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SOURCES OF AGRICULTURAL CREDIT IN HAWAII

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INTRODUCTION

In today's industrialized agricultural economy, the use of credit is almost essential. Few commercial farms and other agribusinesses, including aquaculture, can fully finance their own operations. Even for those few that have this ability, it is not always to their advantage to do so. Depending upon the cost of credit, it may be more profitable for farmers to obtain financing and put their "savings" in some form of investment.

This paper has three purposes. The first is to emphasize the role of credit in farm operations. The second is to outline some steps borrowers can take to enhance their ability to obtain farm loans. The third is to identify some of the major agricultural lenders in Hawaii and to outline their programs. This list will primarily include only public and quasi-private lending institutions.

THE ROLE OF CREDIT

Advantages of Using Credit

Credit is defined for this report as the acquiring of capital from outside sources, for which an explicit charge is imposed by the lender upon the borrower. Two major points should be noted. The first is that even if the farmer decides to pay for some facet of his operation—say a tractor—with his own money, there is still a cost to him. This cost is the return he foregoes by not having his money in his next-best alternative investment. For example, if he buys a used tractor for $5000, and this money was formerly in a savings account earning 5¾ percent interest, this interest return is the implicit cost of buying the tractor. When a loan is obtained, this cost is explicit.

In today's economy, with its massive federal deficit, many have spoken on the virtues of being debt-free. From an individual farmer's point of view, however, being debt-free may be counterproductive. Credit is an input or tool available to most farmers; it should be evaluated in the same way as buying fertilizer or a tractor. That is, credit should be sought whenever it will make a farm more productive and hence more profitable.

To be sure, it is not credit itself but rather the way it is used that makes a farm more productive. However, this does not make credit any less an input than the farmer's own labor or seed. For example, many farmers, because of seasonal variations in cash flow, find it necessary to obtain short-term financing before the planting season. This is so they can buy seed, fertilizer, and other inputs necessary for crop production.

In a related manner, credit also increases the farmer's flexibility to react to changing conditions. For example, the availability of credit may enable a farmer to expand his operation or dramatically change its nature, which may not be possible if he must rely solely on his own capital.

The Credit Climate

One would have to have been a hermit during the recent past to be unaware of the credit problems facing U.S. agribusiness. Almost a third of the nation's farmers face some level of financial difficulty, mostly on family farms. Unfortunately, Hawaii has not been insulated from this situation. Although the most severe credit problems are found in midwestern and northeastern states, some Hawaii farmers—sugar growers, for example—have suffered a severe credit crunch.

The market for agricultural credit is a national one. Thus, events on the Mainland affect credit availability and terms in Hawaii. As the number and possibility of defaults grow in agriculture, lenders become less willing to make agricultural loans, and their costs rise. This is true even within the quasi-private Farm Credit System. Although most of the agricultural loans made through the Farm Credit System (Production Credit Associations, Land Banks, and regional Banks for Cooperatives) are made through local branches, these are all part of a national system. Defaults in one part raise costs throughout the system. In addition, local lenders must become more selective as to their borrowers. Loans associated with riskier operations are harder to obtain. Even so, it is still possible to get agricultural credit in Hawaii, especially if one does one's homework.

HOW TO APPROACH A LENDER

Today's agricultural lenders are most willing to extend credit to individuals who practice sound business management and show an understanding of the relationship of credit to their business operations. Because of high risks in agriculture, lenders are also requiring more information about the borrower and his or her business.

Both requirements can be partially met by the borrower who has and is willing to provide information requested by the lender. Because much of this information is financial, its provision to the lender is one indication that the farm is operated in a businesslike manner. However, as credit gets tighter, sound financial statements and collateral may no longer suffice for loan analysis and credit approval. A borrower needs to understand both the basic principles of lending and the financial and other information required by the lender in making a loan decision.

In considering whether to make a loan, lenders evaluate several factors. These fall into two main categories: credit factors and environmental factors. The credit factors are used to evaluate the creditworthiness of the individual requesting the loan. They are: (1) human and management factors, (2) financial position, (3) repayment capacity, (4) collateral or security, and (5) loan purpose or need.

The environmental factors are those elements that are outside the individual borrower's control but that will still affect his or her access to credit. The three most important environmental factors are general economic conditions and the volatility of interest rates, competition for available loan funds, and relative risks among alternatives in a lender's portfolio. As these factors are beyond the control of the borrower, we will not discuss them further, except to mention that they may influence his or her ability to obtain credit, even if the credit factors are met.

Human and Management Factors

Lenders are ultimately concerned whether potential borrowers are "good" credit risks. This involves much more than an individual's apparent ability to repay a loan, although this is important. From the human perspective, lenders evaluate whether the potential borrower is honest, has integrity, shows ability to cooperate with lenders, and is capable of running a businesslike operation. The human factor is especially important for borrowers approaching a lender for the first time. References are frequently requested.

While there are no hard-and-fast rules to enhance the appearance of strong character, lenders use certain keys to identify possible risks. Some of these warning signs can be eliminated if borrowers recognize their importance. Here is a partial list.

1. Failure to provide all requested information, especially financial information, or placing an unreasonable value on assets.
2. A history of defaults, financial problems, or collection difficulties, and an attempt to hide these difficulties.
3. Uncooperativeness or antagonism toward previous lenders.
4. Liens on assets.
5. Slow or delinquent payments.
6. Hesitancy or vagueness about purpose of loan.
7. Overoptimism about plans, yields, prices, market access, and level of costs.
8. Reluctance to permit on-farm visits by lenders.
9. Numerous current obligations.
10. Frequent overdrafts of checking accounts.

The presence or absence of any of these warning signs can influence a lender's perception of the borrower's character and business ability. The lender is also concerned with the farmer's ability to prepare, understand, and *use* a cash flow statement, balance sheet, and income statement. Records alone may not be enough to acquire a loan. The borrower must demonstrate the ability to use these records in farm operations. In addition to these records, a sound marketing plan may be required; it is almost always a help in obtaining credit.

Financial Position

A major concern to a prospective lender is the financial position of the borrower. The basic document for this evaluation is the balance sheet. To satisfy the lender, it must list all assets and liabilities of the borrower. It should be detailed and should include such items as the market value of inventories. Usually, it is the year-end balance sheet that is required.

After all assets and liabilities have been accounted for, the lender uses them to evaluate the borrower's net worth or equity position. This provides a measure of the borrower's ability to carry risk. In general, the smaller the ratio between present debt and net worth (debt/net worth), the greater the ability of the borrower to take on new debt. For example, a ratio of 1.5/1 or greater is usually taken to mean the borrower is overextended.

The lender also evaluates the borrower's liquidity position, that is, how quickly and easily present assets can be converted to cash. A quick measure of this, which can be calculated from the balance sheet, is the ratio of current assets to current liabilities (assets/liabilities). In general, the higher this ratio is, the better able the borrower is to meet new financial obligations. A value of less than 1/1 is usually considered risky.

Lenders also look at the changes in these ratios over time. In this way they hope to be able to identify improving or deteriorating positions.

Repayment Capacity

Although a borrower's financial position may appear sound, the lender will also evaluate the borrower's ability to make payments. For this purpose, the cash flow statement is the primary tool. The cash flow projection is an estimate of the amount and timing (monthly, quarterly, yearly) of expected cash inflows and outflows to and from the farm business during some future accounting period or production cycle.

Lenders look at the realism of the projections and the potential effects of alternate outcomes. They will also look at past records to evaluate payment capabilities. As credit has become tighter, cash flow statements have been gaining in importance.

The ability to develop a cash flow projection may be an important factor in obtaining credit. It is unlikely that the lender will develop one for a loan applicant, even if the latter provides all the necessary information. A well prepared statement gives the lender the impression an individual has analyzed his or her own operation with respect to the need for credit and is approaching the decision in a businesslike manner.

Collateral

Most lenders require collateral or security on all but small personal loans. The type of collateral required will vary with the type (short-term or long-term) and size of loan. The critical factor is that the collateral, if sold for cash, must yield enough to cover the loan and selling costs.

Loan Purpose

Loans can be divided into three categories with respect to purpose. These are necessity, need and want. A necessity is an item that *is essential* for the continuing operation of the firm. Production loans for seed or fertilizer would fall into this category. A need is an item that might be necessary to improve the operation of the business but that *can be postponed* without seriously affecting the business. A new, more efficient irrigation system in some cases might be considered a need. Finally, a want is an item that *can be foregone* and the business will still be profitable and efficient. Money to improve the physical appearance of a farm could be considered a want.

In addition to its general purpose, a loan is also evaluated with respect to its potential effect on the overall profitability of the farm business. Thus a loan that might fall into the need category could still be approved if it showed the potential to increase profits significantly.

The purpose of the loan will affect its length. For example, a loan for seed will most likely come due shortly after harvest.

Once the borrower and lender agree upon the loan terms, they document the terms in a written agreement. This document specifies interest, repayment schedule, source of repayment funds, and security; it also includes a description of collateral. Once these terms are agreed upon, the borrower must comply in all aspects. For example, diversion of income specified as a repayment source or disposal of assets designated as collateral can seriously damage a borrower's credit reputation. If unforeseen events prohibit a borrower from complying with the agreement (written or verbal), it is important to discuss these conditions with the lender immediately and cooperate in working out a reasonable and mutually agreeable solution.

SOURCES OF FARM CREDIT

There are five majors sources of farm credit: the Farm Credit System, commercial banks, life insurance companies, government lending agencies, and individuals, merchants, and dealers. Table 1 shows the relative importance of each source.

Table 1. Total farm debt by lender, January 1, 1985.[1]

Lender	Type of Debt: Real Estate	Other	Total
	Million Dollars		
Farm Credit System			
Federal Land Banks	48,444	--[2]	48,444
Production Credit Associations	--	18,129	18,129
Federal Intermediate Credit Banks[3]	--	877	877
(Totals)	(48,444)	(19,006)	(67,450)
Commercial banks	10,179	40,551	50,730
Farmers Home Administration	9,956	15,206	25,162
Life insurance companies	12,375	--	12,375
Individuals and others[4]	29,900	18,200	48,100
Commodity Credit Corporation	--	8,312	8,312
Total	110,854	101,275	212,129

[1]Preliminary.

[2]-- = Not applicable.

[3]Financial institutions other than PCAs that obtain funds from the FICBs.

[4] Includes Small Business Administration.

In this discussion we concentrate on the Farm Credit System and government lending agencies. This is not a complete list, but only one for which information is readily available.

The Farm Credit System

The Farm Credit System is a quasi-private lending institution owned and operated by farmers but supervised by the federal government. The system has three branches: the Federal Land Bank and Federal Land Bank Associations, the Federal Intermediate Credit Bank and local Production Credit Associations, and the Bank for Cooperatives.

The system is organized into 12 geographical districts. Each is served by a Federal Land Bank and a number of Federal Land Bank Associations, a Federal Intermediate Credit Bank and a number of local Production Credit Associations, and a Bank for Cooperatives. Hawaii is in the 11th Credit District, headquartered in Sacramento, California. It has a Federal Land Bank Association and a Production Credit Association. It also is served by the Sacramento Bank for Cooperatives.

Loan funds for the system are obtained through the sale of Consolidated Farm Credit Bonds in the national and world financial markets. No government money is received, and the government does not guarantee the loans. The cost of money to farmers is based on the rate the system must pay in the financial market plus the cost of operating the system, including the local associations. Thus, rates may vary among local associations.

The Federal Land Bank. The Federal Land Bank Associations (FLBAs) primarily provide first-mortgage loans on farm real estate. However, loans are made for a variety of purposes, which must be agriculturally oriented. These include: (1) to purchase or improve land or buildings, (2) to refinance debt, (3) to provide a home for the owner and family on or off the farm, (4) to provide facilities for processing, storing, and marketing farm products, (5) to finance rural homes for farmers and nonfarmers, and (6) to finance related services appropriate to the operation of the farm.

FLBA loans may be made with terms of five to 40 years, depending on the borrower's need, debt repayment capacity, the farm's earning power, and the durability of the real estate offered as security. The amount that may be loaned is determined by credit factors, type of operation, and appraisal of the farm by an approved appraiser. By law, FLBA loans cannot exceed 85 percent of appraised value unless guaranteed by a government agency, in which case the FLBA can lend 97 percent. Loans usually are approved for less than the established limits.

The interest rate charged on the loans is variable. The rate is based on the average cost of money to the district bank plus its operating expenses.

Each borrower must become a member of the association. This is done by purchasing stock for not less than 6 percent of the gross amount of the loan. Stock proceeds may be applied against the loan or paid in cash when the loan is paid off. The borrower must apply for credit through the local association.

Loans are long-term. The installment schedules can be monthly, quarterly, semiannually, or annually and are usually designed to fit the needs of the borrower. Interest is computed only on the unpaid portion of the loan, and there is no penalty for early payment.

FLBAs have worked closely with borrowers to avoid foreclosures. They also participate with the Farmers Home Administration in making joint real estate loans. These arrangements include joint-closing loans, subordination of FmHA loans, and FmHA-guaranteed loans. The last are often beneficial to young farmers, because they permit a higher loan to appraised value than FLBAs could do alone. Total real estate debt against the security, however, should not exceed 85 percent of the FLBA appraised value.

Federal Intermediate Credit Banks and Production Credit Associations. Each of the 12 credit districts has one Federal Intermediate Credit Bank (FICB). FICBs do not make loans directly to farmers, nor are they banks of deposit. They have two primary functions. The first is to make loans to and discount paper for various financial institutions that make operating and capital purchase loans on an intermediate-term basis to farmers. The second is to provide leadership and supervision to Production Credit Associations (PCAs) and assist them in making credit available to agribusiness on a sound basis.

PCAs make short- and intermediate-term loans to farmers. These may also be made to corporations that are engaged in farming and that meet certain laws and regulations. Loans are also made to nonfarmers to finance rural residences or to farmers for nonfarm purposes. PCAs also make loans to aquaculturists whose production is controllable.

The length of the loan is tied to its purpose. The maximum length is seven years. However, if the life of the asset is more than seven years, it is common to schedule the payments so that there is a balloon at the end of the seven years, with the understanding that the loan will be refinanced.

PCAs use two interest plans. The first is a variable rate based on the average cost of obtaining funds plus a spread to cover operation costs. The second is a variable differential rate based on the average cost of funds plus a differential that varies with the risk classification of the borrower, plus a spread for operation costs.

As in the case of FLBAs, repayment schedules vary and are designed to fit the borrower's needs and the loan purpose. For many loans, especially operating loans, a line of credit may be established and the terms tailored to fit the individual borrower.

Although PCAs will make unsecured loans, they prefer secured loans. The collateral is usually tied to the purpose of the loan.

PCAs, like the FLBAs, require the borrower to buy stock in the association in the amount of 5 to 10 percent of the loan. PCAs normally will advance additional funds to cover the stock purchase and will buy the stock back when the loan is liquidated.

Application must be made to the PCA office serving the county in which the operation is situated. PCAs have tried to offer loan programs that consider a borrower's management ability and repayment capacity as well as collateral.

Commercial Banks

The involvement of commercial banks in agriculture is significant but may vary widely from one locale to the next. There is also wide variation from one commercial bank to the next in the type of loans they may approve and in terms. And commercial banks must operate under somewhat different regulations from those that cover governmental lending agencies and quasi-private institutions.

Still, most commercial banks will make loans for any well analyzed and creditworthy purpose. Commercial banks may have some difficulty adjusting to the seasonality in production, and smaller banks may have difficulty with the large loans common in agriculture. As in the case of PCAs, some commercial banks will extend a line of credit to farmers for operating expenses.

Bank interest rates vary according to the type and purpose of the loan, economic conditions, competition for loan funds, credit risk of the borrower, and the bank's overall loan portfolio. It is not always true that the quasi-private lending institutions can offer better rates than commercial banks. In all cases, rates are based on the average cost of obtaining loan funds, the prime interest rate, the federal discount rate, or other discount rates. Although many banks continue to use a fixed interest rate, many are using a variable rate or some mechanism to cover themselves in case of significant changes in the cost of money.

Government Lending Agencies

Two federal agencies and one state agency are sources of agricultural credit in Hawaii. The federal agencies are the Farmers Home Administration (FmHA) and the Small Business Administration (SBA). The state agency is the Hawaii Agricultural Loan Program, under the state Department of Agriculture. Some money for the federal agencies comes from tax revenues, but most is obtained through national money markets. Funding for the state program is through tax revenues.

Farmers Home Administration. The FmHA is a federal agency that provides loans not only for agricultural production and aquaculture but also for rural community development, rural housing and rural businesses. In most cases, it is considered the "lender of last resort." That is, it is not a competitor with other lending institutions but extends credit and management services to those not qualified for other financial institutions' loans. In Hawaii, this is not always true, as the state loan program may award credit even when FmHA will not.

The FmHA makes two types of loans, insured and guaranteed. The insured loans are administered and supervised through the FmHA. Guaranteed loans are made and serviced by private lenders, with the FmHA guaranteeing the loan.

Agricultural and aquacultural loans may be made for farm operation, farm ownership, soil and water, and emergencies or disasters.

—Eligibility. Several criteria are used to establish eligibility for FmHA loans. The borrower must: (1) be a bona fide farmer (on a family-sized farm for farm ownership or operating loans) with enough agricultural experience to succeed, and be primarily engaged in agricultural or aquacultural production, (2) be able to make enough from the operation to achieve a reasonable standard of living, (3) be unable to obtain credit at reasonable cost, terms, and conditions from reliable private sources, (4) be legally eligible to incur the obligations of a loan, (5) be willing and able to provide collateral as security for the loan, (6) be willing and able to comply with the terms and conditions of the loan, and (7) be a citizen of the United States or an alien lawfully admitted to the United States for permanent residence under the Immigration and Nationality Act.

—Lending Limits. Lending limits and other terms vary with the type of loan. For example, operating loans are usually set to coincide with the production schedule, whereas intermediate loans may have a repayment period of up to seven years, with a possibility of refinancing up to another seven years. Insured loans are limited to $200,000, and guaranteed loans are limited to $400,000 per borrower. Interest rates for insured loans are based on the government's cost of borrowing. In a guaranteed loan, the interest rate is negotiated between the borrower and the lender.

Farm ownership loans—made to buy, improve, or enlarge farms—are scheduled according to the borrower's ability to pay. The maximum repayment period is 40 years.

—Limited Resource and Emergency Disaster Loans. Individuals who cannot obtain commercial credit and cannot afford to pay regular FmHA interest rates may be able to receive limited resource loans. These are made for operating purposes and farm ownership. The interest rate is subsidized, and borrowers are gradually moved to higher interest rates as their financial situations improve.

Emergency disaster loans are available in areas officially designated as disaster areas by the president or the secretary of agriculture. Loans can be made for (1) physical losses directly related to the disaster and (2) production expenses and other needs arising from the disaster, provided the individual has some "all-risk" crop insurance coverage.

Hawaii Agricultural Loan Program. Because of certain characteristics unique to Hawaii, the state has established the Hawaii Agricultural Loan Program, administered by the state Department of Agriculture. The program is designed to be a lender of last resort to individuals, cooperatives, and corporations that cannot obtain credit elsewhere and that are engaged in agricultural activities.

The program incudes six basic classes of loans. They are farm ownership and improvement loans (Class A), soil and water conservation loans (Class B), farm operating loans (Class C), emergency loans (Class D—the governor must declare a state of emergency before these funds are made available), cooperative and corporation loans (Class E), and new farmer loans (Class F). Similarly to the FmHA, the state supervises these loans closely and requires the borrower to make all financial records available.

Small Business Administration. Small Business Administration loans were not available to farmers until 1976. Most SBA loans to farmers have been for disaster relief. The SBA does not require that borrowers be unable to obtain credit elsewhere.

SUMMARY

This report has focused primarily on the major governmental and quasi-governmental agencies in Hawaii that make loans to family farmers, sole proprietors, and, in some cases, cooperatives and corporations involved in agriculture-related activities (Table 2). It has not included cost-sharing programs of the Agricultural Conservation Program, which is administered by the Agricultural Stabilization and Conservation Service of the U.S. Department of Agriculture. The agencies cited should always be contacted for specific details and interpretations. Loans and terms may change, interest rates may vary, and new programs may be started.

The farm operator or other agribusiness manager should also explore private sources of credit. Among these are commercial banks, private individuals, merchants, finance companies, insurance companies, dealers in farm supplies, equipment, and feed, marketing service representatives such as wholesalers, jobbers, and retailers, and federal credit unions.

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Robinson, B. H. A credit guide for South Carolina farmers. 1982. Clemson Univ. Ext. Serv. Bull. 128, Clemson, South Carolina.

Table 2. Major agricultural credit programs in Hawaii.

Agency and Loan Classification	Purpose of Loan	Eligibility	Veteran's Preference	Terms	Interest Rate[1]	Security Required	Other Stipulations
I. FARMERS HOME ADMINISTRATION Honolulu: Rm. 3320, Kuhio Federal Bldg., 96850, 546-8326 Maui: Rm. 222, Federal Bldg., Wailuku, HI 96793 242-5754 Kauai: 4334 Rice St., Rm. 106 Lihue, HI 96766 245-3914 Hawaii: Federal Bldg., Box 756, Kealakekua, HI 96750 322-9351 Rms. 325-327, Federal Building, Hilo, HI 96720 961-5573 State Office: Rm. 311, Federal Bldg. Waianuenue Ave. Hilo, HI 96720 961-4781							
A. Farm Ownership Loans	1. Enlarge farms. 2. Buy farms. 3. Improve farms. 4. Refinance debts. 5. Nonfarm enterprises.	1. Family farm. 2. Farm background and experience. 3. Character qualifications. 4. Ability to manage and operate farms. 5. Inability to obtain credit and financing elsewhere. 6. Citizen of U.S. or alien lawfully admitted to U.S. for permanent residence. 7. Ability to obtain operating capital. 8. Legally able to carry debt obligations.	Yes	1. Loan not to exceed normal value of farm plus other security minus any debts against property and may not exceed amount certified by county committee. 2. Total of FmHA loan plus other debts against the security property may not exceed $200,000 or market value of security. 3. Maximum of 40 years.	1. 10.75% per year on insured loans. 2. 5.25% per year on insured limited resource loans.[2] 3. Guaranteed loans negotiated between lender and borrower.	1. Loans larger than $10,000 and those to be repaid beyond 10 years will be secured by mortgage on the farm. 2. Loans less than $10,000 and those to be repaid within 10 years may be secured by mortgage on farm, other chattels, or other security.	1. Eligibility is determined by FmHA county or area committee. 2. Technical help and advice are available from county supervisor. 3. Must maintain property and pay taxes and property insurance premiums when due.

Table 2 (Cont.)

Agency and Loan Classification	Purpose of Loan	Eligibility	Veteran's Preference	Terms	Interest Rate[1]	Security Required	Other Stipulations
B. Farm Operating Loans	1. Buy livestock, equipment, feed, seed, fertilizer, other supplies for farm and home operations. 2. Refinance debts or pay interest on them. 3. Pay depreciation on equipment. 4. Make minor real estate improvements. 5. Improve forest land. 6. Nonfarm enterprises.	(Same as farm ownership loan, above, for items 1 through 7.) 8. Must be owner or tenant operating farm after loan is made.	Yes	1. Depends on plans of operations and ability to pay. 2. Total principal not to exceed $200,000.	1. Based on federal government's cost of borrowing. 2. 10.25% per year on insured loans. 3. 7.25% per year on insured limited resource loans.[2] 4. Guaranteed loans negotiated between lender and borrower.	1. First lien on crops, equipment, etc.	1. Eligibility is determined by county or area committee. 2. Applicant must have farm of sufficient size and productivity for a long enough period to carry out a successful farming program. 3. Funds for operating expenses must be repaid when crops, livestock, etc., are sold; for all others, repayments from 1 to 7 years. 4. Some loans may be renewed.
C. Emergency Loans	1. For operating or living expenses and to replace livestock and equipment needed to restore normal operations after severe loss from natural disaster. 2. Repairs to homes, essential farm buildings and related facilities are included.	1. Established farmer or rancher.	Yes	(Contact area office)	1. 5% for actual loss loans not exceeding $100,000. 2. 8% on any amount over $100,000.	1. First lien on all crops to be produced and on all livestock and equipment purchased with loan funds.	1. Eligibility determined by FmHA county committee.
D. Soil and Water Loans	1. To finance land and water development measures, forestation, drainage of farm land, irrigation, pasture improvement and related land and water use adjustments.	1. Eligible owner, tenant, leaseholder, partnership, or corporation. 2. (For individual farmer, same as for farm ownership loans.)	Yes	1. Maximum of 40 years. 2. (Generally, about the same as for farm ownership loans.)	1. 10.75% per year on unpaid principal. Insured. Guarantee negotiated by lender or borrower.	1. Usually, real estate mortgage. 2. In certain cases, lien on chattels.	1. Eligibility determined by FmHA county committee.
E. Farm Labor Housing	1. Buy, build, or repair housing and related facilities for domestic farm labor.	1. Farm owners, association of farmers, nonprofit organizations, and public agencies.	Yes	1. For individual owner, not to exceed value of the farm as improved, less other liens. 2. Maximum of 33 years.	1. 1% a year on unpaid principal.	1. Lien on farm, for individual. 2. (Differs for groups or organizations.)	1. Eligibility determined by approving official. 2. Certain housing standards must be met.

Table 2 (Cont.)

Agency and Loan Classification	Purpose of Loan	Eligibility	Veteran's Preference	Terms	Interest Rate[1]	Security Required	Other Stipulations
II. FEDERAL LAND BANK ASSOCIATION OF HAWAII Rm. 122 1210 Auahi St. Honolulu, HI 96814 536-3471 100 Pauahi St. Hilo, HI 96720 961-3781	1. Meet the long-term credit needs of: a) Eligible borrowers for any agricultural purposes or aquatic producing or harvesting purpose and for other needs including basic processing and marketing activities in connection with their operations. b) Owners of farm related businesses to purchase or refinance necessary sites, capital structure, equipment and initial capital. c) Rural residents to build, buy, remodel or refinance a rural home.	1. Individuals or legal entities who: a) are engaged in farming, ranching, production of nursery products, aquatic products, timber or providing farm related products; b) own in fee or have a mortgageable interest in agricultural real estate and improvements; c) own in fee or have a mortgageable interest in a rural homesite.	No	1. Loans may be made for as long a period as possible consistent with the condition of the farm or ranch, up to 30 years. 2. Adjustable payment plans. 3. Payments to fit operations.	1. Variable - depending on the overall cost of funds and operations. Currently, 12.25% for farm loans and 12.75% for rural residences.	1. First lien on farm or land and buildings. 2. Fee or leasehold interests in agricultural real estate, facility sites or rural homesites.	1. Borrower must purchase capital stock in the local Land Bank Association amounting to at least 6% of the loan.

Table 2 (Cont.)

Agency and Loan Classification	Purpose of Loan	Eligibility	Veteran's Preference	Terms	Interest Rate[1]	Security Required	Other Stipulations
III. HAWAII AGRICULTURAL LOAN PROGRAM (Department of Agriculture, State of Hawaii) 1428 S. King St. Honolulu, HI 96814 Phone: 808/524-7126							
A. Class A - Farm Ownership and Improvements.	1. Purchase or improvement of farm land. 2. Purchase, construction or improvement of farm dwellings and buildings. 3. Liquidation of debts incurred for 1 and 2, above.	General Eligibility. 1. Person with proven farm ability who spends one-third of his time or earns one-third of his net cash income from farming. 2. Twenty years and older. 3. Citizen of U.S.; resident of state for 3 years; or an alien who has resided in the state for 5 years. 4. Be a sound credit risk with ability to repay borrowed money. 5. Be willing to carry out recommended farm management practices. Specific Eligibility. 1. Have plan to derive most of income from, and to spend most of time in, farming.	No	1. Maximum of 40 years. 2. $100,000 maximum on all four types of loans.	1. Insured loans to private lenders: normal rate charged by banks. 2. Participating loans to private lenders: bank to charge their prevailing rate. 3. FHA insured: (Not many loans made in this category.) 4. Direct loans: similar to rate charged by Federal Land Bank.	1. First mortgage on fee simple farm land, crops, livestock, equipment, and other chattels. 2. For leaseholds, lease must have an unexpired term two years longer than the term of the loan. 3. No loans can exceed 85% of the value of security offered.	Recommended procedure in farm loan application: 1. Contact bank or private lender. Contact local Federal Land Bank Office. Check possibility of loan with DOA through insured and participating loans. If refused, secure letters of refusal from 2 banks including one from a bank of account. 2. Contact local FmHA office. 3. If refused by FLB and FmHA submit applications to DOA with all letters of refusal.

Table 2 (Cont.)

Agency and Loan Classification	Purpose of Loan	Eligibility	Veteran's Preference	Terms	Interest Rate[1]	Security Required	Other Stipulations
B. Class B - Soil and Water Conservation Loans	1. Soil conservation practices. 2. Water development, conservation, and use. 3. Drainage. 4. Liquidation of debts incurred for 1, 2, and 3, above.	General Eligibility. (Same as for Class A, above.) Specific Eligibility. 1. Have adequate income to meet existing and proposed debts.	No	1. $35,000 maximum for individuals. 2. $200,000 maximum for nonprofit organization primarily engaged in extending services directly related to the purposes of the loan to its members. 3. Maximum of 20 years.	(Same as Class A loans, above.)	(Same as Class A loans, above.)	(Application procedures are the same as for Class A loans, above, except in place of Federal Land Bank, contact local Production Credit Association Office.)
C. Class C - Farm Operating Loans	1. Purchase of farm equipment and livestock. 2. Payment of production and marketing expenses. 3. Payment of living expenses. 4. Liquidation of debts incurred for 1, 2, and 3, above.	General Eligibility. (Same as for Class A, above.) Specific Eligibility. 1. Have plan to derive most of income from, and to spend most of time in farming.	No	1. Maximum of 10 years. 2. $100,000 maximum for individuals.	1. Similar to the rate charged by Hawaii Production Credit Association.	1. (Same as for Class A loans, above, for items 1, and 2.) 2. Ratio of loan to value of security offered is at the discretion of DOA.	(Application procedures are the same as for Class A loans, above.)
D. Class D - Emergency Loans (Governor must declare a state of emergency before this type of loan may be made.) Emergencies could be: natural disasters, livestock disease epidemics, crop blights, etc. Eligibility, terms, etc. vary with type of emergency.			No	1. Maximum amounts and period for such loans shall be determined by DOA. 2. Repayment shall first be applied to the emergency loan.	1. Not to exceed 3% a year.		

Table 2 (Cont.)

Agency and Loan Classification	Purpose of Loan	Eligibility	Veteran's Preference	Terms	Interest Rate[1]	Security Required	Other Stipulations
E. Class E - Loans to Cooperatives and Corporations	1. To provide credit to farmers' cooperative associations and corporations engaged in marketing, purchasing, processing, and providing farm business services. a) Facility loans to purchase or improve land, buildings and equipment. b) Operating loans to finance inventories of supplies, etc., and extension of credit to justified farmer-members for normal expenses.	General Eligibility. 1. A cooperative or corporation shall have at least 75% of its membership as shareholders who meet the eligibility requirements as spelled out under Class A eligibility.	No	1. $500,000 maximum, not to exceed 20 years. 2. $300,000 maximum, not to exceed 3 years.	1. Same as the rate charge by the Sacremento Bank for Cooperatives, less 2 percent.	(Same as Class A loans above.)	(Application procedures are the same as for Class A loans above.)

Table 2 (Cont.)

Agency and Loan Classification	Purpose of Loan	Eligibility	Veteran's Preference	Terms	Interest Rate[1]	Security Required	Other Stipulations
F. Class F - Loans for New Farmers	1. Provide for costs of new farm enterprise for qualified farmers.	Qualified Farmers 1. Persons displaced from employment in an agricultural production enterprise. 2. College graduates in agriculture. 3. Member of Hawaii Young Farmer Association and graduates of Future Farmer of America with farming projects eligible in terms of residency, credit risks, and those willing to follow recommended farm practices. 4. Persons who have not less than two years experience as part-time farmers, farm tenants, or farm laborers, or individuals who have for the two years preceding their applications obtained a major portion of income from farming operations, and persons by reason of ability, experience and training as vocational trainees are likely to successfully operate a farm. Initial Loans 1. Full-time farmers only.	No	Initial Loans 1. Not to exceed $100,000 or 85% of cost of project. 2. Terms are same as those for Class A and C only. Subsequent Loans 1. Same as for Class A, B, C, and D, depending upon purpose.	Initial Loans 1. Same as for Class A and C loans less 2%. Subsequent Loans 1. Same as for Class A, B, C, and D.	(Same as for specific class loans.)	1. Must comply with special term loan agreements as required by DOA and must take special training courses as the department deems necessary. (Application procedures are the same as for Class A and C loans above.)

Table 2 (Cont.)

Agency and Loan Classification	Purpose of Loan	Eligibility	Veteran's Preference	Terms	Interest Rate[1]	Security Required	Other Stipulations
IV. HAWAII PRODUCTION CREDIT ASSOCIATION 1210 Auahi St., P.O. Box 65, Honolulu, HI 96810 Phones: Hon. 524-4733 Hilo 961-3781 Wailuku 244-7928							
Production Farm loans	Buy livestock, equipment, feed, seed, fertilizer supplies, refinance debt, living expenses, capital improvements.	Must be owner or tenant and be an established farmer or rancher.	No	1 through 9 years.	Variable	First lien on crops, equipment, livestock, etc. Mortgages may be required in some cases.	Borrower must purchase capital stock in the Association to at least 5 to 10% of loan.
V. SMALL BUSINESS ADMINISTRATION Rm. 2213, Kuhio Federal Bldg., Honolulu, HI 96850 546-7590							
A. Regular Business Loans	1. Purchase of land and buildings and land improvements (fencing, irrigation systems, etc.) including essential pollution control facilities. 2. Construction, renovation, or improvement (including water systems) of: a) Farm buildings other than residential buildings. b) Residential buildings essential to the business if not available from other federal sources. 3. Purchase of farm machinery and equipment. 4. Operating expenses directly related to the farming operation. 5. Refinancing of debt directly related to the farming operation.	1. Annual receipts do not exceed prespecified minimum. Varies with type of agricultural operation. 2. Be eligible under SBA Rules and Regulations (13 CFR Part 120, 121, 122). 3. Be unable to obtain credit from nonfederal sources through the use of personal resources or otherwise. 4. Be of good character. 5. Organized for profit. 6. Can be proprietor, partnership, corporation. 7. Need not be U.S. citizen.	Yes	1. Maximum of one year for annual needs (seed, feed). 2. Maximum of 7 years for working capital. 3. Maximum of 25 years for aquisition or construction of real estate. 4. Administrative limit of $150,000 on direct and immediate participation loans. 5. Limit of $500,000 on SBA-guaranteed loans. 6. Maximum of 10 years on livestock and/or farm equipment purchase.	1. Based on legislative formula; periodically published in the Federal Register.	1. Mortgage on real estate, buildings, improvements. 2. Security interest on chattels, and crops. 3. Guarantees or personal endorsements.	1. Show ability to operate business successfully. 2. Provide enough capital from own resources to have reasonable amount at stake. 3. Show ability to repay loan from profits of business 4. Funds cannot be used for household contents, personal or family living expenses, or debts.

Table 2 (Cont.)

Agency and Loan Classification	Purpose of Loan	Eligibility	Veteran's Preference	Terms	Interest Rate[1]	Security Required	Other Stipulations
B. Economic Opportunity Loans	1. Can be used for same purposes as Regular Business Loans.	1. Be eligible under SBA Rules and Regulations (13 CFR Parts 119 and 120). 2. Must be economically or socially disadvantaged. 3. Same as Regular Business Loans, except item 2.	Yes	1. Maximum of 10 years for working capital other than annual operating expenses and farm machinery and equipment purchases. 2. Maximum of 15 years for real estate purposes (legislative limit). 3. Maximum of $100,000 SBA share, whether direct, immediate participation, or guaranty.	1. Based on legislative formula, subject to change quarterly.	1. Whatever worthwhile collateral is available. 2. Same as Regular Business Loans.	1. Same as Regular Business Loans.
C. Water Pollution Control Loans	1. Only to make modifications necessary to meet federal or state standards in compliance with the federal Water Pollution Control Act.	1. Be eligible under SBA Rules and Regulations (13 CFR Parts 120 and 123). 2. Must have statement from EPA of necessity and adequacy. 3. Must show evidence of substantial economic injury.	Yes	1. Maximum of 30 years. 2. No dollar loan limit.	1. Same as Regular Business Loans.	1. Same as Regular Business Loans.	1. Same as Regular Business Loans.

Footnotes:

[1] All loan rates are subject to revision depending on current market conditions. Check with local office for current rates.

[2] This interest rate will be in effect the first three years of the loan. At the end of three years, and every two years thereafter, the rate will be reviewed and increased in accordance with the borrower's repayment ability until the rate equals the current farm ownership or operating loan rate, as appropriate.

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