

**State of Hawaii  
Department of Agriculture  
Agricultural Loan Division**

**March 22, 2022**

**Department of Agriculture  
Honolulu, Hawaii**

**Subject: Loan Presentation**

**APPLICANT:**

Joseph Allen Ashley  
P.O. Box 1814  
Kealakekua, HI 96750

Merwylle Aquino Branch, co-borrower  
P.O. Box 1814  
Kealakekua, HI 96750

**CLASSIFICATION  
& ELIGIBILITY:**

Joseph Ashley and Merwylle Branch operate their farm as a sole proprietorship. They qualify as "New Farmers" as defined in Chapter 155 of the Hawaii Revised Statutes ("HRS") §155-1 and meet the general eligibility requirements cited in subsection §155-10. The applicants have worked on various coffee farms since 2013 and opened their own field in 2020. Both are U.S. citizens and have resided in Hawaii for the last 9 years.

**COMMODITY:**

Coffee

**CREDIT HISTORY:**

SEE EXHIBIT A (CONFIDENTIAL)

**OTHER STATE  
AGRICULTURAL  
LOANS:**

N/A

**LOAN REQUEST  
& PURPOSE:**

<u>Amount</u>	<u>Class F Direct New Farmer Ownership Loan</u>
\$211,392	Total Project Cost (Purchase Price)
- 59,242	<u>Less: Capital Contribution</u>
\$152,150	Total Loan Amount

The loan's purpose is to finance the purchase of Lot 45 in the Moaula Farms Subdivision. The subject is located approximately 12 miles northeast of Naalehu and 2 miles west of Pahala. Most land in the immediate area varies in size from 5 to 300 acres with average to good ocean views.

By providing \$59,242 in capital or 28% of the total project cost (purchase price), the applicants meet the 15% New Farmer equity contribution requirement.

**TERMS:**

Amount: \$152,150  
 Term: Thirty-two (32) years.  
 Interest rate: 3.00%, fixed  
 Repayment: Interest only payments due annually for the first 2 years. Thereafter, monthly principal and interest payments of \$641.47 due on the 1<sup>st</sup> of each month until loan maturity.

**SECURITY:**

The proposed loan will be secured by:

- A first mortgage lien over 17.67 acres of fee, A-20A (Agricultural) zoned property located in Pahala, HI, identified as TMK: (3) 9-6-024-045.

Loan-to-Value:  $\frac{\$152,150 \text{ (SALD 1<sup>st</sup> Mortgage)}}{\$179,000 \text{ (Appraised Value)}} = 85\%$

- A first UCC security interest over all assets of the company, including accounts, inventory, equipment, and general intangibles.

A recent appraisal by Jerry J. Warren, CGA, in November 9, 2021 reported a market value of \$179,000 for the property. The appraisal was made "as is" with a derived market value of \$10,137 per acre.

The loan will be well-secured by real estate with a loan-to-value ratio of 85%. The value of the crops, equipment, and accounts were not factored into the calculation above as the real estate provides sufficient security.

**GUARANTORS:** N/A

**FINANCIAL  
CONDITION:** SEE EXHIBIT A (CONFIDENTIAL)

**REPAYMENT  
ABILITY:** SEE EXHIBIT A (CONFIDENTIAL)

**INSURANCE:** None

**BACKGROUND/  
MANAGEMENT  
ABILITY:** Joseph Ashley and Merwylle Branch are Gen Xers and have been a couple for the past 5 years. Joseph is originally from Portsmouth, OH and started farming at a young age initially handling cattle and planting corn. He has worked in the coffee industry for the past 9 years. After moving to Hawaii, he initially worked at a Kealakekua coffee farm. His responsibilities included land clearing and cultivating coffee, koa and sandalwood plants for the nursery. Merwylle was born and raised in the Philippines where farming concepts are an integral part of the country's school curriculum. She assisted with her family's vegetable farm from the time she was little and possesses a strong accounting background with experience in A/R, billing, and sales. In 2017, the couple worked at Merwylle's uncle's (Melchor Fernandez) 10-acre coffee farm located in the Pahala mauka area. Both gained valuable experience handling all facets of the operation during that time.

In 2020, the applicants opened their own field a short distance from Melchor. The field was grubbed and hand-planted with 2,000 Guatemalan type varietals since then. The farm plan specifies adding 1,000 seedlings by the end of this year and another 1,000 in 2023. Moving forward, increased crop yields are anticipated as the existing trees mature and more enter production.

The applicants own the necessary equipment to assist with farm maintenance and will initially utilize family members to hand-pick ripened cherries. Marketing channels include individual buyers from Pahala, Naalehu, and Ocean View. A field visit by SALD staff in 01/2022 confirmed the trees and equipment were in good condition and field properly maintained.

Situated at an elevation of 2,300 ft., the parcel is currently owned by Colorado-based Kau Mahi LLC (Kau Mahi). Last year, Kau Mahi began offering 73 tenant farmers the opportunity to acquire their parcels in fee simple ownership. Tenants were afforded priority to purchase their lots before being open to the general public. The property has access to a private well and construction of farm dwellings are permissible.

Coffee was first cultivated in Kau in 1894 by J.C. Searle. When the sugar industry collapsed one hundred years later, a USDA grant backed by the late Sen. Daniel Inouye in 1996 helped displaced sugar workers start their own 5-acre coffee farms on the former C. Brewer & Co. plantation lands. Twenty-six years later, more than 90% of the original farmers still grow coffee there.

Today, most of Kau coffee is grown on less than 800 acres in the mountainous pockets above the town of Pahala. The terrain is diverse ranging from green grass pastures to lava-crusted landscape. With ample annual rainfall, rich soil, plenty of sunshine and chilly evenings, the area is ideally situated for cultivating coffee.

**SUMMARY:**

In the wake of Kau sugar plantation's closure, coffee grown by a few independent farms has created a niche market that has been instrumental in diversifying the region's economy. Kau coffee's reputation continues to rise. Over the last 10 years, it has won more international awards than Kona including eight Coffee of the Year awards from the Specialty Coffee Association of America, one Specialty Coffee of Europe award, as well as two times Grand Champion of the Hawaii Coffee Association between 2007 and 2012.

From a lending perspective, the applicants are a sound credit risk with the ability to repay the amount borrowed. Both applicants reported considerable net worth and excellent personal credit histories, indicative of their character. The proposed loan is further strengthened by the value of the fee-simple real estate being pledged as collateral.

Approval of the loan will provide the necessary funds and allow the applicants to realize their dream of owning the land they farm on in perpetuity. Benefits to the State include keeping the farm viable in order to increase supply and meet the rising demand for Kau coffee locally, in the mainland U.S., and Japan. It also benefits the Pahala community through participation in events such as the annual Ka'u Coffee festival.

**TURNDOWNS:**

The applicants were denied credit from American Ag Credit due to the following:

- Insufficient down payment.

**RECOMMENDATIONS:** Loan approval is recommended based on the farm's projected ability to service proposed debt requirements, equity contributed, real estate collateral, and the applicants' knowledge and experience operating a coffee farm.

Date

Recommended by:

1/31/22

Gareth Mendonsa

Gareth Mendonsa  
Business Loan Officer

Date

Reviewed and concurred by:

2/28/22

Dean M. Matsukawa

Dean M. Matsukawa  
Division Administrator

Date

Approved for submission

3/10/2022

Phyllis Shimabukuro-Geiser

Phyllis Shimabukuro-Geiser  
Chairperson, Board of Agriculture

STATE OF HAWAII  
DEPARTMENT OF AGRICULTURE  
AGRICULTURAL RESOURCE MANGEMENT DIVISION  
HONOLULU, HAWAII

March 22, 2022

Board of Agriculture  
Honolulu, Hawaii

Subject: REQUEST FOR APPROVAL TO AWARD LEASES FOR TMK NO. 3<sup>RD</sup> DIV/1-2-006:019, ALAN MARTINS, AWARDEE; AND TMK NO. 3<sup>RD</sup> DIV/5-5-007:005, KOHALA DAIRY, LLC, AWARDEE; ISLAND OF HAWAII, HAWAII

Authority: Section 166E-8, Hawaii Revised Statutes (HRS), and Sections 4-158-22, Hawaii Administrative Rules (HAR)

Tax Map Key: 3<sup>RD</sup> DIV/1-2-006:019; 816 acres  
Land Area: 3<sup>RD</sup> DIV/5-5-007:005; 40.57 acres

Land Status: Properties set aside to the Department of Agriculture (DOA) by Governor's Executive Order No. 4546 dated March 21, 2018 and Governor's Executive Order No. 4250 dated October 29, 2008

Lease Term: 35 years each, commencing upon the completion of pre-requisite requirements

Base Annual Rental: Various - per qualified applicant bid (See Exhibit "A")

Additional Rent: 1.5% of gross proceeds from the sale of commodities produced on the demised premises which exceed the base rental

Character of Use: Pasture Use

BACKGROUND:

The Agricultural Resource Management Division (ARMD) received the vacant parcels from the Department of Land and Natural Resources (DLNR) via Governor's Executive Order No. 4546 signed on March 21, 2018, and No. 4250 signed on October 29, 2008, respectively.

In accordance with §166E-8, HRS, and §4-158-22 and 29, HAR, a public notice of disposition was published on October 20, 2021, making available for lease the two (2) vacant parcels. The division received four (4) applications for the vacant parcel 3<sup>RD</sup>

B1

DIV/1-2-006:019 and three (3) applications for the vacant parcel 3<sup>rd</sup> DIV/5-5-007:005. For each parcel there is one qualified and eligible applicant pursuant to §4-158-1 and 27, HAR. Staff has determined that each applicant qualifies as a bona fide farmer with more than two years of years of fulltime farming experience and meets eligibility residency requirements of the Non-Agricultural Park Lands program.

Pursuant to 4-158-22 (c) Negotiation, since one applicant for each vacant parcel meets the criteria for qualification, staff recommends disposition of the lease by negotiation, and the upset minimum annual rentals for each parcel were agreed upon for each disposition for the lease.


Exhibit "A", attached hereto, lists the awardees and the respective base annual rentals. Exhibit "B" reflects the locations of the parcels on tax maps.

RECOMMENDATIONS:

That the Board of Agriculture approve issuance of the appropriate Right-of-Entry documents to the awardees for the lots; and in accordance with §4-158-22, HAR, the subsequent issuance of the appropriate general leases subject to the completion of lease pre-requisites.

All related documents are subject to the review and approval as to form by the Department of the Attorney General, and such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully submitted,

  
\_\_\_\_\_  
BRIAN KAU, P.E.  
Administrator and Chief Engineer  
Agricultural Resource Management Division

Attachments: Exhibits "A" and "B"

APPROVED FOR SUBMISSION:

  
\_\_\_\_\_  
PHYLLIS SHIMABUKURO-GEISER  
Chairperson, Board of Agriculture



<b>EXHIBIT "A"</b>	
<b>VARIOUS NON-AGRICULTURAL PARK LANDS DISPOSITION - 2021</b>	
	<b>Puna, Island of Hawaii</b>
<b><u>Applicant Name</u></b>	<b><u>TMK: (3)1-2006:019</u></b>
Alan Martins	\$1,564.00 Base Annual Rental
	<b>North Kohala, Island of Hawaii</b>
<b><u>Applicant Name</u></b>	<b><u>TMK: (3)5-5-007:005</u></b>
Kohala Dairy, LLC	\$622.00 Base Annual Rental

