



## **New Provisions for Cotton Marketing Assistance Loan Program**

### **Overview**

In August 2006, the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC) announced new provisions for the 2006 and subsequent crop-year cotton marketing assistance loan program (MAL). The provisions help protect the quality of cotton and relieve regional storage congestion. They also modify storage incentives that benefit some in the industry and cause producers to delay cotton marketing. The provisions affect upland and Extra Long Staple (ELS) cotton.

USDA's Farm Service Agency (FSA) administers MALs on behalf of CCC. Cotton producers are eligible for MALs, which provide producers interim financing at harvest time. This helps producers meet cash flow needs without having to sell their commodities when market prices are typically at harvest-time lows. Producers receiving MALs pledge their cotton as collateral. Producers have nine months to repay the loan and store the cotton during that period. Allowing producers to store production at harvest facilitates more orderly marketing of commodities throughout the year. If the producer does not repay the loan, then the cotton is forfeited to CCC.

### **Revised Storage Requirements**

CCC amended regulations to allow cotton pledged for loan to be stored outside at cotton storage warehouses approved for such practice. Previously, CCC loan regulations required loan cotton to be stored inside.

Under the new regulations, the warehouse must be in an area that CCC determines as having inadequate approved capacity to store the current crop. A warehouse requesting approval to use outside storage must have a Cotton Storage Agreement with CCC and must agree to meet special storage and insurance requirements.

CCC considers outside storage a practice of last resort because of the risks of damage and loss to the producer. To discourage outside storage under any circumstances, CCC amended loan regulations to deny storage credits to cotton loan collateral for any period that it is stored outside. Previously, outside stored cotton loan collateral was eligible for storage credits for the entire period it was pledged as collateral for a CCC loan. Producers can determine whether their loan cotton will be at risk of losing this credit by calling their warehouse operator before a storage location is selected.

CCC will allow cotton to be stored outside for a 15-day grace period without loss of storage credits. The grace period begins on the day the warehouse is notified that the bale is under loan. Storage credits will not be provided for loan bales for any period that they are stored outside beyond the 15-day grace period. This new condition for a CCC loan is contained in the loan Note and Security Agreement Terms and Conditions, CCC-601, Item 10(d).

### **Revised Storage Credit**

CCC's maximum storage credit rate for the 2006 and subsequent crops of upland cotton is the lesser of the 2005-crop tariff rate for the warehouse or the maximum level established for the state where the cotton is stored. The maximum storage credit rate is \$4.37 per bale per month at cotton storage warehouses in Arizona and California and \$2.66 per bale per month for all other cotton-storing states. Warehouse tariff rates remain unregulated by CCC and may exceed the credit provided by CCC.

### **New Bale Quality Requirements**

CCC revised cotton loan eligibility regulations with two new requirements to promote quality assurance by ginners and warehouses. To be eligible for loan, cotton must be in good

condition and not wet. Wet cotton is defined by regulations as a bale that, at a gin, exceeds 7.5 percent moisture (wet basis) at any point in the bale.

Good condition is defined as a bale of cotton that is determined to be Grade A or Grade B according to the photographic standards contained in A Guide for Cotton Bale Standards of the Joint Cotton Industry Bale Packaging Committee.

If CCC determines that cotton loan collateral does not meet these new quality standards, the loans for such cotton will be subject to immediate repayment at principle plus interest.

### ***Transfer to Another Approved Warehouse***

Producers may move loan cotton receipted by an electronic warehouse receipt from an approved cotton warehouse to another approved cotton warehouse without canceling their loan or the initial warehouse receipts. A transfer may be requested using form CCC-699C if the warehouse operator of the receiving warehouse consents to the terms of the transfer. The transfer of loan cotton can also be requested by a producer's agent vested with this specific authority on CCC-605, Part G. All costs associated with such transfers must be paid by the requestor of the transfer, and CCC does not assume responsibility for any

quality or quantity losses that may occur as a result of the transfer.

Storage credits for transferred cotton will be provided up to the date of the redemption of the cotton from loan if the shipping warehouse is:

- Out of compliance with its Cotton Storage Agreement, or
- Storing cotton outside (any cotton, not necessarily the cotton requested for transfer), or
- Under the same ownership as the receiving warehouse.

Storage credits will be limited to 75 days starting from the date of transfer for all other transfers.

CCC's terms and conditions for the transfer of cotton loan collateral are contained in Item 10e of CCC-601.

### ***Liens***

CCC provides loans for cotton that is unencumbered by liens or unpaid charges. Many cotton storage warehouses levy a "compression charge" per bale received into storage that is paid by the buyer of the cotton upon load-out and cancellation of the receipt. For 2006 and subsequent crop-year cotton, CCC will bill producers for any warehouse compression fees that are unpaid for forfeited cotton. The producer's responsibility for this and other unpaid charges levied by the warehouse is contained in Item 10d of CCC-601.

### ***For More Information***

More information about FSA programs is available at USDA Service Centers and online at FSA's Web site, <http://www.fsa.usda.gov>.

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