

JAN 23 2025

A BILL FOR AN ACT

RELATING TO AGRICULTURAL LOANS.

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

1 SECTION 1. The Legislature finds that Hawaii agricultural
2 producers face critical barriers in accessing capital necessary
3 to cover rising land and water costs, labor shortages, and
4 infrastructure needs. Modifications to the state agricultural
5 loan program are needed to address these challenges and
6 encourage farmers and ranchers to expand their current
7 operations. Larger scale agriculture operations are more
8 efficient and better able to compete with imported products and
9 assist the state in becoming more self-sufficient in food
10 production.

11 The purposes of this Act are to:

- 12 (1) Lower and fix the state agricultural loan program's
13 interest rates, increase loan limits, and reduce the
14 required number of credit denials;
- 15 (2) Establish a program for a secured line of credit and
16 create a new loan initiative to encourage larger scale
17 agriculture for import replacement and crops grown for
18 farm to state programs; and

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(3) Appropriate funds to meet the anticipated increase in loan demand and to accommodate the increased loan limits.

SECTION 2. Section 155-1, Hawaii Revised Statutes, is amended by adding two new definitions to be appropriately inserted and to read as follows:

"Import replacement crops" are crops grown on a large-scale basis in Hawaii with the specific intent to replace crops imported into the state.

"Line of credit" means a secured revolving loan with a preset credit limit. A borrower can access funds from a line of credit at any time during the term of a loan provided that the borrower does not exceed the maximum credit limit and the account is in good standing."

SECTION 3. Section 155-3, Hawaii Revised Statutes, is amended to read as follows:

"§155-3 Restriction. Loans authorized by this chapter shall require ~~[two credit denials, except for class "F" loans for new farmer and farm innovation programs, which shall require]~~ one credit denial. This requirement shall be waived for new farmer loans for \$100,000 or less for farm trainees and recent college graduates with a degree in agriculture. This

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1 requirement may also be waived by the board of agriculture for
2 emergency loans. Credit denials may be accepted from any of the
3 following:

- 4 (1) Private lenders;
- 5 (2) Members of the farm credit system; or
- 6 (3) The United States Department of Agriculture."

7 SECTION 4. Section 155-8, Hawaii Revised Statutes, is
8 amended by amending subsection (c) to read as follows:

9 "(c) Loans made under this section shall bear simple
10 interest on the unpaid principal balance, charged on the actual
11 amount disbursed to the borrower. The interest rate on loans of
12 class "A", "B", "C", "E", [and] "G", and "J" shall be at a rate
13 of ~~[one per cent below the prime rate or at a rate of seven and~~
14 ~~one-half]~~ four per cent a year~~[, whichever is less]~~. ~~[For~~
15 ~~purposes of this subsection, the prime rate shall be determined~~
16 ~~on January 1 and July 1 of each year, and shall be the prime~~
17 ~~rate charged by the two largest banks in the State identified by~~
18 ~~the department of commerce and consumer affairs. If the prime~~
19 ~~rates of the two largest banks are different, the lower prime~~
20 ~~rate of the two shall apply. The interest rate of class "F"~~
21 ~~loans shall be at a rate of one and one-half per cent below the~~
22 ~~prime rate or at a rate of six per cent a year, whichever is~~

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1 ~~less-]~~ The interest rate of class "D", "F", "H" [and], "I", and
 2 "K" loans shall be three per cent a year. If the money loaned
 3 is borrowed by the department, then the interest on loans of the
 4 classes shall be the rate as determined above or one per cent
 5 over the cost to the State of borrowing the money, whichever is
 6 greater. Interest on loans made under this chapter shall not be
 7 less than three per cent a year."

8 SECTION 5. Section 155-9, Hawaii Revised Statutes, is
 9 amended to read as follows:

10 **"§155-9 Classes of loans; purposes, terms, eligibility.**

11 (a) Loans made under this chapter shall be for the purposes and
 12 in accordance with the terms specified in classes "A" through
 13 ~~["I"]~~ "K" in this section and shall be made only to applicants
 14 who meet the eligibility requirements specified therein and
 15 except as to class "B" loans to associations and class "E"
 16 loans, the eligibility requirements specified in section 155-10.
 17 The maximum amount of a loan for class "A", "C", "D", and "F"
 18 loans to an individual applicant shall also apply to any loan
 19 application submitted by a partnership, corporation, or other
 20 entity, and for the purpose of determining whether the maximum
 21 loan amount to any individual will be exceeded, outstanding
 22 loans to any partnership, corporation, or other entity that the

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1 individual has a legal or equitable interest in excess of twenty
2 per cent shall be taken into account.

3 (b) Class A: Farm ownership and improvement loans shall
4 provide for:

5 (1) The purchase or improvement of farm land;

6 (2) The purchase, construction, or improvement of adequate
7 farm dwellings, and other essential farm buildings;
8 and

9 (3) The liquidation of indebtedness incurred for any of
10 the foregoing purposes.

11 The loans shall be for an amount not to exceed [~~\$800,000~~]
12 \$1,500,000 and for a term not to exceed forty years. To be
13 eligible, the applicant shall (A) derive, or present an
14 acceptable plan to derive, a major portion of the applicant's
15 income from and devote, or intend to devote, most of the
16 applicant's time to farming operations; and (B) have or be able
17 to obtain the operating capital, including livestock and
18 equipment, needed to successfully operate the applicant's farm.

19 (c) Class B: Soil and water conservation loans shall
20 provide for:

21 (1) Soil conservation practices;

22 (2) Water development, conservation, and use;

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(3) Drainage; and

(4) The liquidation of indebtedness incurred for any of the foregoing purposes.

The loans shall be for an amount not to exceed [~~\$35,000~~ \$750,000 to an individual or [~~\$200,000 to~~] an association and shall be for a term not to exceed twenty years for a loan to an individual and forty years to an association. To be eligible, an individual applicant shall have sufficient farm and other income to pay for farm operating and living expenses and to meet payments on applicant's existing debts, including the proposed soil and water conservation loan. An association, to be eligible, shall be a nonprofit organization primarily engaged in extending services directly related to the purposes of the loan to its members, and at least sixty per cent of its membership shall meet the eligibility requirements specified in section 155-10.

(d) Class C: Farm operating loans shall be for the purpose of carrying on and improving a farming operation, including:

(1) The purchase of farm equipment and livestock;

(2) The payment of production and marketing expenses, including materials, labor, and services;

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(3) The payment of living expenses;

(4) The liquidation of indebtedness incurred for any of the foregoing purposes; and

(5) The exportation of crops and livestock.

The loans shall be for an amount not to exceed [~~\$800,000~~ \$1,500,000] and for a term not to exceed ten years. To be eligible, an applicant shall derive, or present an acceptable plan to derive, a major portion of the applicant's income from and devote, or intend to devote, most of the applicant's time to farming operations.

Qualified farmers affected by state eradication programs may also be eligible for loans under this subsection. Loans made for rehabilitation from eradication programs shall be subject to the terms of class "C" loans; provided that the interest rate shall be three per cent a year and the requirements in section 155-3 shall be waived and paragraph (4) shall not apply.

(e) Class D: Emergency loans shall be for the purpose of providing relief and rehabilitation to qualified farmers without limit as to purpose:

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- (1) In areas stricken by extraordinary rainstorms,
windstorms, droughts, tidal waves, earthquakes,
volcanic eruptions, and other natural catastrophes;
- (2) On farms stricken by livestock disease epidemics and
crop blights;
- (3) On farms seriously affected by prolonged shipping and
dock strikes;
- (4) During economic emergencies caused by overproduction,
excessive imports, and the like; and
- (5) During other emergencies as determined by the board of
agriculture.

The maximum amounts and period for the loans shall be determined by the board of agriculture; provided that the board shall require that any settlement or moneys received by qualified farmers as a result of an emergency declared under this section shall first be applied to the repayment of an emergency loan made under this chapter.

(f) Class E: Loans to farmers' cooperatives, corporations, and food manufacturers shall provide credit to entities engaged in marketing, purchasing, and processing, and providing farm business services, including:

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(1) Facility loans to purchase or improve land, building, and equipment for an amount not to exceed [~~\$500,000~~] \$1,500,000 and a term not to exceed twenty years;

(2) Operating loans to finance inventories of supplies and materials, warehousing, and shipping commodities, extension of consumer credit to justified farmer-members, and other normal operating expenses for an amount not to exceed [~~\$300,000~~] \$750,000 and a term not to exceed seven years; and

(3) The exportation of crops and livestock.

To be eligible, a farmers' cooperative or corporation shall have a majority of its board of directors and a majority of its membership as shareholders who meet the eligibility requirements of section 155-10 and who devote most of their time to farming operations, and the facility loans shall be for an amount not to exceed [~~\$500,000~~] \$1,500,000 or [~~eighty~~] eighty-five per cent of the cost of the project, whichever is less.

To be eligible, a food manufacturer shall be licensed to do business in the State, and the controlling interest of the entity shall possess a minimum of two years of relevant processing or manufacturing experience as acceptable to the department of agriculture. The entity shall process Hawaii-

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grown agricultural products or use Hawaii-grown agricultural products as an ingredient in the manufacturing process.

Facility loans shall be for an amount not to exceed [~~\$500,000~~ \$1,500,000 or [~~eighty~~ eighty-five per cent of the cost of the project, whichever is less. The requirements in section 155-10 shall be waived for food manufacturing loans; however, the entity shall be a sound credit risk with the ability to repay the money borrowed.

(g) Class F: New farmer and farm innovation loan programs shall provide for:

(1) New farmer loans made under this class shall be [~~for purposes and~~ in accordance with the terms specified in class "A" and "C" [~~only, and shall be made only for full-time farming.~~ loans. The loans shall be made for an amount not to exceed [~~\$250,000~~ \$750,000 or eighty-five per cent of the cost of the project, whichever is less. Farm trainees and recent graduates with a degree in agriculture with smaller projects requiring loans of \$100,000 or less shall have a minimum five per cent equity contribution towards the cost of the project;

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- 1 (2) Farm innovation loans made under this class shall be
2 for qualified farmers to perform practical research in
3 crop development, innovative production techniques,
4 new technologies, and production of new crops that are
5 not typically grown in the State. Farm innovation
6 loans shall be limited to a maximum of \$75,000;
- 7 (3) Any subsequent loan shall be made from classes "A" to
8 "D", respectively, depending upon the purpose for
9 which the loan funds are used; and
- 10 (4) Borrowers shall comply with special term loan
11 agreements as may be required by the department and
12 shall take special training courses as the department
13 deems necessary.
- 14 (h) Class G: Loans to part-time farmers shall be for farm
15 improvement and operating purposes for carrying on and improving
16 farming operations, including loans for:
- 17 (1) The purchase, construction, and improvement of farm
18 production and growing structures;
- 19 (2) The purchase of farm equipment or livestock; and
- 20 (3) The payment of production and marketing expenses,
21 including materials, labor, and services.

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1 The liquidation of indebtedness incurred for any of the
2 purposes under this subsection and for living expenses shall not
3 be authorized purposes. Each loan shall be for an amount not to
4 exceed [~~\$25,000~~] \$750,000 and for a term not to exceed ten
5 years.

6 (i) Class H: Farm sustainable project loans shall provide
7 for:

8 (1) The purchase, construction, or improvement of
9 essential farm buildings, including the improvement of
10 existing farm buildings related to the project;

11 (2) The improvement of land that may be required by the
12 project;

13 (3) The purchase of equipment and payment of any related
14 expenses, including materials, labor, and services;

15 (4) Operating expenses associated with the project; or

16 (5) The liquidation of indebtedness incurred for any of
17 the foregoing purposes.

18 The loans shall be for an amount not to exceed \$1,500,000
19 or eighty-five per cent of the project cost, whichever is less,
20 and for a term not to exceed forty years.

21 To be eligible, the applicant shall be a qualified farmer
22 of sound credit rating with the ability to repay the money

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1 borrowed, as determined by the department. Income from the
2 applicant's farming activities and any supplemental income that
3 may be generated from the project shall be the sole criterion
4 for the department's determination of the applicant's ability to
5 repay the money borrowed. The department's determination may be
6 based on projections of income and expenses.

7 (j) Class I: Biosecurity project loans shall provide for:

8 (1) The purchase, construction, or improvement of
9 essential farm buildings, including the improvement of
10 existing farm buildings related to the project;

11 (2) The improvement of land that may be required by the
12 project;

13 (3) The purchase of equipment and payment of any related
14 expenses, including materials, labor, signage,
15 training, and services;

16 (4) Operating expenses associated with the project; or

17 (5) The liquidation of indebtedness incurred for any of
18 the foregoing purposes.

19 The loans shall be for an amount not to exceed \$1,000,000
20 or eighty-five per cent of the project cost, whichever is less,
21 and for a term not to exceed twenty-five years.

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1 To be eligible, the applicant shall be a qualified farmer
2 of sound credit rating with the ability to repay the money
3 borrowed, as determined by the department. Income from the
4 applicant's farming activities and any supplemental income that
5 may be generated from the project shall be the sole criterion
6 for the department's determination of the applicant's ability to
7 repay the money borrowed. The department's determination may be
8 based on projections of income and expenses.

9 (k) Class J: Line of credit loans shall provide revolving
10 credit for farm operational expenses and to improve farm
11 operations. Funds from the line of credit shall not be used for
12 personal expenses or non-farm related purposes, and.

13 (1) A line of credit secured by chattel, crops, or
14 equipment shall not exceed \$100,000 or eighty-five per
15 cent of the collateral valuation, whichever is less
16 and for a term not to exceed five years; and

17 (2) A line of credit secured by real property shall not
18 exceed \$250,000 or eighty-five per cent of the
19 collateral valuation, whichever is less and for a term
20 not to exceed ten years.

21 To be eligible, the applicant shall be a qualified farmer
22 of sound credit rating with the ability to repay the money

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1 borrowed, as determined by the department. The interest rate
2 for lines of credit shall be the same rate provided in section
3 155-8.

4 (1) Class K: Import replacement loans shall provide
5 credit for farm expansion to grow import replacement crops or to
6 fund crops grown for the farm to state program established under
7 section 27-8. Loans made under this class shall be for the
8 purposes specified in class "A" and class "C" and terms shall be
9 determined by the primary purpose of the loan funds. Loans
10 shall be for an amount not to exceed \$2,500,000 and for a term
11 not to exceed 10 years.

12 (1) Loans for crops grown for the farm to state shall have
13 written commitments from the appropriate state agency;

14 (2) Import replacement crops shall be of sufficient scale
15 to impact regional, island wide, or statewide markets.

16 To be eligible, the applicant shall be a qualified farmer
17 of sound credit rating with the ability to repay the money
18 borrowed, as determined by the department. Interest rates for
19 this class shall be three per cent per year."

20 SECTION 6. There is appropriated out of the general
21 revenues of the State of Hawaii the sum of \$_____ or so

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1 much thereof as may be necessary for fiscal year 2025-2026 to be
2 deposited into the agricultural loan revolving special fund.

3 SECTION 7. There is appropriated out of the agricultural
4 loan revolving special fund the sum of \$_____ or so much
5 thereof as may be necessary for fiscal year 2025-2026 for
6 funding agricultural loans.

7 The sum appropriated shall be expended by the department of
8 agriculture for the purposes of this Act.

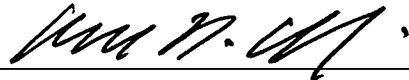
9 SECTION 8. Statutory material to be repealed is bracketed
10 and stricken. New statutory material is underscored.

11 SECTION 9. This Act shall take effect upon its approval.

12

13

INTRODUCED BY:



14

BY REQUEST

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Report Title:

Department of Agriculture; Agricultural Loan Program; Loan Limits; Interest Rates; Credit Denials; Line of Credit; Import Replacement Crop Loans

Description:

Updates the agricultural loan program by lowering interest rates, increasing and standardizing loan limits, and reducing the number of credit denials. Authorizes the agricultural loan program to issue lines of credit. Creates a new class of loans to encourage large scale agriculture of import replacement crops grown for the farm to state program. Appropriates funds.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

JUSTIFICATION SHEET

DEPARTMENT: Agriculture

TITLE: A BILL FOR AN ACT RELATING TO AGRICULTURAL LOANS.

PURPOSE: The purpose of this bill is to update the agricultural loan program by lowering interest rates, increasing and standardizing loan limits, reducing the number of credit denials, creating a line of credit for agricultural producers, and establishing a loan program to encourage growing of import replacement crops and crops grown for state agencies.

MEANS: Amend sections 155-1, 155-3, 155-8, and 155-9, Hawaii Revised Statutes. Appropriate funds.

JUSTIFICATION: This bill is needed to update the agricultural loan program to meet the needs and requirements of the current agricultural industry by providing easier access to capital. The bill reduces the number of required credit denials for most loans to one. Interest rates will be fixed and reduced to four percent except for emergency loans, new farmer loans, biosecurity loans, and sustainability loans which will have a lower interest rate of three percent. Maximum loan limits will be increased to account for inflation. Most classes of loan have never been increased since inception of the loan class, and the last time there was an increase in any of the loan limits was over a decade ago.

The bill is also needed to create a line of credit to provide farmers and ranchers faster access to capital to take advantage of time-sensitive business opportunities and assist with cashflow issues. By creating a new class of loans, this bill will encourage farmers to invest in large scale import replacement crops or crops grown for the

farm to state program or state agencies. Large scale farms are more efficient, can mechanize production, and are able to achieve economies of scale to better compete with imported produce.

Having an effective agricultural loan program is vital to support the agricultural industry and larger scale operations. This bill will enhance the State's efforts to meet the goal of becoming more food self-sufficient.

Impact on the public: The bill will update the agricultural loan program to better meet the needs of the agriculture industry and make the program easier to access. Efficient large scale farm operations provide Hawaii citizens and state agencies with large volumes of affordable fresher produce. Import replacement crops grown locally also help to ensure that fewer pests will be brought into the state with imported produce. The line of credit makes agricultural financing more efficient and helps agricultural operations be more sustainable and resilient. A stronger agricultural industry diversifies the state's economy and provides employment opportunities, export opportunities, and capital in the local economy.

Impact on the department and other agencies: The department anticipates a significant increase in demand for loans provided by the agricultural loan division. State agencies will have an affordable, stable supply of locally grown produce available to meet mandates of the farm to state program.

GENERAL FUND: To be determined.

OTHER FUNDS: None.

PPBS PROGRAM DESIGNATION: AGR-101.

OTHER AFFECTED
AGENCIES:

None.

EFFECTIVE DATE:

Upon approval.