Hawaii’s Agricultural Lenders

- **Commercial Banks**
  - Direct Loans
    - funded entirely by bank
  - Participated Loans
    - partially funded by outside source usually government entity
  - Government Guarantied
    - Guarantied by SBA, USDA (Farm Services Agency, Rural Development)
Hawaii’s Agricultural Lenders

• Farm Credit System
  – The Farm Credit System is a nationwide financial cooperative that lends money and provides financial services to agriculture and rural America. Congress created the System in 1916 to provide American agriculture with a dependable source of credit.

  – Effective April 1, 2001, the Federal Land Bank Association of Hawaii, FLCA and the Hawaii Production Credit Association consolidated under section 7.8 of the Farm Credit Act of 1971, as amended, to form Farm Credit Services of Hawaii, ACA.

  – Unlike commercial banks, system banks and associations do not take deposits. Instead, loanable funds are raised through the sale of Systemwide bonds and notes in the nation's capital markets.

Hawaii’s Agricultural Lenders

• Federal Loan Programs
  – USDA
    • Farm Service Agency
    • Rural Development

  – Small Business Administration
Hawaii’s Agricultural Lenders

• State Loan Programs
  – Direct Loans (requires declinations)
  – Loan Participations
  – Loan Guaranties

Hawaii’s Agricultural Lenders

• Micro Lenders
  – Kauai Micro
  – Pacific Gateway
    • (Red Manini MicroLoan Fund)
  – Hawaii Community Loan Fund
OTHER TYPES OF LOANS

• Consumer Credit Cards
• Family and Friends
• Private Investors

Hawaii’s Agricultural Lenders

• Commercial Banks
• Farm Credit System
• Federal and State Loan Programs
• Micro Loan Programs
• Other Lenders
Stages of Developing Business

• **Stage one** businesses are start-ups
• **Stage two** businesses have business plans and products samples but no revenues
• **Stage three** business have full business plans and pilot programs in place
• **Stage four** businesses have been in operations for some time and have documented revenues and expenses.

APPLICANT’S RESPONSIBILITY

• Business Plan
  – Company Description
  – Market Analysis
  – Products and Services
  – Operations
  – Marketing Plan
  – Ownership
  – Management and personnel
  – Funds Required and uses
  – Financial Statements and projections
What the Lender Will Review

• Five C’s of Credit
  – Capacity
  – Capital
  – Collateral
  – Conditions
  – Character

Five C’s of Credit

• CAPACITY
  – to repay is the most critical of the five factors. The prospective lender will want to know exactly how you intend to repay the loan. The lender will consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan. Payment history on existing credit relationships--personal and commercial--is considered an indicator of future payment performance. Prospective lenders also will want to know about your contingent sources of repayment.
Five C’s of Credit

• CAPITAL
  – is the money you personally have invested in the business and is an indication of how much you have at risk should the business fail. Prospective lenders and investors will expect you to have contributed from your own assets and to have undertaken personal financial risk to establish the business before asking them to commit any funding. If you have a significant personal investment in the business you are more likely to do everything in your power to make the business successful.

Five C’s of Credit

• COLLATERAL
  – or “guarantees” are additional forms of security you can provide the lender. If for some reason, the business cannot repay its bank loan, the bank wants to know there is a second source of repayment. Assets such as equipment, buildings, accounts receivable and in some cases inventory are considered possible sources of repayment if they are sold by the bank for cash. Both business and personal assets can be sources of collateral for a loan. A guarantee, on the other hand, is just that—someone else signs a guarantee document promising to repay the loan if you can’t. Some lenders may require such a guarantee in addition to collateral as security for a loan.
Five C’s of Credit

• CONDITIONS
  – focus on the intended purpose of the loan. Will the money be used for working capital, additional equipment, or inventory? The lender will also consider the local economic climate and conditions both within your industry and in other industries that could affect your business.

Five C’s of Credit

• CHARACTER
  – is the general impression you make on the potential lender or investor. The lender will form a subjective opinion as to whether or not you are sufficiently trustworthy to repay the loan or generate a return on funds invested in your company. Your educational background and experience in business and in your industry will be reviewed. The quality of your references and the background and experience of your employees also will be taken into consideration.
Five C’s of Credit

• Capacity
• Capital
• Collateral
• Conditions
• Character

State of Hawaii
Agricultural Loan Program

• General Qualification
  – U.S. citizen or permanent resident alien
  – Resided in State for at least three year
  – For corporations or partnerships – 75% of owners must meet qualifications
• Collateral
  – 85% Loan-to-Value for ownership/improvement loans
  – Loan-to-Value discretionary for operating loans
• Terms
  – Ownership/improvement Loans – maximum 40-years
  – Operating Loans – maximum 10-years
State of Hawaii Agricultural Loan Program

• QUALIFIED FARMER
  – Two or more years operating own farm
    • Most of time spent farming or
    • Most of income shall have been derived from farming
  – Maximum Loan Amount
    • Ownership/Improvement $800,000
    • Operating/Working Capital $800,000
  – Interest Rate
    • Lower of :
      » Prime minus 1.00% or
      » 7.50%

State of Hawaii Agricultural Loan Program

• NEW FARMER
  • Eligibility Requirements
    – Degree in agriculture from an accredited university or community college;
    – Displaced from employment in an agricultural production enterpriser;
    – 2 or more years as a part-time farmer
    – Farm laborer or tenant;
    – Person who by reason of ability, experience and vocational training in agriculture are likely to successfully operate a farm.
  • New Farmer loans are for applicants who intend to farm full-time.
  • Maximum Loan Amount $100,000
  • Interest Rate 6.00%