

A Bill for an Act Relating to Farm Loans.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. The purpose of this Act is to strengthen the State's farm loan program.

SECTION 2. Section 155-2, Hawaii Revised Statutes, is amended to read:

“Sec. 155-2 Objectives. One of the objectives of the department of agriculture shall be to promote the agricultural development of the State by stimulating, facilitating, and granting loans to qualified farmers.

The department shall encourage the growth, development, and well being of agriculture in the State by maximizing the use of limited state funds and resources in encouraging development of new farmers and new crops; assisting qualified farmers with loans; encouraging private lenders to make loans to qualified farmers directly, or in cooperation, or in participation with the State; and providing relief to farmers in times of emergencies.

The department shall also establish standards and criteria pursuant to which loans may be provided to qualified farmers who cannot secure credit from other sources at reasonable rates and terms. Any assessment of the program shall consider its purpose and intent which involves credit risk beyond that of banks and other private lenders, and such assessment shall be based on standards of similar programs.”

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

“Sec. 155-3 Restriction. Loans provided for by this chapter shall be authorized only if such loans cannot be made by the Farmers Home Administration or the Production Credit Association of Hawaii or the Federal Land Bank Association of Hawaii or the Sacramento Bank for Cooperatives; and by two private lenders.”

SECTION 4. Section 155-4, Hawaii Revised Statutes, is amended to read as follows:

“Sec. 155-4 Powers and duties of the department. The department of agriculture shall have the following powers:

- (1) Employ a secretary, who may be exempt from chapters 76 and 77, and such other full-time and part-time employees, subject to chapters 76 and 77, as are necessary to effectuate the purposes of this chapter, subject further to the limitation of funds in the farm loan reserve fund.
- (2) Designate such agents throughout the State as may be necessary for property appraisal, the consideration of loan applications, and the supervision of farming operations of borrowers. The agents may be compensated for their services at such rates as the department in its discretion may fix.
- (3) Initiate and carry on a continuing research and education program, utilizing and coordinating the services and facilities of other government agencies and private lenders to the maximum, to inform qualified farmers concerning procedures for obtaining loans and to inform private lenders concerning the advantages of making loans to qualified farmers.

- (4) Cooperate with private and federal government farm loan sources to increase the amount of loan funds available to qualified farmers in the State.
- (5) Assist individual qualified farmers in obtaining loans from other sources. Insofar as available funds and staff permit, counsel and assist individual farmers in establishing and maintaining proper records to prove their farming ability for loan purposes.
- (6) Insure loans made to qualified farmers by private lenders under section 155-5.
- (7) Participate in loans made to qualified farmers by private lenders under section 155-6.
- (8) Make loans to qualified farmers under the insured loan program of the Farmers Home Administration, subject to section 155-7.
- (9) Make direct loans to qualified farmers under section 155-8.
- (10) Borrow money for loan purposes.
- (11) Assign and sell mortgages.
- (12) Sue and be sued in the name of the "State of Hawaii".
- (13) Exercise such incidental powers as are deemed necessary or requisite to fulfill its duty in carrying out the purposes of this chapter.
- (14) Promulgate rules and regulations as it may deem necessary in accordance with chapter 91 having the force and effect of law."

SECTION 5. Section 155-5, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) The department of agriculture may insure up to ninety per cent of the principal balance of a loan, plus interest due thereon, made to a qualified farmer by a private lender who is unable otherwise to lend the applicant sufficient funds at reasonable rates; provided that at no time shall the aggregate amount of the State's liability, contingent or otherwise, on loans insured under this section and section 155-6 exceed \$10,000,000."

SECTION 6. Section 155-8, Hawaii Revised Statutes, is amended to read:

"**Sec. 155-8 Direct loans.** (a) The department of agriculture may make loans directly to qualified farmers who are unable to obtain sufficient funds at reasonable rates from private lenders either independently or under sections 155-5 and 155-6, or from the Farmers Home Administration either directly or under section 155-7.

(b) Loans made under this section shall be limited by sections 155-9 to 155-13.

(c) Loans made under this section shall bear simple interest on the unpaid principal balance, charged on the actual amount disbursed to the borrower. The interest rate on class "A" and class "B" loans shall be the rate charged for similar type loans by the Federal Land Bank Association of Hawaii; the interest rate on class "C" loans shall be the interest rate charged for similar type loans by the Hawaii Production Credit Association of Hawaii; the interest rate charged on class "E" loans shall be two per cent less than the rate charged for similar type loans by the Sacramento Bank for Cooperatives; and the interest rate on class "F" loans shall be two per cent less than the rate charged by the appropriate farm credit bank for similar type loans; provided if the money loaned is borrowed by the department, then the

interest on loans of such classes shall be the rate charged by the appropriate farm credit bank for similar type loans or one per cent over the cost to the State of borrowing the money, whichever is greater. Interest on class "D" loans shall not exceed three per cent a year.

(d) For loans made under this section, funds shall be disbursed in accordance with regulations of the department."

SECTION 7. Section 155-9, Hawaii Revised Statutes, is amended to read:

"Sec. 155-9 Classes of loans; purposes, terms, eligibility. Loans made under this chapter shall be for the purposes and in accordance with the terms specified in classes "A" through "F" in the paragraphs following and shall be made only to applicants who meet the eligibility requirements specified therein and except as to class "B" loans to associations and class "E" loans, the eligibility requirements specified in section 155-10.

- (1) Class A: Farm ownership and improvement loans. To provide for:
 - (A) The purchase or improvement of farm land;
 - (B) The purchase, construction, or improvement of adequate farm dwellings, and other essential farm buildings;
 - (C) The liquidation of indebtedness incurred for any of the foregoing purposes. Such loans shall be for an amount not to exceed 100,000 and for a term not to exceed forty years. To be eligible the applicant shall derive, or present an acceptable plan to derive, a major portion of his income from and devote, or intend to devote, most of his time to farming operations; (B) have or be able to obtain the operating capital, including livestock and equipment, needed to successfully operate his farm.
- (2) Class B: Soil and water conservation loans. To provide for:
 - (A) Soil conservation practices;
 - (B) Water development, conservation, and use;
 - (C) Drainage;
 - (D) The liquidation of indebtedness incurred for any of the foregoing purposes.

Such loans shall be for an amount not to exceed \$35,000 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 his 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.

- (3) Class C: Farm operating loans. To carry on and improve a farming operation, including:
 - (A) The purchase of farm equipment and livestock;
 - (B) The payment of production and marketing expenses including materials, labor, and services;

- (C) The payment of living expenses;
- (D) The liquidation of indebtedness incurred for any of the foregoing purposes.

Such loans shall be for an amount not to exceed \$100,000 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 his income from and devote, or intend to devote, most of his time to farming operations.

- (4) Class D: Emergency loans. To provide relief and rehabilitation to qualified farmers without limit as to purpose:
 - (A) In areas stricken by extraordinary rainstorms, windstorms, droughts, tidal waves, earthquakes, volcanic eruptions, and other natural catastrophes;
 - (B) On farms stricken by livestock disease epidemics and crop blights;
 - (C) On farms seriously affected by prolonged shipping and dock strikes;
 - (D) During economic emergencies caused by over-production, excessive imports, and the like.

Such loans shall not exceed the maximum amounts and the maximum period specified in paragraphs (1) to (3) respectively, above, when the loan funds are used for the purposes specified therein.

- (5) Class E: Loans to cooperatives and corporations. To provide credit to farmers' cooperative associations and corporations engaged in marketing, purchasing, and processing, and providing farm business services, including:
 - (A) Facility loans to purchase or improve land, building, and equipment for an amount not to exceed \$250,000 and a term not to exceed twenty years;
 - (B) Operating loans to finance inventories of supplies, warehousing, and shipping commodities, extension of consumer credit to justified farmer-members, and other normal operating expenses for an amount not to exceed \$150,000 and a term not to exceed three years.

To be eligible, a cooperative or corporation shall have at least seventy-five per cent of its board of directors and seventy-five per cent of its membership as shareholders who meet the eligibility requirements of section 155-10 and who devote most of their time to farming operations.

- (6) Class F: Loans for new farmer programs. To provide for costs of a new farm enterprise for qualified farmers:
 - (A) Initial loans made under this class shall be for purposes and in accordance with the terms specified in classes "A" and "C" only, and shall be made only for full-time farming. Such loans shall be made for an amount not to exceed \$75,000 or ninety per cent of the cost of the project, whichever is the lesser.
 - (B) Any subsequent loan shall be made from classes (A) to (D), respectively, depending upon the purpose for which the loan funds are used.
 - (C) Borrowers must comply with such special term loan agreements as may be required by the department and shall take such special training courses as the department deems necessary."

SECTION 8. Section 155-14, Hawaii Revised Statutes, is amended to read:

“Sec. 155-14 Funds; application of payments. (a) There is created a special fund to be known as the “agricultural loan revolving fund”, from which moneys shall be loaned by the department of agriculture under this chapter.

(b) All interest and fees collected by the department shall be deposited in the agricultural loan reserve fund to the extent needed to carry on the operations of the department including payments for consultative services that would strengthen the agricultural loan program; any moneys surplus to these needs shall be transferred to the agricultural loan revolving fund at the discretion of the department. All payments received on account of principal shall be credited to the agricultural loan revolving fund.

(c) A proper reserve shall be maintained in the agricultural loan revolving fund to guarantee payment of loans under section 155-5.

(d) All funds of the department shall be paid out on warrants signed by the chairman of the board of agriculture.”

SECTION 9. (a) There is appropriated out of general revenues of the State of Hawaii the sum of \$750,000 to the Agricultural Loan Revolving Fund, \$500,000 of which shall be for the New Farmer Program, as provided by section 155-14, Hawaii Revised Statutes.

(b) The sum appropriated herein shall be expended by the department of agriculture for the purposes of this Act.

SECTION 10. There is appropriated out of general revenues of the State of Hawaii for the fiscal year beginning July 1, 1979 and ending June 30, 1980, the sum of \$25,000 to be expended by the department of agriculture for consultative services that would strengthen the agricultural loan program.

SECTION 11. Statutory material to be repealed is bracketed. New material is underscored.*

SECTION 12. This Act shall take effect upon its approval.

(Approved June 21, 1979.)

*The text has been edited pursuant to HRS §23G-16.5, authorizing omission of the brackets, bracketed material, and underscoring.