Borrowing Money for Your Business

Taking out a loan can help expand your business, but you need to be prepared

Overview
As a businessperson who wants to be successful, you are probably looking for opportunities to improve and/or expand your business. That’s great! It means you are always thinking about moving forward! Often times, however, you do not have enough of your own money to pay for new equipment, buy (more) land, or hire the new marketing manager that you desire. At times like these, you might want to find organizations that will lend you the money that you need. Commercial banks, semi-private lending institutions, Hawaii Department of Agriculture, and federal agencies are ready to lend agricultural entrepreneurs money, but they require you to be prepared with current and sufficient information on your operation, be a somewhat experienced agriculturist, be ready to fill out forms, and be a reliable business risk. Common reasons for loan application failure include: insufficient documentation, unstable cash flow, poor credit rating, not enough years in agriculture, and too short land leases.

In this lesson you will be provided an overview of what is required for each type of loan or contact. Don’t be intimidated by the paperwork if you really believe that you have a good business idea and that you can repay the loan on time. There are people in different agencies who are eager to help you. You might also find that although you might not have sufficient business records to acquire a loan at present, with a new focus on record keeping, you might be eligible to apply for a loan within a year or so.

Why is this important?
If you are ready to improve your business and just need additional money, commercial (non-family) loans can be a good way to achieve your business dreams.

What is my credit rating and why is it important?
Before we discuss types of loans and where you might apply, it is important to understand the foundation of lending – your “credit rating.” Many lenders will review your personal credit rating in addition to any business credit history. Your credit rating is like a batting average in baseball or pass completion in football -- it is a history of accomplishments. In the case of your credit rating, it is your history in making money, spending money, borrowing money (via credit cards and loans), and paying money back.

Most creditors report their experience with borrowers to three major US companies: Experian, Equifax, and TransUnion. Each of these companies maintains information about your credit history and can provide the information to potential creditors as part of the loan application process. In addition, the companies have a process to calculate a “credit score” (also known as a FICO score). The score is based on the information about your past credit experience. Lenders may use the score to determine loan eligibility, rate, and other terms.

You might be asking, “how do I get a good credit history or improve one?” Borrowing small amounts of money and paying back on time is the easiest way to
establish a credit rating. Then over time you can borrow more as you show lenders that you can handle that responsibility. Visit http://www.myfico.com/CreditEducation/ImproveYourScore.aspx for tips on improving your credit score.

A good credit score helps people get loans faster and get better rates and terms. It is important that you take good care of your credit history all your life because you never know when you will need to ask for a loan to expand your business.

Getting prepared to apply for a loan
Loans are a common business practice. A loan is an agreement between two parties. An organization, such as a bank, gives a borrower a certain amount of money with the expectation of total repayment (including interest) by a certain time. This is a very straightforward business relationship. In many cases, keeping business records up-to-date is more difficult for growers because they are working in their fields, orchards, and shade-houses most of the day. Important records that should be maintained include:

- Amount of crop(s) planted
- Cost of planting
- Amount of crop(s) sold
- Price of crop(s) sold, and corresponding business revenues
- Business expenses
- State tax, excise tax, and federal tax payment records
- Business plans, cash flow and profit and loss statements, and marketing plans

Written, (somewhat) organized records are part of the proof you will need to show a lending institution that you are a good business risk. This should make sense… would you lend someone $10,000 if you met the person for the first time this morning? Probably not, and that is the way banks and government agencies feel too. They need to feel that they can trust you with their money by seeing your business history on paper.

Fulfilling basic lending requirements
The four groups listed below are the main lenders to agricultural businesses. To be considered for a loan, these are the types of requirements that might be asked of you (there might be more). It is important to assemble the documentation they require, before you request a loan. To ensure that you are prepared, put checks in the boxes where you have the information prepared and circle the boxes where you need to do more work. The circled items should now be on your “to-do” list in the next week or two if you are serious about applying for a loan.

It should be noted that the USDA Farm Service Agency (FSA) and the Hawaii Department of Agriculture (HDOA) are “lenders of last resort.” This means that they do not want to compete with private sector banks. As such, they can only provide you loan opportunities after you have a written notice from banks saying that the bank will not lend to you. Thus, the order of your loan search should be as follows:

Commercial Banks
(1 application minimum, perhaps 2 or 3)
↓
Farm Credit Services of Hawaii
↓
FSA HDOA

**Commercial Banks**

- Evidence of business success via financial statements and tax returns (typically a minimum of three (3) years);
- Well developed business and marketing plan (realistic projections);
- On-site visit by your prospective lender;
- Other bank-specific requirements (just ask them what they are)
In addition, many local banks work with agencies/companies like the Small Business Administration to offer more flexible review and terms to smaller businesses. Call your bank to find out what they offer and the requirements to apply for these loans.

*Farm Credit Services of Hawaii / Federal Land Bank Association*

This organization specializes in loans to farmers, ranchers, fishermen and nursery owners. The following should be prepared when requesting a loan:

- Past three (3) years of financial statements, if available. (Include schedule for real estate, loans, deposits, etc.) If the loan request exceeds $400,000, submit four (4) years of year-end financial statements including the most recent completed year plus interim financial statement.
- Past three (3) years of Federal Income Tax Returns including the most recent completed year and a copy of your earning statement for the current year within thirty (30) days of the loan application if the loan request is less than $400,000. Submit past four (4) years of Federal Income Tax Returns, if the loan request exceeds $400,000.

(Source: [http://www.hawaiifarmcredit.com/](http://www.hawaiifarmcredit.com/))

*USDA Farm Service Agency*

The Farm Service Agency (FSA) provides temporary credit to loan borrowers. Borrowers are required to refinance their loans with a commercial lender when they are financially able to do so. In addition, to improve production and financial management ability, the FSA requires all borrowers to complete farm and financial training courses.

The following should be met/prepared when requesting a loan:

- Have a satisfactory history of meeting credit obligations;
- For direct operating loans, have sufficient education; training, or at least one-year’s experience in managing or operating a farm or ranch within the last five years. For direct Farm Ownership (FO) loans, applicants must have participated in the business operations of a farm or ranch for three years;
- Be a citizen of the United States, including Puerto Rico, the U. S. Virgin Islands, Guam, American Samoa, and certain former Pacific Island Trust Territories, a U.S. non-citizen national, or a qualified alien under federal immigration law;
- Be unable to obtain credit elsewhere at reasonable rates and terms to meet actual needs (provide letters of declination from commercial lenders);
- Possess legal capacity to incur loan obligations;
- Not be delinquent on a federal debt;
- Not have caused FSA a loss by receiving debt forgiveness (certain exceptions apply); and
- Be within the time restrictions as to the number of years they can receive FSA assistance.


*Hawaii Department of Agriculture*

The loan programs available at the Hawaii Department of Agriculture (HDOA) are similar to those at the FSA. The HDOA has a $25,000 or less, micro-loan program for smaller requests. In all cases, you must be rejected by at least two lenders.

The following should be met/prepared when requesting a loan:

- Be 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;
- Have experience in agriculture (requirements are different for different programs);
- Have a current Balance Sheet and Income/Expense Statements (past two years);
- Have three year cash flow projection of income and expenses (including income assumptions);
- Have aging schedules for Accounts Payable and Accounts Receivable;
- Have Personal Financial Statements (for sole proprietors, partners and guarantors);
- Provide Income Tax Returns (last three years);
- Have letters of decline
- For Agricultural Loans - two declinations from private lenders, Farm Credit Bank(s) and/or USDA –FSA;
- For Aquaculture Loans - three declinations from two private lenders, and the appropriate Farm Credit Bank;
- Have copy(s) of Deed or Lease for farm; Marketing/Purchasing contracts (if applicable);
- Have Hawaii State Tax Clearance;
- Provide a narrative describing your business (i.e., location, size, employees, crops, markets, etc.)
  (Source: http://hawaii.gov/hdoa/agl)

The FSA and HDOA provide excellent guidance on how to fill out forms and prepare your loan package.

Wow, lots of options, now what?
This is just a short list of lending options focused on agriculturally-related businesses. While not detailed here, if you have a 100% Hawaiian-owned (need to show proof of ancestry by a birth certificate) business, you might be able to get financial assistance from the Office of Hawaiian Affairs (see below). Even more loan opportunities are available if you are manufacturing. The list at the end of this lesson gives you contact information for many programs and the types of loans they provide.

So, now that you know the requirements for each lender, what do you do next? As mentioned above, make a list of the missing documents you need to find, construct, or complete and be prepared to apply.

If you need hands-on help with documents such as business and marketing plans, cash flow and profit and loss statements, you might be able to get some help from the following organizations:

ALU LIKE, Inc.
(808)524-1225
http://www.alulike.org

UHM – Agribusinesses Incubator Program
(808)956-3530
http://aip.hawaii.edu/

UHM – Pacific Business Center Program
(808)956-6286
http://pbcphawaii.com/

Resource contacts
Much of this lesson is shortened and updated from Stanley Fujiyama’s article, Acquiring Business Funding, from the book, This Hawaii Product Went to Market (published in 1996).

Farm Credit Services of Hawaii / Federal Land Bank Association of Hawaii
http://www.hawaiifarmcredit.com/

Main Branch
2850 Pa’a Street, Suite 100
Honolulu, HI 96819
Phone: (808)836-8009

Hilo Branch
988 Kinoole Street
Hilo, HI 96720
Phone: (808)961-3708
Loan types:
- Land purchases
- Production and operating expenses
USDA Farm Service Agency (FSA)
http://www.fsa.usda.gov/

300 Ala Moana Blvd., Room 5-122
PO Box 50008
Honolulu, HI 96850
Phone: (808)541-2600

Loan types:
- Farm loans
- Farm ownership loans
- Farm operating loans
- Loans for socially disadvantaged and beginning farmers
- Down payment loans
- Rural youth loans
- Emergency loans

Small Business Administration
http://www.sba.gov/localresources/district/hi/

Hawaii District Office
300 Ala Moana Blvd Room 2-235
Box 50207
Honolulu, Hawaii 96850
Phone: (808)541-2990

Loan types:
- Working capital
- Machinery and equipment
- Land, building, and improvements
- Debt refinancing

Native Hawaiian Revolving Fund Loan (NHRLF)
http://www.oha.org

Office of Hawaiian Affairs
711 Kapi’olani Blvd., Suite 500
Honolulu, HI 96813
Phone: (808)594-1835

Loan types:
- Business development

Native Hawaiian Revolving Fund Loan (NHRLF)
http://www.oha.org

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Honolulu, HI 96813
Phone: (808)594-1835

Loan types:
- Business development

Get a Free Credit Report to Verify Your Credit History
http://www.annualcreditreport.com/

Learn About Your Credit Score
http://www.myfico.com/

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