, or at least 1 year's experience in managing or operating a farm or ranch within the last 5 years for a direct operating loan, or, for a direct ownership loan, have 3 years experience in operating a farm or ranch;
- Being a citizen of the United States (or a legal resident alien), including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and certain former Pacific Island Trust Territories;
- Being unable to obtain credit elsewhere at reasonable rates and terms to meet actual needs;
- Possessing legal capacity to incur loan obligations.

In the case of corporations, cooperatives, joint operations, or partnerships, the stockholders, members, or partners holding a majority interest must meet these same eligibility requirements. The borrowing entity must be authorized to operate a farm or ranch in the State where the actual operation is located. In addition, the entity must be owned by U.S. citizens or legal resident aliens, and the socially disadvantaged members must hold a majority interest in the entity.

If the individuals holding a majority interest in the entity are related by blood or marriage, at least one stockholder, member, or partner must operate the family farm or ranch. If they are not related by blood or marriage, those holding a majority interest must operate the farm or ranch.

### ***Terms and Interest Rates***

Repayment terms for direct operating loans depend on the collateral securing the loan and usually run from 1 to 7 years. Repayment terms for direct ownership loans are up to 40 years. Guaranteed loan terms are set by the lender.

Interest rates for direct loans are set periodically according to the Government's cost of borrowing.

Interest rates for guaranteed loans are established by the lender, but may not exceed the rate the lender charges its average farm loan customer.

### ***Getting a Loan***

Applications for all FSA direct loan programs are made through FSA's county offices. These are listed in telephone directories under "United States Government, Department of Agriculture."

Guaranteed loan applications are made with the lender. In cases where a lender is not known to an applicant, county office personnel will assist the applicant.

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (braille, large print, audiotape, etc.) should contact USDA's TARGET Center at 202-720-2600 (voice and TDD).

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## AGRICULTURAL LOAN PROGRAMS

The State of Hawaii, Department of Agriculture's Agricultural Loan Division administers the Agricultural Loan Program and the Aquaculture Loan Program. The intent of the programs is to help promote agricultural and aquacultural development of the State by providing credit at reasonable rates and terms to qualifying individuals or entities. Through the establishment of a revolving loan fund, credit is made available by supplementing private lender sector loan funds or by providing direct funding.

Considered a "lender of last resort", the program is not intended to compete with private sector lenders. Prospective applicants must inquire with and be denied credit from private sector lenders prior to filling an application. In addition, prospective applicants must fulfill applicable eligibility requirements. Applicants that are not able to obtain denials from the private lending sector may inquire with the private lender on the possibility of utilizing the [insured/guaranty and/or participation loan](#) facilities.

### AGRICULTURAL LOAN DIVISION FACT SHEETS

Fact sheets describing the various types of loans are provided below. Prospective borrowers are urged to review the fact sheets to ensure that they are able to meet eligibility requirements prior to applying for a loan.

- [New Farmer](#)
- [Qualified Farmer](#)
- [Part-time Farmer](#)
- [Food Manufacturing](#)
- [Aquaculture](#)

### APPLICATION PROCEDURE

The application process requires the completion of forms and submittal of all applicable documents listed on the application form. Loan applications may be [downloaded here](#) or obtained from any Agricultural Loan Division Office listed below.

Prior to obtaining and completing the loan application, it is recommended that you meet with or call one of our loan officers. They are available to assist you in determining your eligibility for the loan program, address your questions, and provide guidance through the application process.

Oahu: Department of Agriculture  
 1428 South King Street, Honolulu, Hawaii 96813  
 Telephone: (808) 973-9460

Hawaii: Department of Agriculture  
 16 East Lanikaula Street, Hilo, Hawaii 96720  
 Telephone: (808) 974-4140

Hawaii: Kona Civic Center  
 82-6130 Mamalahoa Highway, Captain Cook, Hawaii 96704  
 Telephone: (808) 323-7591

Kauai: Telephone: 274-3141, extension 39460 (Toll Free)

Maui: Telephone: 984-2400, extension 39460 (Toll Free)

Molokai: Telephone: 1-800-468-4644, extension 39460 (Toll Free)



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## AGRICULTURAL LOAN PROGRAMS Qualified Farmer Loan

### QUALIFIED FARMER LOAN FACT SHEET

#### ELIGIBILITY REQUIREMENTS

A Qualified Farmer is:

- A citizen of the United States who has resided in Hawaii for the preceding three years, or any permanent resident alien who has resided in Hawaii for the preceding three years; and
- A person of proven farming ability who has operated their own farm for two or more years; and
- A person who devotes most of their time or derives most of their net income from the farming operation.

Sole proprietors, partnerships, corporations, and cooperatives are among the legal forms of businesses eligible to apply for a loan. Other forms of businesses may also be eligible for other loan facilities.

- An eligible sole proprietor is one who qualifies individually by meeting the requirements listed above.
- Eligible partnerships are controlled to the extent by seventy-five percent by persons who qualify individually.
- Eligible corporations are those where at least seventy-five percent of the stockholders and directors qualify individually.
- Eligible cooperatives shall have a majority of its board of directors and a majority of its membership qualifying individually and shall be engaged in marketing, purchasing, and processing, and providing of farm business services.

#### LOANS AVAILABLE

Loans to Sole Proprietors, Partnerships, and Corporations			
Type of Loan	Maximum Loan	Maximum Term	Purpose
Farm Ownership and Improvement <sup>1</sup>	\$400,000	40 Years	Purchase or improvement of farmland; construction, or improvement of essential farm buildings; liquidation of indebtedness of the foregoing purposes.
Farm Operating	\$400,000	10 Years	Purchase of farm equipment and livestock; payment of production and marketing expenses including materials, labor, and services; payment of living expenses; liquidation of indebtedness incurred for the foregoing purposes.
Micro-Loans <sup>2</sup>	\$25,000	10 Years	

1. Loan amount shall not exceed eighty-five per cent of the value of the security offered and cannot be made on un-surveyed land.
2. The Micro-Loan application process minimizes paperwork and the loan processing procedure is expedited.
3. Facility loans require a down payment or equity contribution of 15% and cannot exceed 85% of the value

of the security offered.

Loans to Cooperatives			
Type of Loan	Maximum Loan	Maximum Term	Purpose
Facility <sup>3</sup>	\$500,000	20 Years	Purchase or improve land, buildings, and equipment.
Farm Operating	\$300,000	7 Years	Provide operating capital to finance inventories, supplies, and normal operating expenses.

*Interest rates* are fixed at 1% below the prime rate or 7-1/2% per annum whichever is less. The prime rate is set twice a year, on January 1st and July 1st of each year.

**Other Loans**

Emergency Loans are available to provide relief and rehabilitation due to environmental disasters, disease epidemics, and other economic emergencies. Emergency Loans are activated by declaration of a disaster by the Governor and are at an interest rate not less than 3% per annum. The Board of Agriculture determines the loan amount and terms. Qualified Farmers affected by State eradication programs may be eligible for a Farm Operating Loan at an interest rate of 3% to rehabilitate their farm operation. Soil and Water Conservation Loans are also available for water development and conservation purposes.

**APPLICATION PROCESS**

Loan applications may be obtained from any Agricultural Loan Division Office. Loan Officers are available to provide assistance and guidance on the loan process. In order to be eligible for a direct loan, applicants must be denied credit from two lenders, which include banks, savings and loan associations, credit unions, mortgage loan companies, the Farm Credit System, and/or the U.S. Department of Agriculture.

A private lender may pursue a participation loan or insured/guaranty loan on behalf of the applicant. Under these circumstances, the private lender will work in conjunction with the Division on the loan application.

As part of the application process, aspects such as repayment ability, collateral, and credit history, economic and environmental conditions, and historic performance will be taken into consideration. Acceptable applications are presented to the Board of Agriculture for final approval, with the exception of Micro-loans, which may be approved by the Chairperson of the Board of Agriculture.

For more information, call or visit one of our offices.

Oahu: Department of Agriculture  
 1428 South King Street, Honolulu, Hawaii 96813  
 Telephone: (808) 973-9460

Hawaii: Department of Agriculture  
 16 East Lanikaula Street, Hilo, Hawaii 96720  
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## AGRICULTURAL LOAN PROGRAMS

### New Farmer Loan

#### NEW FARMER LOAN FACT SHEET

#### ELIGIBILITY REQUIREMENTS

A New Farmer is:

- A citizen of the United States who has resided in Hawaii for the preceding three years, or any permanent resident alien who has resided in Hawaii for the preceding three years; and
- A person who has successfully earned a degree in agriculture from an accredited university or community college; or
- A person displaced from employment in an agricultural production enterprise; or
- A person with two years experience as a part-time farmer; or
- A farm laborer or tenant, or a person who by reason of ability, experience and vocational training in agriculture are likely to successfully operate a farm.
- Certain restrictions may apply.

New Farmer Loans are for applicants who intend to farm full-time. A full-time farmer is a person who devotes most of their time to farming or derives most of their income from farming operations. A down payment or equity contribution equal to 15% of the total project cost is required from the applicant.

#### LOAN RATE AND AMOUNT

Interest Rates: Fixed at 6% per annum

Amount: \$100,000 <sup>1</sup>

#### Farm Ownership and Improvement Loans

- Purpose: Purchase or improvement of farmland; construction, or improvement of essential farm buildings; liquidation of indebtedness for the foregoing purposes.
- Maximum Term: 40 years

#### Farm Operating Loans

- Purpose: Purchase of farm equipment and livestock; payment of production and marketing expenses including materials, labor, and services; payment of living expenses; liquidation of indebtedness incurred for the foregoing purposes.
- Maximum Term: 10 years

<sup>1</sup> - Maximum loan amount of \$100,000 may be used for a Farm Ownership and Improvement loan or a Farm Operating loan, or a combination of both types of loans.

Micro-Loans are also available for New Farmers, however, these loans are restricted to operating loan purposes only. The maximum loan amount is \$25,000 and the maximum term is 10 years. The application process minimizes paperwork and the loan approval process is expedited.

#### APPLICATION PROCESS

Loan applications may be obtained from any Agricultural Loan Division Office. Loan Officers are available to provide assistance and guidance on the loan process. In order to be eligible for a direct loan, applicants must be denied credit from two lenders, which include banks, savings and loan associations, credit unions, mortgage loan companies, the Farm Credit System and/or the U.S. Department of Agriculture.

A private lender may pursue a participation loan or insured loan on behalf of the applicant. Under these circumstances, the private lender will work in conjunction with the Division on the loan application.

As part of the application process, aspects such as repayment ability, collateral, capital, economic and/or environmental conditions, credit history, and other factors will be taken into consideration. Acceptable applications are presented to the Board of Agriculture for final approval, with the exception of Micro-loans, which may be approved by the Chairperson of the Board of Agriculture.

For more information, call or visit one of our offices.

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**HOME****CENTERS****SEMINARS****RETA-H****BUSINESS  
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REPORTS****LINKS****HAWAII SMALL BUSINESS DEVELOPMENT CENTER NETWORK****1998 ANNUAL REPORT  
THE RETA-H PROGRAM  
[ [Case Study](#) ]***Shown below: Robert Chase (left) and Cheryl Sumida.*

The national SBDC program has been created to respond specifically of each state and to be an umbrella under which other special programs organized to benefit a state. The Rural Economic Transition Assistance (RETA-H) Program is an example of a program designed to meet need.

The RETA-H Program results from a cooperative agreement between SBDC Network and the U.S. Department of Agriculture, with funding from the U.S. Department of Defense.

Initiated by Senator Daniel K. Inouye, the RETA-H Program provides grants to support the creation of agriculturally-based jobs for displaced sugar workers and others while promoting the establishment of a market-driven sustainable agricultural economy in Hawaii. It does this by providing critical funding to entrepreneurs who use Hawaii's two major resources released by the closing of sugar companies: land and labor. Most grants are in the range of \$50,000 - \$200,000.

In Federal Fiscal year 1993, \$905,280 was made available upon the closing of Hamakua Sugar Company in 1994, following the closing of sugar mills on Oahu, Kauai and in the Ka'u District of the island of Hawaii. An additional \$5 million was added to the program and its activities were expanded to these newly affected areas. In addition to the additional funding received in FY '96, '97, '98 and '99, the Program has received just under \$24 million for program development.

The Hawaii SBDC Network administers and manages the RETA-H Program, providing counseling grants. Advocacy for the development of a clearer and stronger vision for agriculture in the state and its population, in general, is supplied by Paula Helfrich, Executive Director of the Hawaii Island Economic Development Board. Grant decisions are made by an Oversight Committee of volunteer community members by Herbert Richards of Kahua Ranch. Robert Chase coordinates SBDC counseling activities for the Program and Cheryl Sumida coordinates the fiscal support for the ongoing projects.

As the vision of Senator Inouye, RETA-H is a program designed to benefit Hawaii's plantation worker transition. The partnership between the private-sector and government has created a paradigm for displaced workers from any large industry closure into self-sufficient small businesses. It is a collaboration that has a significant return on investment in the Hawaii State economy.

By December 31, 1998, nearly 60 projects were approved, providing and preserving over 1,000 acres mostly filled by former sugar workers and individuals affected by the loss of the sugar industry. More acres of former sugar land have been reassigned to diversified agricultural purposes through the use of RETA-H funds. RETA-H projects include the production of heart of palm, off-season banana, taro, feed corn, kava, honey, asparagus, coffee, truck crops, forage grass, beef, swine and pharmaceuticals. Others have established or expanded processing facilities for a sawmill, milk production, cheese production, manufacturing, beef slaughter and aging, and agricultural welding services.

The future impact of the RETA-H Program on the individuals and the state economy has been significant. As part of 1998, the Department of Agriculture released a study stating that agriculture had an 11% growth of Hawaii which can be attributed to the success of the RETA-H Program.

Appendix J

THE SENATE  
TWENTY-FIRST LEGISLATURE, 2001  
STATE OF HAWAII

S.C.R. NO.

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SENATE CONCURRENT  
RESOLUTION

URGING THE FORMATION OF AN AGRICULTURE COORDINATING COMMITTEE  
TO ENHANCE COMMUNICATION WITHIN THE AGRICULTURE INDUSTRY.

1           WHEREAS, the agriculture community in Hawaii consists of  
2 a wide variety of professionals and groups including farmers,  
3 government and private agencies, educators, landowners,  
4 lenders, and other organizations providing services for  
5 farming; and

6  
7           WHEREAS, over the years, these groups have provided their  
8 services capably and admirably as the industry has  
9 systemically changed from large sugar and pineapple  
10 plantations to smaller diversified agricultural farms; and

11  
12           WHEREAS, the changes in the industry has also brought  
13 about changes in the needs of farmers and the farm  
14 organizations that they depend on; and

15  
16           WHEREAS, in the agriculture loan system alone, better  
17 communication between government and private lenders and  
18 lenders and farmers would improve the availability of credit  
19 to farmers; and

20  
21           WHEREAS, a coordinating committee consisting of  
22 representatives of the various sectors of the agriculture  
23 community could provide the conduit for better communication  
24 between these sectors to improve the agriculture industry;  
25 now, therefore,

26  
27           BE IT RESOLVED by the Senate of the Twenty-first  
28 Legislature of the State of Hawaii, Regular Session of 2001,  
29 the House of Representatives concurring, that the agriculture  
30 industry is urged to form a coordinating committee to enhance  
31 communication within the agriculture community; and

*Agriculture Coordinating Committee*

# S.C.R. NO.

1  
2 BE IT FURTHER RESOLVED that \_\_\_\_\_ act as the lead  
3 agency in forming this coordinating committee that shall  
4 include the Department of Agriculture and the Department of  
5 Land and Natural Resources, the Agribusiness Development  
6 Corporation, the College of Tropical Agriculture and Human  
7 Resources, government and private financial lenders, the Water  
8 Commission, the various Boards of Water Supply; private  
9 landowners and anyone else interested in participating in the  
10 exchange of information affecting the agriculture industry;  
11 and

12  
13 BE IT FURTHER RESOLVED that the coordinating committee  
14 serve at its own pleasure and that the committee adopt its own  
15 rules to conduct business; and

16  
17 BE IT FURTHER RESOLVED that certified copies of this  
18 Concurrent Resolution be transmitted to the Chairs of the  
19 Boards of Agriculture and Land and Natural Resources, the  
20 Chair of the Agribusiness Development Corporation, the Dean of  
21 the College of Tropical Agriculture and Human Resources; the  
22 Chair of the Water Commission, and the Chairs of the various  
23 Boards of Water Supply.

24  
25  
26

OFFERED BY: \_\_\_\_\_

## Appendix K

**Report Title:**

New Farmer Linked Investments Program

**Description:**

Establishes the New Farmer Linked Investments Program to provide more agricultural loan opportunities for new farmers.

*Linked Investment Program*

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---

A BILL FOR AN ACT

RELATING TO THE NEW FARMER LINKED INVESTMENTS PROGRAM.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The Hawaii Revised Statutes is amended by  
2 adding a new section chapter to be appropriately designated  
3 and to read as follows:

4           "§155-    New farmer linked investments program. (a)

5 The purpose of this section is to establish a new farmer  
6 linked investments program. The program will provide  
7 statewide availability of lower cost funds for loans to new  
8 farmers.

9           (b) As used in this section:

10          "Eligible borrower" means any person who qualifies for  
11 participation in the "new farmer program" under section 155-1.

12 "Eligible borrower" does not include a person who has been  
13 determined to be delinquent in making child support payments  
14 or any other payments due the State.

15          "Linked investment" means a certificate of deposit placed  
16 pursuant to this section by the director of finance with a  
17 private lender, at an interest rate not more than three per

## S.B. NO.

1 cent below the current market rate; provided that, the private  
2 lender agrees to lend the value of the deposit, according to  
3 the investment agreement provided in subsection (e), to an  
4 eligible borrower at a rate not to exceed four per cent above  
5 the rate paid on the certificate of deposit. The director of  
6 finance shall determine and make available the current market  
7 rate that shall be used each month.

8 (c) The director of finance may invest up to the lesser  
9 of \$ \_\_\_\_\_ or ten per cent of the balance of the state  
10 pooled money fund in certificates of deposit in private  
11 lenders as provided in this section.

12 (d) A certificate of deposit, which is placed by the  
13 director of finance with a private lender may be renewed at  
14 the option of the director of finance. The linked investment  
15 shall have a maturity of one year. The certificate of deposit  
16 may be renewed on an annual basis for a period not to exceed  
17 five years.

18 (e) A private lender that desires to receive a linked  
19 investment shall:

20 (1) Enter into an agreement with the director of  
21 finance, which shall include requirements

1           necessary for the private lender to comply with  
2           this chapter;  
3       (2) Accept and review applications for loans from  
4           eligible borrowers; and  
5       (3) Forward to the director of finance a linked  
6           investment loan package in the form and manner as  
7           prescribed by the director of finance. The package  
8           shall include information required by the director  
9           of finance, including but not limited to the amount  
10          of the loan requested and the purpose of the loan.  
11          The private lender shall also certify that the  
12          applicant is an eligible borrower.  
13       (f) The director of finance shall accept or reject a  
14          linked investment loan package or any portion of the package  
15          based on the type or terms of the loan involved, the  
16          availability of state funds, or the compliance of the eligible  
17          borrower or private lender.  
18       (g) Upon acceptance of the linked investment loan  
19          package or any portion of the package, the director of finance  
20          shall place the certificates of deposit with the private  
21          lender at a rate not more than three per cent below the  
22          current market rate. The director of finance shall not place

1 a certificate of deposit with a private lender pursuant to  
2 this section, unless the certificate of deposit earns a rate  
3 of interest of at least two per cent. Interest earned on the  
4 certificate of deposit and principal not renewed shall be  
5 remitted to the director of finance at the time the  
6 certificate of deposit matures. Certificates of deposit  
7 placed pursuant to this chapter are not subject to a penalty  
8 for early withdrawal.

9 (h) Upon the placement of a linked investment with a  
10 private lender, the lender shall loan the funds to the  
11 eligible borrower listed in the linked investment loan package  
12 and in accordance with the investment agreement. The loan  
13 shall be at a rate not more than four per cent above the rate  
14 paid the director of finance by the private lender. The  
15 eligible private lender shall be required to submit a  
16 certification of compliance with this section in the form and  
17 manner as prescribed by the director of finance.

18 (i) The director of finance shall take all steps  
19 necessary to implement the new farmer linked investments  
20 program and monitor compliance by private lenders and eligible  
21 borrowers.



1       (j) Twenty days prior to the commencement of any  
2 session, the director of finance shall report on the new  
3 farmer linked investments program for the preceding year to  
4 the legislature. The report shall set forth the linked  
5 investments made by the director of finance under the program  
6 during the year, the total amount deposited, the number of  
7 deposits, and an estimate of foregone interest, and shall  
8 include information regarding the nature, terms, and amounts  
9 of the loans upon which the linked investments were based and  
10 the eligible borrowers to which the loans were made.

11       (k) Neither the State nor the director of finance is  
12 liable to a private lender in any manner for payment of the  
13 principal or interest on a loan made to an eligible borrower.  
14 Any delay in payments or default on the part of an eligible  
15 borrower does not in any manner affect the investment  
16 agreement between the private lender and the director of  
17 finance.

18       (l) The maximum amount of assistance that an eligible  
19 borrower may receive through this program shall not exceed  
20 \$\_\_\_\_\_.

21       (m) The director of finance may adopt rules pursuant to  
22 chapter 91 to effectuate this section."

# S.B. NO.

1 SECTION 2. New statutory material is underscored.

2 SECTION 3. This Act shall take effect upon its approval.

3

INTRODUCED BY: \_\_\_\_\_

## Appendix L

**Report Title:**

New Farmer Loan Program

**Description:**

Provides loans for new farmers.

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A BILL FOR AN ACT

RELATING TO AGRICULTURE FARM LOANS.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. Chapter 155, Hawaii Revised Statutes, is  
2 amended by adding a new section to be appropriately designated  
3 and to read as follows:

4           "§155-\_\_\_ New farmer loan program. (a) The department  
5 shall develop a new farmer loan program to facilitate the  
6 acquisition of agricultural land and improvements and  
7 depreciable agricultural property by new farmers. The  
8 department may participate in and cooperate with programs of  
9 the United States Department of Agriculture Consolidated Farm  
10 Service Agency, Federal Land Bank or any other agency or  
11 instrumentality of the federal government or with any program  
12 of any other state agency in the administration of the new  
13 farmer loan program and in the making or purchasing of  
14 mortgage or secured loans pursuant to this section.

15           (b) Under the new farmer loan program, the department  
16 shall provide that a mortgage or secured loan to or on behalf  
17 of a new farmer shall be provided only if the new farmer

# S.B. NO.

1 qualifies for the "new farmer program" under section 155-1;  
2 provided that:  
3       (1) A loan under this section to a new farmer for the  
4           acquisition of agricultural land and agricultural  
5           improvements does not exceed \$ \_\_\_\_\_ and a loan to  
6           a new farmer for the acquisition of depreciable  
7           agricultural property does not exceed \$125,000; and  
8       (2) The new farmer has not previously received financing  
9           under any other program under this chapter for the  
10          acquisition of property similar in nature to the  
11          property for which the loan is sought; provided  
12          that, this restriction shall not apply if the amount  
13          previously received plus the amount of the loan  
14          sought does not exceed \$500,000 in the case of  
15          agricultural land and improvements or \$125,000 in  
16          the case of depreciable agricultural property.  
17       (c) The department may adopt rules pursuant to chapter  
18 91 to effectuate this section."

19       SECTION 2. New statutory material is underscored.

20       SECTION 3. This Act shall take effect upon its approval.

21

INTRODUCED BY: \_\_\_\_\_

Appendix M

THE SENATE  
TWENTY-FIRST LEGISLATURE, 2001  
STATE OF HAWAII

S.C.R. NO.

---

SENATE CONCURRENT  
RESOLUTION

1 REQUESTING THE FORMATION OF A BLUE RIBBON PANEL TO RESOLVE THE  
2 DISPUTES RELATED TO STATE LEASED LAND THAT HAS RESULTED  
3 IN THE TIGHTENING OF AVAILABLE FARM CREDIT IN HAWAII.  
4

5  
6 WHEREAS, the agriculture industry is undergoing vast  
7 systemic changes as a result of its evolution from large sugar  
8 and pineapple plantations to smaller diversified agriculture  
9 farms; and  
10

11 WHEREAS, the availability of farm land for these smaller  
12 farms is becoming increasingly important to farmers,  
13 especially land that is owned and administered by the State  
14 under the Department of Land and Natural Resources and the  
15 Department of Agriculture; and  
16

17 WHEREAS, disputes between local lenders and the State  
18 over policies related to the use of state-leased land has led  
19 to a tightening of available loan funds; and  
20

21 WHEREAS, amicable resolutions to these disputes have thus  
22 far evaded earnest attempts by both lenders and the State; and  
23

24 WHEREAS, continued discussions among the parties is  
25 essential to settling these disputes to provide the continued  
26 availability of farm credit to Hawaii's farmers; now,  
27 therefore,  
28

29 BE IT RESOLVED by the Senate of the Twenty-first  
30 Legislature of the State of Hawaii, Regular Session of 2001,  
31 the House of Representatives concurring, that a blue ribbon  
32 panel be formed to resolve the disputes related to state  
33 leased land; and  
34

*State-Leased*

# S.C.R. NO.

1 BE IT FURTHER RESOLVED that the blue ribbon panel consist  
2 of representatives from the Departments of Land and Natural  
3 Resources and Agriculture, the Farm Services Agency, the Small  
4 Business Administration, the Hawaii Farm Bureau, private  
5 lenders including Farm Credit Services of Hawaii and private  
6 landowners to be named jointly by the Chairs of the Boards of  
7 Land and Natural Resources and Agriculture, as well as any  
8 other organization that may wish to participate in the blue  
9 ribbon panel; and

10

11 BE IT FURTHER RESOLVED that \_\_\_\_\_ act on the lead agency  
12 for administrative program, to coordinate meetings and  
13 discussions; and

14

15 BE IT FURTHER RESOLVED that the blue ribbon panel report  
16 its findings and recommendations to legislature no later than  
17 twenty days prior to the convening of the 2002 legislative  
18 session; and

19

20 BE IT FURTHER RESOLVED that certified copies of this  
21 Concurrent Resolution be transmitted to the Chairs of the  
22 Board of Land and Natural Resources and Agriculture, the local  
23 Directors of the Farm Services Agency, the Small Business  
24 Administration, the Hawaii Farm Bureau and Farm Credit  
25 Services of Hawaii.

26

27

28

OFFERED BY: \_\_\_\_\_

29

## Appendix N

**Report Title:**

Land Reform Act; Farming Exception

**Description:**

Specifically exempts privately owned land leased primarily for agricultural purposes from the Land Reform Act.



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A BILL FOR AN ACT

RELATING TO LEASED LAND.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. Section -516-2, Hawaii Revised Statutes, is  
2 amended to read as follows:  
3           "**§516-2 Applicability.** This chapter applies to all  
4 lands leased as residential lots which are owned or held  
5 privately or owned by the State or its political subdivisions,  
6 except Hawaiian home lands which are subject to Article XII of  
7 the Constitution of the State [~~and~~], lands owned or held by  
8 the federal government[.], and privately owned land leased  
9 primarily for agricultural purposes. This chapter is not  
10 meant to supersede or preclude any other remedy at law  
11 available to residential leasehold lessees or the State,  
12 including those available under chapter 480."

13           SECTION 2. Statutory material to be repealed is  
14 bracketed and stricken. New statutory material is  
15 underscored.

16           SECTION 3. This Act shall take effect upon its approval.

17

INTRODUCED BY: \_\_\_\_\_

## Appendix O

**Report Title:**

Agricultural Subdivisions

**Description:**

Establishes agricultural subdivisions in the State.

*Agricultural Subdivisions*



# S.B. NO.

1 "Board" means the board of agriculture or the board of  
2 natural resources, as the case may be.

3 "Farm subdivision" means leasehold parcels within an  
4 agricultural zoned district having a minimum leasable area of  
5 five acres, prohibiting any structures for temporary,  
6 seasonal, or permanent residential occupancy or habitation.

7 **§ -3 Restrictions, requirements, and standards for**

8 **farm subdivision.** (a) The board may approve farm  
9 subdivisions under the following conditions:

10 (1) The minimum leasable area within a farm subdivision  
11 shall be five acres, irrespective of the minimum lot  
12 size of the applicable county zoning ordinance;

13 (2) Any structures for temporary, seasonal, or permanent  
14 residential occupancy or habitation shall be  
15 prohibited; and

16 (3) Farm subdivision lease terms between a landowner and  
17 lessee shall be for no less than ten years and no  
18 more than thirty years.

19 (d) The landowner and lessee shall submit a soil  
20 conservation plan approved by the United States Department of  
21 Natural Resources Conservation Service upon filing for a farm  
22 subdivision with the board.

# S.B. NO.

1           (e) The landowner shall file a map with the board, drawn  
2 to scale, of the parcel indicating the land area under  
3 consideration for the farm subdivision and the number of  
4 leasable areas and acres.

5           (f) The bureau of conveyances shall record the leases  
6 within a farm subdivision and a copy of the recorded document  
7 shall be filed with the board upon its receipt from the bureau  
8 of conveyances. Each lease shall:

9           (1) Provide a roadway maintenance agreement for all  
10 roadways within the farm subdivision; and

11           (2) Assure implementation of the soil conservation plan  
12 under subsection (d).

13           (g) Notwithstanding any other law to the contrary, the  
14 following infrastructure standards shall apply:

15           (1) A water system for a farm subdivision shall not be  
16 required;

17           (2) Roadway improvements within a farm subdivision that  
18 are less than those required under a county code may  
19 be approved; provided that:

20           (A) Adequate access from a state or county road  
21 shall be provided to a farm subdivision that

# S.B. NO.

1                   has met county requirements for the purpose of  
2                   access to a farm subdivision; and

3                   (B) Roads within a farm subdivision shall be the  
4                   property and the responsibility of the  
5                   landowner or lessees pursuant to an executed  
6                   roadway maintenance agreement.

7                   **§ -4 Nullification.** The landowner may apply to the  
8 board to nullify the farm subdivision, provided that the  
9 consent of all lessees within the subdivision is secured.  
10 Upon the approval of the nullification of the farm subdivision  
11 by the board, the land shall revert to its original status.

12                   **§ -5 Rules.** The board may adopt rules pursuant to  
13 chapter 91 to effectuate this chapter."

14                   SECTION 2. This Act shall take effect upon its approval.

15

INTRODUCED BY: \_\_\_\_\_

## Appendix P

**Report Title:**

Farm Loan Restrictions

**Description:**

Requires Department of Agriculture loan (DOA) borrowers to be denied loans at the federal government's Farm Service Agency and Farm Credit Services of Hawaii and two other private lenders before applying for DOA loans.

*Farm Credit Services*

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A BILL FOR AN ACT

RELATING TO FARM LOAN RESTRICTIONS.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

- 1           SECTION 1. Section 155-3, Hawaii Revised Statutes, is  
2 amended to read as follows:  
3           "**§155-3 Restriction.** Loans provided for by this chapter  
4 shall be authorized only if these loans cannot be made by the  
5 United States Department of Agriculture's Farm Service Agency,  
6 Farm Credit Services of Hawaii; and by two other private  
7 lenders [~~which may include any of the following:~~  
8           ~~(1) Private lenders;~~  
9           ~~(2) Members of the farm credit system; or~~  
10           ~~(3) The United States Department of Agriculture;],~~  
11           provided that the board of agriculture may waive  
12           this requirement for emergency loans."  
13           SECTION 2. Statutory material to be repealed is  
14 bracketed and stricken. New statutory material is  
15 underscored.  
16           SECTION 3. This Act shall take effect upon its approval.  
17

INTRODUCED BY: \_\_\_\_\_

*Farm Credit Services*



## Appendix Q

**Report Title:**

Farming; Loan Restrictions

**Description:**

Provides loan fee reimbursement to DOA loan applicants on their second loan application in five years.

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A BILL FOR AN ACT

RELATING TO FARM LOANS.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. Section 155-3, Hawaii Revised Statutes, is  
2 amended to read as follows:  
3           "**§155-3 Restriction.** Loans provided for by this chapter  
4 shall be authorized only if these loans cannot be made by two  
5 lenders, which may include any of the following:  
6           (1) Private lenders;  
7           (2) Members of the farm credit system; or  
8           (3) The United States Department of Agriculture;  
9 provided that the board of agriculture may waive this  
10 requirement for emergency loans~~[-]~~; and; provided further that  
11 a loan applicant who successfully obtains a second loan under  
12 this chapter within a five-year period of the first loan,  
13 shall be reimbursed for loan application fees paid pursuant to  
14 this section for the second loan."  
15           SECTION 2. Statutory material to be repealed is  
16 bracketed and stricken. New statutory material is  
17 underscored.

S.B. NO.

1 SECTION 3. This Act shall take effect upon its approval.

2

INTRODUCED BY: \_\_\_\_\_